

AIA Group Limited
友邦保險控股有限公司
Interim Report 2017



**THE REAL LIFE
COMPANY**

Stock code: 1299

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 MAY 2017

AIA DELIVERS EXCELLENT RESULTS IN THE FIRST HALF OF 2017

VONB UP 42 PER CENT ON CONSTANT EXCHANGE RATES OPERATING PROFIT UP 16 PER CENT – INTERIM DIVIDEND UP 17 PER CENT

The Board of Directors of AIA Group Limited (stock code: 1299) is pleased to announce the Group's unaudited consolidated results for the six months ended 31 May 2017. Highlights are shown on a constant exchange rate basis:

Record growth in value of new business (VONB)

- 42 per cent growth in VONB to US\$1,753 million
- 37 per cent increase in annualised new premiums (ANP) to US\$3,196 million
- VONB margin up 1.8 pps to 54.2 per cent

Strong operating profit generation and increased returns

- IFRS operating profit after tax (OPAT) up 16 per cent to US\$2,262 million
- IFRS operating earnings per share up 16 per cent to 18.87 US cents
- Embedded value (EV) operating profit up 21 per cent to US\$3,456 million
- Operating return on EV (operating ROEV) increased to 17.1 per cent

Robust cash flow and resilient capital position

- Underlying free surplus generation of US\$2,307 million, up 13 per cent
- Free surplus of US\$11.0 billion
- EV Equity of US\$47.8 billion; EV of US\$46.3 billion, up US\$4.2 billion in the first half
- Solvency ratio for AIA Co., our principal operating company, of 427 per cent on the HKIO basis

Significant increase in interim dividend

- 17 per cent increase in interim dividend to 25.62 Hong Kong cents per share

Ng Keng Hooi, AIA's Group Chief Executive and President, commenting on the results, said:

"AIA has delivered an excellent set of results in the first half of 2017 with record VONB growth of 42 per cent to US\$1,753 million. As a result of our financial discipline and commitment to delivering high-quality, sustainable growth, we have also achieved significant increases in IFRS operating profit and free surplus generation. Our performance is a clear reflection of the strength of AIA's businesses and the consistent execution of our strategy.

"The Board has declared a 17 per cent increase in the interim dividend for 2017. This reflects AIA's excellent financial results in the first half as well as our confidence in the outlook for the Group.

"AIA has significant competitive advantages created over our long history in Asia. We have a clear strategy that is working well and is fully aligned with the substantial opportunities presented by the extraordinary social changes and substantial economic growth taking place across the region. Our strong track record of value creation is the direct outcome of our many experienced teams working collectively to deliver our strategic priorities. We will continue to challenge ourselves and our strategy to ensure we capture the many significant opportunities that the region presents – well into the future.

"Today's announcement is the first time I have reported our financial results since I assumed the role of Group Chief Executive at the beginning of June and I am delighted that we have delivered a very strong performance. AIA is an exceptional company with outstanding people and a unique franchise. I look to the future with great enthusiasm as we continue to realise AIA's full potential in Asia and generate sustainable value for our customers and shareholders."

About AIA

AIA Group Limited and its subsidiaries (collectively “AIA” or the “Group”) comprise the largest independent publicly listed pan-Asian life insurance group. It has a presence in 18 markets in Asia-Pacific – wholly-owned branches and subsidiaries in Hong Kong, Thailand, Singapore, Malaysia, China, Korea, the Philippines, Australia, Indonesia, Taiwan, Vietnam, New Zealand, Macau, Brunei, Cambodia, a 97 per cent subsidiary in Sri Lanka, a 49 per cent joint venture in India and a representative office in Myanmar.

The business that is now AIA was first established in Shanghai almost a century ago. It is a market leader in the Asia-Pacific region (ex-Japan) based on life insurance premiums and holds leading positions across the majority of its markets. It had total assets of US\$200 billion as of 31 May 2017.

AIA meets the long-term savings and protection needs of individuals by offering a range of products and services including life insurance, accident and health insurance and savings plans. The Group also provides employee benefits, credit life and pension services to corporate clients. Through an extensive network of agents, partners and employees across Asia-Pacific, AIA serves the holders of more than 30 million individual policies and over 16 million participating members of group insurance schemes.

AIA Group Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code “1299” with American Depositary Receipts (Level 1) traded on the over-the-counter market (ticker symbol: “AAGIY”).

FINANCIAL SUMMARY

Performance Highlights

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
New Business Value				
Value of new business (VONB)	1,753	1,260	42%	39%
VONB margin	54.2%	52.7%	1.8 pps	1.5 pps
Annualised new premiums (ANP)	3,196	2,355	37%	36%
EV Operating Profit				
Embedded value (EV) operating profit	3,456	2,896	21%	19%
EV operating earnings per share (US cents)	28.83	24.20	21%	19%
IFRS Earnings				
Operating profit after tax (OPAT)	2,262	1,956	16%	16%
Total weighted premium income (TWPI)	12,393	10,332	21%	20%
Operating earnings per share (US cents)				
– Basic	18.87	16.34	16%	15%
– Diluted	18.83	16.31	16%	15%
Dividends				
Dividend per share (HK cents)	25.62	21.90	n/a	17%

US\$ millions, unless otherwise stated	As at 31 May 2017	As at 30 Nov 2016	Change CER	Change AER
Embedded Value				
EV Equity	47,832	43,650	8%	10%
Embedded value	46,273	42,114	8%	10%
Free surplus	10,958	9,782	14%	12%
EV Equity per share (US cents)	396.16	362.06	8%	9%
Equity and Capital				
Shareholders' allocated equity	32,196	29,632	7%	9%
Operating ROE	14.2%	13.8%	n/a	0.4 pps
AIA Co. HKIO solvency ratio	427%	404%	n/a	23 pps

New Business Performance by Segment

US\$ millions, unless otherwise stated	Six months ended 31 May 2017			Six months ended 31 May 2016			VONB Change	
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YOY CER	YOY AER
Hong Kong	828	47.9%	1,696	537	52.9%	988	54%	54%
Thailand	173	74.7%	232	175	80.9%	216	(3)%	(1)%
Singapore	135	72.0%	187	152	71.1%	214	(10)%	(11)%
Malaysia	104	61.8%	167	90	55.7%	159	24%	16%
China	434	91.7%	474	278	86.8%	321	65%	56%
Other Markets	184	41.1%	440	136	29.2%	457	36%	35%
Subtotal	1,858	57.5%	3,196	1,368	57.3%	2,355	38%	36%
Adjustment to reflect consolidated reserving and capital requirements	(27)	n/m	n/m	(35)	n/m	n/m	n/m	n/m
After-tax value of unallocated Group Office expenses	(78)	n/m	n/m	(73)	n/m	n/m	n/m	n/m
Total	1,753	54.2%	3,196	1,260	52.7%	2,355	42%	39%

Notes:

- (1) A presentation for analysts and investors, hosted by Ng Keng Hooi, Group Chief Executive and President, was held on 28 July 2017.

A webcast archive of the presentation and presentation slides are available on AIA's website:

<http://www.aia.com/en/investor-relations/results-presentations.html>

- (2) All figures are presented in actual reporting currency (US dollar) and based on actual exchange rates (AER) unless otherwise stated. Change on constant exchange rates (CER) is calculated using constant average exchange rates for the first half of 2017 and for the first half of 2016 other than for balance sheet items that use CER as at 31 May 2017 and as at 30 November 2016.
- (3) Change is shown on a year-on-year basis unless otherwise stated.
- (4) Long-term economic assumptions used in the EV basis for the interim results are the same as those shown as at 30 November 2016 in our 2016 annual results preliminary announcement published on 24 February 2017. Non-economic assumptions used in the EV basis are based on those at 30 November 2016 updated to reflect AIA's view of the latest experience observed.
- (5) VONB is calculated based on assumptions applicable at the point of sale and before deducting the amount attributable to non-controlling interests. The amounts of VONB attributable to non-controlling interests in the first half of 2017 and in the first half of 2016 were US\$10 million and US\$9 million respectively.
- (6) VONB includes pension business. ANP and VONB margin exclude pension business.
- (7) IFRS operating profit after tax and operating earnings per share are shown after non-controlling interests unless otherwise stated.
- (8) Operating ROE and operating ROEV are measured on an annualised basis.
- (9) Hong Kong refers to operations in Hong Kong and Macau; Singapore refers to operations in Singapore and Brunei; and Other Markets refers to operations in Australia (including New Zealand), Cambodia, Indonesia, Korea, the Philippines, Sri Lanka, Taiwan, Vietnam and India. The results of our joint venture in India are accounted for using the equity method. For clarity, TWPI, ANP and VONB exclude any contribution from India.
- (10) Korea has been included as part of the Other Markets segment, as previously disclosed in our Annual Report 2016. Prior period comparatives have been adjusted accordingly to conform to current period presentation.
- (11) AIA's financial information in this document is based on the unaudited interim condensed consolidated financial statements and supplementary embedded value information for the first half of 2017.

TABLE OF CONTENTS

	<i>Page</i>
Financial and Operating Review	2
Financial Review	2
Business Review	19
Risk Management	31
Corporate Governance	32
Compliance with Corporate Governance Code	32
Compliance with Model Code	32
Changes in Directors' Information	32
Directors' and the Chief Executive's Interests and Short Positions in Shares and Underlying Shares	33
Interests and Short Positions in Shares and Underlying Shares of Persons Other Than the Directors or the Chief Executive	34
Purchase, Sale or Redemption of the Company's Listed Securities	34
Share-based Compensation	35
Financial Statements	39
Report on Review of Interim Condensed Consolidated Financial Statements	39
Interim Consolidated Income Statement	40
Interim Consolidated Statement of Comprehensive Income	41
Interim Consolidated Statement of Financial Position	42
Interim Consolidated Statement of Changes in Equity	44
Interim Condensed Consolidated Statement of Cash Flows	46
Notes to the Unaudited Interim Condensed Consolidated Financial Statements	48
Report on Review of Supplementary Embedded Value Information	94
Supplementary Embedded Value Information	95
Information for Shareholders	115
Glossary	117

FINANCIAL AND OPERATING REVIEW

AIA is the largest publicly listed pan-Asian life insurance group, with a presence across 18 markets in the Asia-Pacific region. We receive the vast majority of our premiums in local currencies and we closely match our local assets and liabilities to minimise the economic effects of foreign exchange movements. When reporting the Group's consolidated figures, there is a currency translation effect as we report in US dollars. We have provided growth rates and commentaries on our operating performance on CER unless otherwise stated, since this provides a clearer picture of the year-on-year performance of the underlying businesses during the recent periods of foreign exchange volatility.

FINANCIAL REVIEW

Summary and Key Financial Highlights

AIA has delivered another set of excellent results across all of our main operating financial metrics. We achieved record growth in value of new business, demonstrating our focus on achieving large-scale profitable growth through investing capital with financial discipline in the first half to deliver attractive returns to shareholders. Profitable new business growth and the management of our in-force book has, in turn, driven a very strong increase in IFRS operating profit and free surplus generation.

Capital market conditions were supportive in the first half of 2017 and this has given rise to positive investment variances within our embedded value and IFRS equity results. Our solvency position remains strong and has benefited from growth in retained earnings and positive mark-to-market movements from our investment portfolios. The board of directors (Board) has declared a strong increase in our interim dividend reflecting the excellent financial results in the first half and our confidence in the outlook for the Group.

Our financial performance in the first half of 2017 and our strong and consistent track record over time is the direct outcome of our disciplined financial management and our success in capturing the enormous growth opportunities in the region. AIA continues to be well placed to deliver long-term sustainable growth and value for our shareholders.

VALUE GROWTH

VONB increased by 42 per cent to US\$1,753 million. This excellent growth was the result of the consistent execution of our Premier Agency strategy and an exceptional performance from our partnership distribution business. Our agency and partnership businesses reported 35 per cent and 45 per cent VONB growth respectively. Hong Kong, Malaysia, China and our Other Markets continued their strong momentum and each delivered excellent double-digit VONB growth in the first half of the year.

ANP grew by 37 per cent to US\$3,196 million and VONB margin was up by 1.8 pps to 54.2 per cent. These results were underpinned by the quality of our new business with over 90 per cent of our ANP from regular premium sales, which increased by 41 per cent compared with the first half of 2016.

EV operating profit increased by 21 per cent to US\$3,456 million, reflecting excellent new business growth and strong overall positive operating variances of US\$138 million from the proactive management of our in-force portfolio. This led to an increase of 140 bps in our annualised operating ROEV compared with the first half of 2016, to 17.1 per cent.

Equity attributable to shareholders of the Company on the embedded value basis (EV Equity) grew by US\$4,182 million in the first half to US\$47,832 million. The increase was mainly driven by EV operating profit growth of 21 per cent and positive investment return variances of US\$1,224 million reflecting the effect of short-term capital market movements on our investment portfolio and statutory reserves compared with expected returns. We also benefited from the effect of foreign exchange translation movements over the period of US\$598 million. The strong growth in EV Equity is reported after the payment of shareholder dividends of US\$983 million.

IFRS EARNINGS

OPAT increased by 16 per cent to US\$2,262 million mainly driven by double-digit growth from Hong Kong, Thailand, Singapore and China. This excellent performance was the result of our high-quality sources of earnings combined with the growth in the scale of our business. The active management of our in-force portfolio and our disciplined expense management maintained a strong operating margin after tax, which was 18.4 per cent.

The excellent growth in OPAT contributed to an increase in annualised operating return on shareholders' allocated equity (operating ROE) by 40 bps compared with the first half of 2016, to 14.2 per cent.

Shareholders' allocated equity grew by US\$2,564 million in the first half to US\$32,196 million at 31 May 2017.

CAPITAL AND DIVIDENDS

Underlying free surplus generation grew by 13 per cent to US\$2,307 million. AIA has significant opportunities to invest capital in organic growth at attractive returns for shareholders. Reported new business strain reduced by 9 per cent to US\$621 million mainly from a shift in product mix towards participating business and changes in the country mix. While the reduction of new business strain is not a targeted objective in itself, we continue to be disciplined in how we deploy capital.

Free surplus increased by US\$1,176 million in the first half to US\$10,958 million at 31 May 2017, reflecting strong underlying free surplus generation, positive investment return variances and other items partly offset by the payment of shareholder dividends.

The solvency ratio of AIA Company Limited (AIA Co.), our principal operating company, was 427 per cent at 31 May 2017, up by 23 pps compared with 404 per cent at 30 November 2016. The higher solvency ratio was driven by growth in retained earnings and the positive effect of short-term capital market movements on our investment portfolio and statutory reserves, partly offset by dividends to AIA Group Limited (the Company).

Our local businesses remitted US\$997 million to the Group Corporate Centre in the first half of 2017.

The Board has declared an interim dividend of 25.62 Hong Kong cents per share. This represents a strong increase of 17 per cent compared with the interim dividend in 2016 reflecting AIA's excellent financial results in the first half of 2017 as well as our confidence in the outlook for the Group.

The Board intends to follow AIA's established prudent, sustainable and progressive dividend policy allowing for future growth opportunities and the financial flexibility of the Group.

OUTLOOK

Asian economic growth remains strong and structurally resilient. Solid macroeconomic fundamentals combined with rapid urbanisation trends and sound monetary and fiscal policies continue to drive increasing levels of wealth creation. Domestic demand continues to replace traditional industrial output and manufacturing exports as the primary driver of growth across the region as Asia increasingly moves towards service-driven economies. Asian policymakers have significant monetary and fiscal flexibility to respond proactively over time to sustain these domestic sources of growth and this places Asia as one of the most dynamic regions in the global economy.

AIA's business is very strongly supported by these major economic drivers of growth. The compounding benefits of growing economies and increasing wealth are leading to higher life insurance penetration rates and significant future growth potential for AIA. Our significant competitive advantages developed over our long history in the region place us in a highly advantaged position. We remain confident in the Group's long-term prospects and our ability to deliver sustainable value for our shareholders.

New Business Performance

VONB, ANP AND MARGIN BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 31 May 2017			Six months ended 31 May 2016			VONB Change	
	VONB	VONB Margin	ANP	VONB	VONB Margin	ANP	YoY CER	YoY AER
Hong Kong	828	47.9%	1,696	537	52.9%	988	54%	54%
Thailand	173	74.7%	232	175	80.9%	216	(3)%	(1)%
Singapore	135	72.0%	187	152	71.1%	214	(10)%	(11)%
Malaysia	104	61.8%	167	90	55.7%	159	24%	16%
China	434	91.7%	474	278	86.8%	321	65%	56%
Other Markets ⁽¹⁾	184	41.1%	440	136	29.2%	457	36%	35%
Subtotal	1,858	57.5%	3,196	1,368	57.3%	2,355	38%	36%
Adjustment to reflect consolidated reserving and capital requirements	(27)	n/m	n/m	(35)	n/m	n/m	n/m	n/m
After-tax value of unallocated Group Office expenses	(78)	n/m	n/m	(73)	n/m	n/m	n/m	n/m
Total	1,753	54.2%	3,196	1,260	52.7%	2,355	42%	39%

Note:

- (1) Korea has been included as part of the Other Markets segment, as previously disclosed in our Annual Report 2016. Prior period comparatives have been adjusted accordingly to conform to current period presentation.

VONB grew by 42 per cent compared with the first half of 2016 to US\$1,753 million.

ANP was higher by 37 per cent to US\$3,196 million. Annualised new regular premiums increased by 41 per cent and accounted for more than 90 per cent of total ANP in the first half of 2017. VONB margin was higher by 1.8 pps to 54.2 per cent and margin reported on a present value of new business premium (PVNBP) basis increased to 10 per cent.

We continued to achieve excellent results across both of our agency and partnership distribution channels. Agency delivered 35 per cent VONB growth to US\$1,231 million and partnership distribution VONB grew by 45 per cent to US\$608 million compared with the first half of 2016.

Hong Kong delivered another excellent start to the year with VONB growth across a number of different customer segments and distribution channels. VONB increased by 54 per cent to US\$828 million due to strong growth in our number of active agents and improvements in agent productivity, as well as significant VONB growth from our partnership distribution channel. We had an exceptionally strong first half in the retail IFA channel and, as such, we would expect some normalisation of the growth rate in the full year. Our strategic bancassurance partnership with Citibank in Hong Kong also delivered a strong performance with high double-digit VONB growth.

AIA's wholly-owned operation in China was our fastest-growing business in the first half of 2017 with VONB growth of 65 per cent to US\$434 million. Premier Agency continues to be the foundation of AIA's differentiated strategy in China and our focus on the high-quality new business we write underpins our strong track record of growth.

Malaysia delivered VONB growth of 24 per cent to US\$104 million. This was the result of strong growth in both our agency and partnership distribution channels and increased sales of regular premium long-term savings products with higher levels of protection cover.

VONB in Thailand reduced by 3 per cent to US\$173 million. We remain focused on increasing the productivity and activity levels of our agency force and recruiting the next generation of high-quality agents. At the same time we continue to strictly enforce the validation of agency contracts which has affected the overall results in the near term but will position us well for future sustainable growth.

Singapore's VONB was lower by 10 per cent to US\$135 million mainly due to a reduction in single premium sales through the broker channel as we maintained our disciplined approach to managing our product mix as previously highlighted.

Other Markets delivered very strong VONB growth of 36 per cent compared with the first half of 2016 to US\$184 million. Highlights included excellent performances from Australia (including New Zealand), Korea, the Philippines and Vietnam.

VONB is reported after a US\$105 million total deduction for the consolidated reserving and capital requirements over and above local statutory requirements and the present value of unallocated Group Office expenses.

EV Equity

EV OPERATING PROFIT

EV operating profit increased by 21 per cent to US\$3,456 million compared with the first half of 2016.

This strong performance was the result of 42 per cent growth in VONB to US\$1,753 million, a higher expected return on EV of US\$1,625 million and overall positive operating variances of US\$138 million. Overall operating variances have totalled more than US\$1.2 billion since our initial public offering (IPO) in 2010.

Annualised operating ROEV increased by 140 bps compared with the first half of 2016, to 17.1 per cent.

EV OPERATING PROFIT PER SHARE – BASIC

	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
EV operating profit (US\$ millions)	3,456	2,896	21%	19%
Weighted average number of ordinary shares (millions)	11,989	11,969	n/a	n/a
Basic EV earnings per share (US cents)	28.83	24.20	21%	19%

EV OPERATING PROFIT PER SHARE – DILUTED

	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
EV operating profit (US\$ millions)	3,456	2,896	21%	19%
Weighted average number of ordinary shares ⁽¹⁾ (millions)	12,012	11,992	n/a	n/a
Diluted EV earnings per share⁽¹⁾ (US cents)	28.77	24.15	21%	19%

Note:

(1) Diluted EV earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, restricted stock purchase units (RSPUs) and restricted stock subscription units (RSSUs) granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 38 to the financial statements in our Annual Report 2016.

EV MOVEMENT

EV grew by US\$4,159 million in the first half to US\$46,273 million at 31 May 2017.

The increase was mainly driven by EV operating profit growth of 21 per cent to US\$3,456 million.

We also benefited from positive non-operating movements of US\$1 billion. This included positive investment return variances of US\$1,224 million reflecting the effect of short-term capital market movements on our investment portfolio and statutory reserves compared with expected returns and other negative non-operating variances of US\$224 million, largely reflecting the net effect of modelling enhancements and the strengthening of risk-based capital requirements in Singapore. The effect of foreign exchange translation movements was a further US\$598 million.

The overall growth in EV is shown after the payment of shareholder dividends of US\$983 million.

An analysis of the movement in EV is shown as follows:

US\$ millions, unless otherwise stated	Six months ended 31 May 2017		
	ANW	VIF	EV
Opening EV	16,544	25,570	42,114
Value of new business	(261)	2,014	1,753
Expected return on EV	2,005	(380)	1,625
Operating experience variances	266	(69)	197
Operating assumption changes	(213)	154	(59)
Finance costs	(60)	–	(60)
EV operating profit	1,737	1,719	3,456
Investment return variances	951	273	1,224
Other non-operating variances	272	(496)	(224)
Total EV profit	2,960	1,496	4,456
Dividends	(983)	–	(983)
Other capital movements	88	–	88
Effect of changes in exchange rates	41	557	598
Closing EV	18,650	27,623	46,273

US\$ millions, unless otherwise stated	Six months ended 31 May 2016		
	ANW	VIF	EV
Opening EV	15,189	23,009	38,198
Value of new business	(367)	1,627	1,260
Expected return on EV	1,738	(345)	1,393
Operating experience variances	335	(34)	301
Operating assumption changes	(1)	(7)	(8)
Finance costs	(50)	–	(50)
EV operating profit	1,655	1,241	2,896
Investment return variances	(359)	(20)	(379)
Other non-operating variances	(86)	183	97
Total EV profit	1,210	1,404	2,614
Dividends	(786)	–	(786)
Effect of changes in exchange rates	76	(33)	43
Closing EV	15,689	24,380	40,069

EV EQUITY

US\$ millions, unless otherwise stated	As at 31 May 2017	As at 30 November 2016
EV	46,273	42,114
Goodwill and other intangible assets ⁽¹⁾	1,559	1,536
EV Equity	47,832	43,650

Note:

(1) Consistent with the IFRS financial statements, net of tax, amounts attributable to participating funds and non-controlling interests.

EV AND VONB SENSITIVITIES

Sensitivities to EV and VONB arising from changes to central assumptions from equity price and interest rate movements are shown below and are consistent with the prior period.

US\$ millions, unless otherwise stated	EV as at 31 May 2017	Six months ended 31 May 2017 VONB	EV as at 30 November 2016	Six months ended 31 May 2016 VONB
Central value	46,273	1,753	42,114	1,260
Equity price changes				
10 per cent increase in equity prices	47,009	n/a	42,839	n/a
10 per cent decrease in equity prices	45,534	n/a	41,380	n/a
Interest rate changes				
50 basis points increase in interest rates	45,774	1,850	42,262	1,357
50 basis points decrease in interest rates	46,440	1,605	41,736	1,144

Please refer to Section 3 of the Supplementary Embedded Value Information for additional information.

IFRS Profit

OPAT⁽¹⁾ BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
Hong Kong	836	670	25%	25%
Thailand	413	367	11%	13%
Singapore	235	211	12%	11%
Malaysia	119	125	–	(5)%
China	305	221	45%	38%
Other Markets	349	324	5%	8%
Group Corporate Centre	5	38	(87)%	(87)%
Total	2,262	1,956	16%	16%

Note:

(1) Attributable to shareholders of the Company only excluding non-controlling interests.

OPAT grew by 16 per cent to US\$2,262 million compared with the first half of 2016 mainly driven by double-digit growth in Hong Kong, Thailand, Singapore and China. This strong performance was the result of our focus on generating high-quality sources of earnings combined with the growth in the scale of our business.

The active management of our in-force portfolio and our disciplined expense management maintained a strong operating margin after tax, which was 18.4 per cent.

Hong Kong delivered another excellent performance with an increase of 25 per cent mainly driven by strong underlying business growth and the disciplined management of our in-force portfolio. China further accelerated its growth to 45 per cent primarily supported by the quality of our earnings and increasing scale from sustained growth in profitable new business.

Thailand and Singapore delivered strong growth of 11 per cent and 12 per cent respectively. Malaysia's OPAT was flat with underlying growth in the business offset by increased claims and lapse experience. Other Markets reported OPAT growth of 5 per cent with strong performances in Australia and Vietnam partly offset by the results in Korea and Indonesia.

The excellent growth in OPAT contributed to an increase in annualised operating ROE by 40 bps compared with the first half of 2016, to 14.2 per cent.

TWPI BY SEGMENT

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
Hong Kong	4,507	2,991	51%	51%
Thailand	1,594	1,566	-	2%
Singapore	1,143	1,114	4%	3%
Malaysia	875	870	8%	1%
China	1,509	1,187	35%	27%
Other Markets	2,765	2,604	4%	6%
Total	12,393	10,332	21%	20%

TWPI increased by 21 per cent to US\$12,393 million compared with the first half of 2016. The Group's persistency remained strong and stable at 95.4 per cent in the first half of 2017.

IFRS OPERATING PROFIT INVESTMENT RETURN

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
Interest income	2,635	2,508	6%	5%
Expected long-term investment return for equities and real estate	767	629	24%	22%
Total	3,402	3,137	10%	8%

IFRS operating profit investment return increased by 10 per cent to US\$3,402 million compared with the first half of 2016. The growth was primarily driven by an increase in the investment in fixed income securities and higher market values from our equity portfolio.

OPERATING EXPENSES

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
Operating expenses	936	831	14%	13%

Operating expenses grew by 14 per cent to US\$936 million with a lower expense ratio of 7.6 per cent compared with 8.0 per cent in the first half of 2016.

NET PROFIT⁽¹⁾

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
OPAT	2,262	1,956	16%	16%
Short-term fluctuations in investment return related to equities and real estate, net of tax	773	(27)	n/m	n/m
Other non-operating investment return and other items, net of tax	(110)	136	n/m	n/m
Total	2,925	2,065	44%	42%

Note:

(1) Attributable to shareholders of the Company only excluding non-controlling interests.

IFRS NON-OPERATING MOVEMENT

IFRS net profit increased by 44 per cent to US\$2,925 million compared with the first half of 2016. The increase was due to the strong growth in OPAT of 16 per cent to US\$2,262 million and positive short-term fluctuations in investment returns of US\$773 million compared with negative movements of US\$27 million in the first half of 2016.

MOVEMENT IN SHAREHOLDERS' ALLOCATED EQUITY

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Year ended 30 November 2016	Six months ended 31 May 2016
Opening shareholders' allocated equity	29,632	26,705	26,705
Opening adjustments on revaluation gains on property held for own use	–	259	259
Net profit	2,925	4,164	2,065
Purchase of shares held by employee share-based trusts	(5)	(86)	(84)
Dividends	(983)	(1,124)	(786)
Revaluation gains on property held for own use	32	50	32
Foreign currency translation adjustments	502	(423)	(27)
Other capital movements	93	87	39
Total movement in shareholders' allocated equity	2,564	2,927	1,498
Closing shareholders' allocated equity	32,196	29,632	28,203

The movement in shareholders' allocated equity is shown before fair value reserve movements. AIA believes this provides a clearer reflection of the underlying movement in shareholders' equity over the period, before the IFRS accounting treatment of movements in available for sale bonds.

Shareholders' allocated equity grew to US\$32,196 million at 31 May 2017. The increase of US\$2,564 million was mainly due to net profit of US\$2,925 million and foreign exchange translation movements of US\$502 million, partly offset by the payment of shareholder dividends of US\$983 million.

Sensitivities arising from foreign exchange rate, interest rate and equity price movements are included in note 22 to the interim financial statements.

IFRS Earnings per Share (EPS)

Basic EPS based on IFRS OPAT attributable to shareholders increased by 16 per cent to 18.87 US cents in the first half of 2017.

Basic EPS based on IFRS net profit attributable to shareholders, including mark-to-market movements from our equity and investment property portfolios, increased by 43 per cent to 24.40 US cents in the first half of 2017.

IFRS EPS – BASIC

	Net Profit ⁽¹⁾		OPAT ⁽¹⁾	
	Six months ended 31 May 2017	Six months ended 31 May 2016	Six months ended 31 May 2017	Six months ended 31 May 2016
Profit (US\$ millions)	2,925	2,065	2,262	1,956
Weighted average number of ordinary shares (millions)	11,989	11,969	11,989	11,969
Basic earnings per share (US cents)	24.40	17.25	18.87	16.34

IFRS EPS – DILUTED

	Net Profit ⁽¹⁾		OPAT ⁽¹⁾	
	Six months ended 31 May 2017	Six months ended 31 May 2016	Six months ended 31 May 2017	Six months ended 31 May 2016
Profit (US\$ millions)	2,925	2,065	2,262	1,956
Weighted average number of ordinary shares ⁽²⁾ (millions)	12,012	11,992	12,012	11,992
Diluted earnings per share⁽²⁾ (US cents)	24.35	17.22	18.83	16.31

Notes:

(1) Attributable to shareholders of the Company only excluding non-controlling interests.

(2) Diluted earnings per share including the dilutive effects, if any, of the awards of share options, restricted share units, RSPUs and RSSUs granted to eligible directors, officers, employees and agents under the share-based compensation plans as described in note 38 to the financial statements in our Annual Report 2016.

Capital

FREE SURPLUS GENERATION

The Group's free surplus at 31 May 2017 represented the excess of adjusted net worth over required capital including the consolidated reserving and capital requirements.

Underlying free surplus generation, which excludes investment return variances and other items, increased by 13 per cent to US\$2,307 million, reflecting the growing scale of our in-force business and our focus on writing quality new business with attractive returns on capital. Reported new business strain reduced by 9 per cent to US\$621 million while we delivered VONB growth of 42 per cent, mainly reflecting a shift in product mix towards participating business and changes in the country mix.

Free surplus increased by US\$1,176 million in the first half to US\$10,958 million at 31 May 2017. The growth was mainly due to increased underlying free surplus generation, net of new business investment, of US\$1,686 million and positive investment return variances and other items totalling US\$548 million, less the payment of shareholder dividends of US\$983 million.

The following table summarises the change in free surplus:

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016
Opening free surplus	9,782	7,528
Underlying free surplus generated	2,307	2,073
Free surplus used to fund new business	(621)	(687)
Investment return variances and other items	548	242
Unallocated Group Office expenses	(103)	(71)
Dividends	(983)	(786)
Finance costs and other capital movements	28	(50)
Closing free surplus	10,958	8,249

NET FUNDS TO GROUP CORPORATE CENTRE

Working capital comprises debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. Working capital increased to US\$8,966 million at 31 May 2017.

The increase was mainly due to net remittances from business units of US\$997 million and the increase in borrowings of US\$508 million that included the issuance of medium term notes with net proceeds of US\$497 million. The increase is reported after the payment of shareholder dividends of US\$983 million.

The movements in working capital are summarised as follows:

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016
Opening working capital	8,416	7,843
Group Corporate Centre operating results ⁽¹⁾	5	38
Capital flows from business units		
Hong Kong	482	490
Thailand	197	280
Malaysia	192	186
China	134	–
Other Markets	(8)	37
Net funds remitted to Group Corporate Centre	997	993
Payment for increase in interest of an associate (Tata AIA)	–	(310)
Increase in borrowings	508	410
Purchase of shares held by employee share-based trusts	(5)	(84)
Payment of dividends	(983)	(786)
Change in fair value reserve and others ⁽¹⁾	28	164
Closing working capital	8,966	8,268

Note:

(1) Change in fair value reserve and others include non-operating investment return and other non-operating income and expenses. The comparative information has been adjusted to conform to current period presentation.

IFRS Balance Sheet

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$ millions, unless otherwise stated	As at 31 May 2017	As at 30 November 2016	Change AER
Assets			
Financial investments	163,686	150,998	8%
Investment property	4,145	3,910	6%
Cash and cash equivalents	1,724	1,642	5%
Deferred acquisition and origination costs	20,370	18,898	8%
Other assets	10,205	9,626	6%
Total assets	200,130	185,074	8%
Liabilities			
Insurance and investment contract liabilities	145,833	135,214	8%
Borrowings	3,957	3,460	14%
Other liabilities	11,665	11,090	5%
Less total liabilities	161,455	149,764	8%
Equity			
Total equity	38,675	35,310	10%
Less non-controlling interests	361	326	11%
Total equity attributable to shareholders of AIA Group Limited	38,314	34,984	10%
Shareholders' allocated equity	32,196	29,632	9%

MOVEMENT IN SHAREHOLDERS' EQUITY

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Year ended 30 November 2016	Six months ended 31 May 2016
Opening shareholders' equity	34,984	31,119	31,119
Opening adjustments on revaluation gains on property held for own use	–	259	259
Net profit	2,925	4,164	2,065
Fair value gains on assets	766	938	2,924
Purchase of shares held by employee share-based trusts	(5)	(86)	(84)
Dividends	(983)	(1,124)	(786)
Revaluation gains on property held for own use	32	50	32
Foreign currency translation adjustments	502	(423)	(27)
Other capital movements	93	87	39
Total movement in shareholders' equity	3,330	3,865	4,422
Closing shareholders' equity	38,314	34,984	35,541

TOTAL INVESTMENTS

US\$ millions, unless otherwise stated	As at 31 May 2017	Percentage of total	As at 30 November 2016	Percentage of total
Total policyholder and shareholder	148,552	87%	137,479	87%
Total unit-linked contracts and consolidated investment funds	22,660	13%	20,657	13%
Total investments	171,212	100%	158,136	100%

The investment mix remained stable during the first half of the year as set out below:

UNIT-LINKED CONTRACTS AND CONSOLIDATED INVESTMENT FUNDS

US\$ millions, unless otherwise stated	As at 31 May 2017	Percentage of total	As at 30 November 2016	Percentage of total
Unit-linked contracts and consolidated investment funds				
Debt securities	4,617	20%	4,456	22%
Loans and deposits	138	1%	196	1%
Equities	17,434	77%	15,498	75%
Cash and cash equivalents	458	2%	504	2%
Derivatives	13	-	3	-
Total unit-linked contracts and consolidated investment funds	22,660	100%	20,657	100%

POLICYHOLDER AND SHAREHOLDER INVESTMENTS

US\$ millions, unless otherwise stated	As at 31 May 2017	Percentage of total	As at 30 November 2016	Percentage of total
Participating funds				
Government and government agency bonds	8,415	6%	7,830	6%
Corporate bonds and structured securities	11,080	7%	10,877	8%
Loans and deposits	1,931	1%	1,830	1%
Subtotal – Fixed income investments	21,426	14%	20,537	15%
Equities	6,412	4%	5,451	4%
Investment property and property held for own use	452	–	434	–
Cash and cash equivalents	220	–	179	–
Derivatives	41	–	17	–
Subtotal participating funds	28,551	18%	26,618	19%
Other policyholder and shareholder				
Government and government agency bonds	42,454	29%	40,013	29%
Corporate bonds and structured securities	55,212	37%	50,442	36%
Loans and deposits	5,213	4%	5,036	4%
Subtotal – Fixed income investments	102,879	70%	95,491	69%
Equities	10,613	7%	9,262	7%
Investment property and property held for own use	5,350	4%	5,062	4%
Cash and cash equivalents	1,046	1%	959	1%
Derivatives	113	–	87	–
Subtotal other policyholder and shareholder	120,001	82%	110,861	81%
Total policyholder and shareholder	148,552	100%	137,479	100%

ASSETS

Total assets increased by US\$15,056 million to US\$200,130 million at 31 May 2017, compared with US\$185,074 million at 30 November 2016, due to positive net revenues and mark-to-market gains from our debt and equity securities as well as positive foreign exchange movements.

Total investments including financial investments, investment property, property held for own use, and cash and cash equivalents increased by US\$13,076 million to US\$171,212 million at 31 May 2017, compared with US\$158,136 million at 30 November 2016.

Of the total US\$171,212 million investments at 31 May 2017, US\$148,552 million were held in respect of policyholders and shareholders and the remaining US\$22,660 million were backing unit-linked contracts and consolidated investment funds.

Fixed income investments, including debt securities, loans and term deposits held in respect of policyholders and shareholders, totalled US\$124,305 million at 31 May 2017 compared with US\$116,028 million at 30 November 2016. The average credit rating of the fixed income portfolio of A remained consistent with the position at 30 November 2016.

Government and government agency bonds represented 41 per cent of fixed income investments at 31 May 2017 and 30 November 2016. Corporate bonds and structured securities accounted for 53 per cent of fixed income investments at 31 May 2017 and 30 November 2016.

Equity securities held in respect of policyholders and shareholders totalled US\$17,025 million at 31 May 2017, compared with US\$14,713 million at 30 November 2016. The US\$2,312 million increase in carrying value was mainly attributable to new purchases and positive mark-to-market movements. Within this figure, equity securities of US\$6,412 million were held in participating funds.

Cash and cash equivalents increased by US\$82 million to US\$1,724 million at 31 May 2017 compared with US\$1,642 million at 30 November 2016. The increase largely reflected positive net cash inflows from our operating business and proceeds of US\$497 million from the issuance of medium term notes in May 2017, offset by the payment of shareholder dividends of US\$983 million.

Investment property and property held for own use in respect of policyholders and shareholders totalled US\$5,802 million at 31 May 2017 compared with US\$5,496 million at 30 November 2016.

Deferred acquisition and origination costs increased to US\$20,370 million at 31 May 2017 compared with US\$18,898 million at 30 November 2016, largely reflecting new business growth.

Other assets increased to US\$10,205 million at 31 May 2017 compared with US\$9,626 million at 30 November 2016, reflecting the increase in reinsurance assets, accrued interest and prepayments.

LIABILITIES

Total liabilities increased to US\$161,455 million at 31 May 2017 from US\$149,764 million at 30 November 2016.

Insurance and investment contract liabilities grew to US\$145,833 million at 31 May 2017 compared with US\$135,214 million at 30 November 2016, reflecting the underlying growth of the in-force portfolio from new business and positive mark-to-market movements on equities backing unit-linked and participating policies and positive foreign exchange translation.

Borrowings increased to US\$3,957 million at 31 May 2017, due to the net proceeds of US\$497 million from the issuance of medium term notes in May 2017. Medium term notes issued in 2013 will mature in 2018 as disclosed in note 18 to the interim financial statements.

Other liabilities were US\$11,665 million at 31 May 2017, compared with US\$11,090 million at 30 November 2016.

Details of commitments and contingencies are included in note 25 to the interim financial statements.

Regulatory Capital

The Group's lead insurance regulator is the Hong Kong Insurance Authority (HKIA). The Group's principal operating company is AIA Co., a Hong Kong-domiciled insurer.

At 31 May 2017, the total available capital for AIA Co., our main regulated entity, was US\$7,357 million as measured under the HKIO basis, resulting in a solvency ratio of 427 per cent of regulatory minimum capital compared with 404 per cent at 30 November 2016. The higher solvency ratio reflected growth in retained earnings and the positive effect of short-term capital market movements on our investment portfolio and statutory reserves, offset by dividends to the Company.

A summary of the total available capital and solvency ratios of AIA Co. is as follows:

US\$ millions, unless otherwise stated	As at 31 May 2017	As at 30 November 2016
Total available capital	7,357	6,699
Regulatory minimum capital (100%)	1,722	1,659
Solvency ratio (%)	427%	404%

The Group's individual branches and subsidiaries are also subject to supervision in the jurisdictions in which they and their parent entity operate. This means that local operating units, including branches and subsidiaries, must meet the regulatory capital requirements of their local prudential and, where applicable, parent entity regulators. These various regulators overseeing the Group's branches and subsidiaries actively monitor their capital positions. The local operating units were in compliance with the capital requirements of their respective entity and local regulators in each of our geographical markets at 31 May 2017.

Regulatory Developments

Internationally, the regulatory environment facing life insurers has continued to evolve. In particular, the International Association of Insurance Supervisors (IAIS) continues a multi-year review of certain Insurance Core Principles with the longer-term aim of developing and implementing an updated common framework for the international regulation of insurance companies.

Regulators across AIA's span of operations continued a variety of initiatives intended to align their respective regulatory frameworks with the broad principles recommended by the IAIS. AIA continues to be involved in these initiatives across the region, and is an active participant in the international industry dialogue on a host of relevant issues, including formulation of an international capital standard.

In particular, in 2016 Bermuda's prudential framework for insurance was deemed to be equivalent to the regulatory standards applied to European insurers in accordance with the requirements of the Solvency II Directive. Under the enhanced commercial prudential return regime, the Bermuda Monetary Authority has instituted a number of changes to its statutory and prudential reporting requirements, including the need for commercial insurers to prepare an economic balance sheet. These new regulatory requirements will first apply to AIA's financial year ending 30 November 2017 and AIA is participating in the development and refinement of these initiatives.

In Hong Kong, the HKIA being a statutory body established under the Insurance Companies (Amendment) Ordinance 2015 replaced the Office of the Commissioner of Insurance as the regulator of insurance companies with effect from 26 June 2017. It is anticipated that the HKIA will directly regulate intermediaries within two years. A multi-year consultation process is also underway towards the development of a risk-based capital regime for Hong Kong insurers. As previously disclosed, AIA is closely and constructively engaged in these developments.

On 16 May 2017, the HKIA and the China Insurance Regulatory Commission (CIRC) signed the Equivalence Assessment Framework Agreement on Solvency Regulatory Regime under which the HKIA and the CIRC agreed to conduct an assessment that the insurance solvency regime of the Mainland and Hong Kong would be equivalent. As no implementing procedures for equivalency were in place for Hong Kong as of 31 May 2017, there was no change to the solvency requirements under the HKIO.

Global Medium Term Note (GMTN) and Securities Programme

In March 2017, we expanded our US\$5 billion GMTN programme to a US\$6 billion GMTN and Securities programme. Under our US\$6 billion GMTN and Securities programme, the Company issued senior unsecured fixed rate notes with a nominal amount of US\$500 million in May 2017. The notes will mature in 2047 and bear annual interest of 4.47 per cent. The Company has the right to redeem these notes at par on 23 May of each year beginning on 23 May 2022. At 31 May 2017, the aggregate carrying amount of the debt issued under the GMTN and Securities programme was US\$3,956 million.

Credit Ratings

At 31 May 2017, AIA Co. has financial strength ratings of AA- (Very Strong) with a stable outlook from Standard & Poor's, Aa2 (Very Low Credit Risk) with a stable outlook from Moody's and AA (Very Strong) with a stable outlook from Fitch. Moody's upgraded its financial strength rating on AIA Co. from Aa3 (Very Low Credit Risk) to Aa2 (Very Low Credit Risk) on 27 March 2017.

The Company has issuer credit ratings of A (Strong) with a stable outlook from Standard & Poor's, A2 (Low Credit Risk) with a stable outlook from Moody's and A+ (High Credit Quality) with a stable outlook from Fitch. Moody's upgraded its long-term issuer credit rating of the Company from A3 (Low Credit Risk) to A2 (Low Credit Risk) on 27 March 2017.

Dividends

The Board has declared an interim dividend of 25.62 Hong Kong cents per share. This represents a strong increase of 17 per cent compared with the interim dividend in 2016 reflecting our excellent financial results in the first half as well as our confidence in the outlook for the Group.

The Board intends to follow AIA's established prudent, sustainable and progressive dividend policy allowing for future growth opportunities and the financial flexibility of the Group.

BUSINESS REVIEW

Distribution

AGENCY

The scale, reach and quality of AIA's proprietary tied agency network allows us to serve the needs of customers across Asia-Pacific's diverse demographic and socio-economic groups. To ensure high-quality service at every point of contact, we focus on the continuous training and development of our agents. Our full-time professional agency enables us to form close ties with our customers and offer tailored advice on a comprehensive range of products and services. Our approach differentiates AIA in our markets and is an important competitive advantage for the Group, underpinning our continued success and the quality of our growth.

The disciplined execution of AIA's Premier Agency strategy has continued to deliver excellent results. Agency VONB grew by 35 per cent to US\$1,231 million. ANP increased by 37 per cent to US\$1,936 million while VONB margin remained strong at 63.6 per cent. Agency accounted for 67 per cent of the Group's total VONB in the first half of 2017.

We place great importance on the quality of our recruitment process. New recruits undertake rigorous development programmes from pre-contract induction and mandatory onboarding qualifications to financial needs analysis training. This provides high-calibre individuals with the foundation to build a successful career with AIA and contributed significantly to a 22 per cent increase in the number of active new agents compared with the first half of 2016.

In 2017, AIA became the only company to be ranked number one in the world for Million Dollar Round Table (MDRT) members for three consecutive years. MDRT status is an important global industry benchmark and members are required to demonstrate outstanding professional knowledge and customer engagement. We have continued to deliver exceptional results with 46 per cent growth in 2017 registered MDRT members. Each of our agency markets achieved at least double-digit growth, once again reflecting the depth of professionalism of our agents across Asia.

AIA's unmatched capacity and ability to invest in training, product innovation and technology in support of our agency force creates a range of opportunities. Since its launch in 2012, we have continued to invest in our market-leading interactive Point of Sale (iPoS) platform. This has led to improvements in the efficiency, productivity and professionalism of our agents and represents another important competitive advantage in attracting and empowering high-quality new recruits. In the first half of 2017, more than 80 per cent of our active agents had adopted our iPoS technology in their day-to-day sales activities. Our next generation interactive Mobile Office (iMO) platform enables our agents and agency leaders to manage all of their activities on a single mobile device, from recruitment and training, to lead generation and the face-to-face sales process. AIA's commitment to improving agency productivity through agent segmentation, sales activity management and the use of technology, has delivered double-digit growth in the number of active agents and increased productivity in terms of ANP per active agent by more than 20 per cent in the first half of the year.

PARTNERSHIPS

Our partnership distribution is a growing source of new business as we extend our reach to serve different customer segments across the Asia-Pacific region. Our commitment to developing long-term collaborative partnerships once again delivered excellent results in the first half of 2017. VONB from partnerships grew by 45 per cent to US\$608 million. ANP increased by 37 per cent to US\$1,260 million with VONB margin up 2.8 pps to 48.2 per cent. Partnerships accounted for 33 per cent of the Group's total VONB in the first half of 2017.

Intermediary Channels

Our intermediated partnership channels, including independent financial advisers (IFAs), brokers, private banks and specialist advisers, delivered very strong VONB growth in the first half of 2017, led by an exceptional result in Hong Kong. This was driven by our focus on deepening relationships with our partners, as well as our strong differentiation through offering targeted products and service propositions that provide value to customers.

Bancassurance

AIA's bancassurance business delivered strong VONB growth in the first half of 2017 as we continued to focus on improving the scale and productivity of distribution with our local and regional bank partners, including Citibank, N.A. (Citibank), Bank of the Philippine Islands (BPI), Bank of Central Asia (BCA) and Public Bank. During the first half of 2017, we further enhanced our extensive network of bank partners by renewing the relationship with BCA in Indonesia. Our emphasis on delivering customised products and services for Citibank's large customer base generated very strong double-digit growth in VONB.

Direct Marketing

AIA's direct marketing business generated very strong double-digit VONB growth in the first half of 2017. This was driven by the continued growth momentum in our Korean business following on from the performance in the second half of 2016, improved productivity of our telesales representatives and our focus on promoting protection solutions to high-quality sales leads from our partners, particularly in Malaysia and Taiwan.

GROUP INSURANCE

AIA is among the market leaders for group insurance in Asia-Pacific (ex-Japan). Overall, group insurance reported strong double-digit VONB growth in the first half of 2017. We also benefited from the retention of large group schemes, particularly in Australia, and a significant increase in group business sold through our proprietary agency channel.

Our multichannel distribution platform provides us with significant competitive advantages in meeting the potential protection needs of the more than 1.8 billion people in the working population throughout Asia-Pacific (ex-Japan). We offer flexible employee benefits solutions and services through our collaboration with a network of consultants and brokers, as well as through our proprietary agency force. Our focus on individual voluntary solutions targeted at group scheme members, combined with a simplified underwriting process and products specifically designed to complement existing scheme benefits, has resulted in a strong performance in the first half of 2017.

AIA remains at the forefront of offering innovative protection solutions for employers in Asia. We launched AIA Vitality to selected group insurance clients in Australia, Hong Kong, Thailand, Singapore and Malaysia to help increase engagement with their employees.

Marketing and Brand

AIA has one of the most recognised and trusted brands in Asia. We are committed to being “The Real Life Company” that meets our customers’ protection and savings needs at different stages of their lives. Our brand promise goes beyond providing financial solutions, to actively helping our customers live longer, healthier, better lives.

Our brand promise is exemplified through AIA Vitality, our comprehensive science-backed wellness programme. We extended the launch of AIA Vitality to Vietnam and Sri Lanka in the first half of 2017, bringing the total to nine markets including Australia, Singapore, the Philippines, Hong Kong, Macau, Malaysia and Thailand. We also rolled out a tailor-made wellness programme for our customers in China.

Our aim is to make a meaningful impact on people’s well-being by helping them take charge of their health and rewarding them for maintaining a healthy lifestyle. We have also extended AIA Vitality to our corporate clients in selected markets to motivate group insurance scheme members to take better care of their health.

In March 2017 we announced David Beckham as AIA’s Global Ambassador. As our Global Ambassador, he will attend our important community and business activities to reinforce our brand promise and highlight the benefits of maintaining a healthy lifestyle.

AIA’s sponsorship of Tottenham Hotspur Football Club (Spurs) has become an integral part of our promotion of a healthy lifestyle since our partnership began in 2013. In May 2017, we extended and expanded our relationship with Spurs with AIA appointed as Spurs’ global principal partner. We use this close partnership to encourage young people to participate in football, offer world-class coaching to children in our communities and through these efforts to reinforce the importance of teamwork and healthy living.

Employee and Community Engagement

EMPLOYEE ENGAGEMENT

Employee engagement is at the core of our operating philosophy of “Doing the Right Thing, in the Right Way, with the Right People, confident that the results will come” and a key metric by which we measure our leaders. We strive to empower and engage our employees at all levels and believe that our more than 20,000 employees are one of our greatest strengths. We are committed to sustaining this organisational momentum by continuing to invest in the development of our people.

To support the development of our leaders, we created the AIA Leadership Centre (ALC) in Bangkok. The ALC partners with Group ExCo members, world-class institutions and experts to develop programmes that will enhance the skills and knowledge of our senior executives, distribution managers and technical leaders. We launched new leadership development programmes during the first half of 2017 and plan for many more.

We place a strong emphasis on the role of managers and have developed and implemented a set of core learning programmes to support them. Through Performance Development Dialogue, we encourage managers to engage their team members in conversations on goal-setting, progress against priorities and long-term development objectives. This process also helps our employees ensure that they have clarity in respect of their goals and how results should be delivered – in other words, clarity on doing the right things, in the right way, and reinforcing that they are the right people.

We have also put in place mentoring programmes to leverage the knowledge and expertise of senior leaders and encourage them to share skills, experience and advice. Through recently launched reverse mentoring programmes, we have created connections between our senior leaders and millennial employees to allow our senior leaders to benefit from their unique perspectives. This mutual learning approach encourages thought-sharing, open-ended questions and deeper understandings that help close generational gaps and focus on continuous improvement.

Career Mobility continues to play a vital role in supporting staff development at all levels of the Group. The Group’s Mobility programme enables our people to enrich their experiences through deployment in various AIA locations and functions.

AIA recognises and rewards employee performance. Our Rewards Programme includes an Employee Share Purchase Plan (ESPP), which further aligns the interest of our staff with those of our shareholders.

We offer a wide array of wellness programmes that help balance work, personal and health priorities. These programmes include complimentary AIA Vitality memberships, wellness-themed activity days, team challenges, health check-ups and work/life integration consultations.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

AIA is committed to the communities in which we operate. Our products provide long-term savings and protection benefits that add materially to the support available to families in those communities. Our businesses also invest substantial amounts in the local markets which support their development, fund a variety of infrastructure projects critical to those communities and in turn encourage growth and development more broadly.

We believe we have a responsibility to help improve the lives of our customers, our employees and their communities. Amongst the many initiatives we took part in across Asia, one of the most visible ways we support our communities is through sponsorships of healthy living initiatives and events. During the first half of 2017, we continued our sponsorship of The Night Run in Malaysia and The Music Run in Singapore and Thailand. These events had over 20,000 combined participants. Through our partnership with the Tottenham Hotspur Football Club, elite coaches from the club will be based in Asia full-time to help us provide top-quality youth programmes across our markets. These coaching programmes directed at a range of young people across Asia will develop their football skills and, more importantly, promote sport and exercise as part of a healthy lifestyle.

AIA Hong Kong continued its sponsorship of the AIA Great European Carnival for the third year from December 2016 to February 2017. Through this programme we were able to provide unique outdoor activities and reach the nearly one million attendees with our AIA Vitality message of healthy living. Through partnerships with several local charities, we also helped ensure that a wide spectrum of the community was able to enjoy this event.

In addition to company-driven initiatives, there are numerous examples of our employees and agents taking leading roles in relief efforts and charitable endeavours in our communities. Examples include employees from AIA Indonesia who volunteered their time to meet children affected by the earthquake in the Aceh region in December 2016. The teams held various events and distributed new school equipment as well as supporting needed renovation work alongside local humanitarian organisations. In Thailand, employees came together to donate 2,000 support packs to families in our communities who experienced profound loss as a result of extreme flooding in January 2017.

Geographical Markets

HONG KONG

US\$ millions, unless otherwise stated	Six months ended	Six months ended	YoY	YoY
	31 May 2017	31 May 2016	CER	AER
VONB ⁽¹⁾	828	537	54%	54%
VONB margin ⁽²⁾	47.9%	52.9%	(5.0) pps	(5.0) pps
ANP	1,696	988	72%	72%
TWPI	4,507	2,991	51%	51%
Operating profit after tax	836	670	25%	25%

Financial Highlights

AIA Hong Kong delivered excellent growth in the first half of 2017 across a number of different customer segments and distribution channels. VONB grew by 54 per cent to US\$828 million, due to a strong increase in our number of active agents and improvements in agent productivity, as well as significant growth from our partnership distribution. We had an exceptionally strong first half in the retail IFA channel and, as such, we would expect some normalisation of the growth rate in the full year. ANP grew by 72 per cent to US\$1,696 million and VONB margin was strong at 47.9 per cent. This is in line with the margin reported in the full year 2016 results, reflecting increased sales in long-term participating products. IFRS operating profit after tax grew by 25 per cent to US\$836 million as we continued to benefit from strong growth in our in-force portfolio.

Business Highlights

The AIA Premier Academy marks its 6th anniversary in Hong Kong in 2017. Since its launch, it has provided a highly-differentiated and effective platform for our agency leaders to recruit high-calibre individuals and deliver best-in-class training as part of our Premier Agency strategy. As a result, our agency channel continued to deliver a strong performance in the first half of 2017 with improvements in productivity in terms of ANP per active agent of 30 per cent and new recruits up by 17 per cent.

While our agency channel remained our major distribution channel in Hong Kong, our partnership distribution also generated significant VONB growth in the first half of 2017 with excellent results from our IFA channel and a very strong performance in our bancassurance business. AIA's presence in the retail IFA market has benefited from our ongoing investment in developing our service and product proposition tailored to this channel since our IPO.

Our strategic long-term bancassurance partnership with Citibank delivered high double-digit VONB growth as we continued to support Citibank's in-branch relationship managers and insurance specialists to achieve higher levels of productivity.

AIA is the market leader in protection provision in Hong Kong. Following the launch of AIA Vitality in October 2015, we continue to encourage our customers to lead an active lifestyle through television campaigns, social media and the use of technology such as the AIA Vitality Weekly Challenge smartphone app. The take-up rate of AIA Vitality on integrated products increased to 76 per cent by the end of May 2017. We have also extended AIA Vitality to our group insurance clients to help them engage their employees to lead an active lifestyle.

THAILAND

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
VONB ⁽¹⁾	173	175	(3)%	(1)%
VONB margin ⁽²⁾	74.7%	80.9%	(6.1) pps	(6.2) pps
ANP	232	216	5%	7%
TWPI	1,594	1,566	-	2%
Operating profit after tax	413	367	11%	13%

Financial Highlights

AIA Thailand reported VONB of US\$173 million in the first half of 2017. We remained focused on the ongoing development of our market-leading agency distribution to capture the significant long-term growth opportunity created by low levels of life insurance penetration in Thailand. Our drive towards regular premium sales, rather than short-term deposit replacement products, is reflected in our market-leading position in the protection market. Regular premium business accounted for 96 per cent of our ANP in the first half of 2017. IFRS operating profit after tax grew by 11 per cent to US\$413 million.

Business Highlights

We focus on increasing the productivity and activity levels of our agency force by targeting selective recruitment and existing agent reactivation. At the same time we continue to strictly enforce the validation of agency contracts which has affected our overall results in the near term but will position us well for future sustainable growth. We are seeing good results from our “Financial Adviser” programme which uses structured recruitment criteria to identify and attract the next generation of high-quality active agents. The number of new agents recruited through this programme increased by 34 per cent compared with the first half of 2016 and they were 25 per cent more productive than the average level for new agents. We also saw good results from our focus on unit-linked products, with the number of licensed AIA agents qualified to distribute these products increasing by 31 per cent.

AIA continued to lead the group insurance market in Thailand, benefiting from our significant in-force portfolio of corporate clients. VONB from group insurance grew by more than 20 per cent in the first half of 2017 and we also extended the launch of AIA Vitality to selected group insurance clients.

Our AIA Vitality programme, launched in June last year, was the first comprehensive wellness programme in Thailand and helps further differentiate our protection proposition in the market. AIA Vitality membership has trebled over the six months since November 2016, due to the successful launch of our integrated critical illness product range. We also launched our first protection product to meet the estate planning needs of the emerging high net worth market in Thailand with high sums assured.

SINGAPORE

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
VONB ⁽¹⁾	135	152	(10)%	(11)%
VONB margin ⁽²⁾	72.0%	71.1%	1.0 pps	0.9 pps
ANP	187	214	(11)%	(13)%
TWPI	1,143	1,114	4%	3%
Operating profit after tax	235	211	12%	11%

Financial Highlights

AIA Singapore reported US\$135 million of VONB in the first half of 2017. Growth in regular premium protection business was offset by a continued reduction in single premium sales through the broker channel. This reflects our disciplined approach to managing our product mix, as previously highlighted in our Annual Report 2016. IFRS operating profit after tax grew by 12 per cent to US\$235 million reflecting the growth in our in-force portfolio.

Business Highlights

AIA has the leading agency business in Singapore in terms of the number of agents and weighted new business premium. The disciplined execution of our Premier Agency strategy delivered an increase in our number of active agents compared with the first half of 2016, as well as the highest agent activity ratios within the Group. Reflecting our focus on quality, we continued to outgrow the industry in terms of new regular premium sales during the first quarter of 2017. Our Premier Agency is supported by our investment in technology, with the next generation of AIA's iPoS and iMO platforms enabling our agents to reduce turnaround times and improve overall customer engagement. More than 85 per cent of new business applications were submitted through iPoS in the first half of 2017.

AIA's strategic partnership with Citibank in Singapore delivered solid double-digit VONB growth compared with the first half of 2016, driven by our focus on meeting the protection and retirement savings needs of the bank's customers. Our telemarketing efforts in targeting Citibank's significant credit card customer base with simplified protection products continued to gain traction generating more than 80 per cent growth in VONB through this channel.

AIA continued to lead the protection market in terms of both new business and in-force sums assured. We launched a first-in-market critical illness plan tailored to the needs of diabetics, which was our latest initiative to support the government's efforts to combat the rise of incidence of diabetes in Singapore. We also introduced a new AIA Vitality mobile app for smartphones to motivate our customers to live healthier lives. VONB from protection products integrated with AIA Vitality was more than three times higher than in the first half of 2016, as we continued to enhance and promote our wellness programme.

MALAYSIA

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
VONB ⁽¹⁾	104	90	24%	16%
VONB margin ⁽²⁾	61.8%	55.7%	6.0 pps	6.1 pps
ANP	167	159	13%	5%
TWPI	875	870	8%	1%
Operating profit after tax	119	125	-	(5)%

Financial Highlights

AIA Malaysia delivered 24 per cent growth in VONB to US\$104 million with strong performances from both our agency and partnership distribution channels. ANP grew by 13 per cent to US\$167 million with new regular premium sales accounting for 96 per cent of ANP in the first half of 2017. VONB margin increased by 6.0 pps to 61.8 per cent, as we continued our focus on writing regular premium long-term savings products with higher levels of protection cover. IFRS operating profit after tax was flat at US\$119 million with underlying growth in the business offset by increased claims and lapse experience.

Business Highlights

Our agency distribution delivered strong growth with VONB up by 25 per cent compared with the first half of 2016. AIA's long-term career development programme continued to attract high-calibre individuals as we doubled the amount of training included in our mandatory induction curriculum. This helped the number of active new agents grow by 26 per cent compared with the first half of 2016. AIA Malaysia's strong performance in agency distribution continues to be supported by the high adoption rate of our innovative iPoS platform.

AIA's Takaful business has become an increasingly important contributor to our growth in Malaysia, driven by a 50 per cent increase in our number of active Takaful-producing agents in the first half of 2017. Our joint Family Takaful operation with Public Bank has become a leading provider in the market within three years of its launch, ranking second in terms of new business premiums in the first quarter of 2017.

Partnership distribution had a strong first half, benefiting from growth in both bancassurance and direct marketing channels. The successful roll-out with Public Bank of our new regular premium unit-linked product, with high sum assured for the mass affluent customer segment, was an important contributor of the growth. Our direct marketing business delivered 48 per cent growth in VONB by focusing on providing critical illness protection products to the existing customers of Public Bank and Citibank.

Since its launch in June 2016, AIA Vitality has become an important competitive advantage for AIA in Malaysia. We are the first company globally to integrate health and wellness benefits with unit-linked life insurance and Takaful products. We expanded our AIA Vitality programme to selected corporate clients to provide group insurance scheme members with the knowledge, tools and motivation to improve their health further differentiating our market-leading offerings in this important segment.

CHINA

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
VONB ⁽¹⁾	434	278	65%	56%
VONB margin ⁽²⁾	91.7%	86.8%	5.0 pps	4.9 pps
ANP	474	321	56%	48%
TWPI	1,509	1,187	35%	27%
Operating profit after tax	305	221	45%	38%

Financial Highlights

AIA China delivered another excellent set of results with 65 per cent VONB growth to US\$434 million. Our Premier Agency is the foundation of AIA's differentiated strategy in China. We continue to focus on the recruitment and ongoing development of full-time, professional agents to provide high-quality advice on sophisticated protection and long-term savings products. This enables AIA to access the significant growth opportunities in the Chinese life insurance market. As a result, ANP grew by 56 per cent to US\$474 million while VONB margin increased by 5.0 pps to 91.7 per cent. The quality of our new business, with our emphasis on regular premium protection sales, underpins our strong track record of earnings growth. IFRS operating profit after tax increased by 45 per cent compared with the first half of 2016 to US\$305 million.

Business Highlights

Quality recruitment and best-in-class training for AIA's professional agents is fundamental to the sustainability of our growth. Our number of active agents grew by over 40 per cent compared with the first half of 2016. We provide opportunities for the next generation of highly-educated agents to develop a full-time career with AIA. To do this, we offer the products, technology and support that enable them to grow their incomes, aligned with the interests and needs of our customers. The latest version of iPoS has reduced the time taken for the sales process, including underwriting and policy issue, to under 30 minutes for straightforward cases from the previous average of five days. As a result of our initiatives, the average productivity levels of our active new agents increased by 28 per cent compared with the first half of 2016.

Our bancassurance distribution made good progress with VONB more than double the first half of 2016. We focused on developing strategic relationships with Citibank and other selected local bank partners by providing regular premium high-end protection cover and long-term retirement savings products to the affluent customer segment.

An important pillar of AIA's strategy is the capability of our distribution channels to address the estate planning and long-term retirement savings needs of the expanding affluent customer segment in China. We provide targeted support to this fast-growing segment through the AIA High Net Worth branding campaigns, a dedicated product range and underwriting team, as well as customised end-to-end case management. In March 2017, we launched our new wellness programme in conjunction with the announcement of David Beckham as AIA's Global Ambassador to further differentiate AIA as a leader in the protection market in China.

OTHER MARKETS

US\$ millions, unless otherwise stated	Six months ended 31 May 2017	Six months ended 31 May 2016	YoY CER	YoY AER
VONB ⁽¹⁾	184	136	36%	35%
VONB margin ⁽²⁾	41.1%	29.2%	11.9 pps	11.9 pps
ANP	440	457	(4)%	(4)%
TWPI	2,765	2,604	4%	6%
Operating profit after tax	349	324	5%	8%

AIA's Other Markets include Australia (including New Zealand), Cambodia, Indonesia, Korea, the Philippines, Sri Lanka, Taiwan, Vietnam and India.

The financial results from our 49 per cent shareholding in Tata AIA, our joint venture with the Tata Group in India, are accounted for using the equity method. For clarity, TWPI, ANP and VONB exclude any contribution from India.

Financial Highlights

Other Markets delivered very strong growth with VONB up by 36 per cent to US\$184 million. VONB margin was higher by 11.9 pps to 41.1 per cent and ANP lower by 4 per cent to US\$440 million. Highlights included excellent performances in Australia (including New Zealand), Korea, the Philippines and Vietnam. IFRS operating profit after tax increased by 5 per cent to US\$349 million with strong performances in Australia and Vietnam partly offset by Korea and Indonesia.

Business Highlights

Australia: AIA Australia delivered strong double-digit VONB growth in the first half of 2017. We maintained our leadership position in the retail IFA channel by expanding our adviser network through our dedicated Premier IFA service model and increasing customer engagement through AIA Vitality. Our group insurance business delivered excellent VONB growth as we maintained our focus on the profitable retention of major industry funds and corporate clients. AIA Vitality gained further traction with increased take-up rates on our integrated products following the launch of the AIA Vitality Community and Australia's Healthiest Workplace initiatives, as well as the addition of new partners and an upgraded rewards programme.

We announced a new joint venture in May 2017 with GMHBA, an Australian health insurance provider, and Discovery Limited, our AIA Vitality partner, to offer health and life insurance coupled with AIA Vitality. As part of the joint venture, GMHBA will also offer AIA Vitality to its existing members. This is a major step in our commitment to helping Australian consumers lead longer, healthier, better lives.

Cambodia: Our Cambodian operations were officially launched in May 2017, marking AIA's first start-up business in a new market since our IPO. Our strategy is to bring the best of AIA to Cambodia which includes providing protection-oriented products through multichannel distribution including the creation of a full-time, professional sales force. We have made significant investments in technology and our early achievements include: the launch of a first-to-market critical illness rider within our suite of protection products; the formation of an exclusive bancassurance partnership with Cambodian Public Bank; and active targeted recruitment of high-quality candidates for our agency channel. Our investments in technology include equipping both agency and bancassurance channels with AIA's proprietary iPoS technology which offers a completely new experience for customers. We are providing a fully digital end-to-end service, which we believe is a true differentiator in this market.

Indonesia: AIA's agency business in Indonesia delivered strong double-digit VONB growth in the first half of 2017. Productivity, measured by ANP per active agent, increased and VONB margin was higher due to a positive shift in product mix. We extended our longstanding relationship with Bank Central Asia (BCA) in February 2017, allowing us to broaden our access to BCA's customers and offer a wider selection of products. Since entering into this new agreement, we have launched new products and continue to work closely with BCA on the recruitment of additional in-branch insurance specialists to increase life insurance sales across the bank's distribution networks.

Korea: Our Korean business maintained its recent growth momentum with VONB more than double the first half of 2016, resulting from a strong performance from both our agency and direct marketing channels. VONB margin increased due to a positive shift in product mix with excellent growth in protection riders and improved expense efficiency. Our direct marketing business has benefited from increased productivity and our engagement with new sponsors for outbound telemarketing leads. Agency reported a strong VONB margin improvement as we continued to deliver our Premier Agency strategy by focusing on quality recruitment and meeting the protection needs of our customers.

Philippines: AIA's business in the Philippines delivered strong VONB growth with the ongoing implementation of our Premier Agency strategy increasing our number of active new agents by more than 30 per cent through our focus on quality recruitment. Our market-leading bancassurance joint venture with the Bank of the Philippine Islands (BPI) also delivered a strong performance. This was the direct result of an increase in the number of in-branch insurance specialists and higher activity ratios driven by more efficient new leads generation. VONB margin was higher, mainly due to expense efficiency improvements.

Sri Lanka: AIA Sri Lanka delivered excellent VONB growth in the first half of 2017. The agency management tools, which we launched last year, have led to increased activity ratios and improvements in agent productivity levels. Strong VONB growth in our bancassurance business was mainly due to increased productivity and higher new business volumes compared with the first half of 2016. Our new long-term exclusive bancassurance partnership with DFCC Bank, one of the larger private sector banks in Sri Lanka, has made good progress as we continue to activate new branches across its network.

Taiwan: Our Taiwanese business delivered a very strong performance from our direct marketing business with growth in our number of telesales representatives and an increase in quality leads from our broad marketing programme and our existing customers. Our IFA channel also reported a very strong start to the year with the success of a new product marketing campaign driving higher sales. VONB margin was higher overall due to a shift in product mix.

Vietnam: AIA's business in Vietnam continued to deliver excellent VONB growth in the first half of 2017. Strong recruitment supported an increase in active agent numbers of more than 30 per cent compared with the first half of 2016. VONB margin was higher from increased sales of protection riders within the product mix. We launched our first unit-linked product in the Vietnamese market in April 2017, helping to broaden our product range in line with our customers' needs for high-quality long-term savings and protection solutions.

Notes:

Throughout the Distribution section:

VONB and VONB margin by distribution channel are based on local statutory reserving and capital requirements and exclude pension business.

Throughout the Geographical Markets section:

- (1) VONB figures shown in the tables are based on local statutory reserving and capital requirements and include pension business.
- (2) VONB margin excludes pension business to be consistent with the definition of ANP used within the calculation.

RISK MANAGEMENT

We recognise the importance of sound risk management in every aspect of our business and for all our stakeholders. For our policyholders it provides the security of knowing that we will always be there for them, for our investors it is key to protecting and enhancing the long-term value of their investment and for our regulators it is supportive of the public's trust in the industry which facilitates industry growth.

While effective risk management is vital to any organisation, it goes to the core of a life insurance business where it is a main driver of value. The Group's Risk Management Framework (RMF) does not seek to eliminate all risks but rather to identify, understand and manage them within acceptable limits in order to support the creation of long-term value.

The Group's RMF is built around developing an appropriate and mindful risk culture at every level of the organisation in support of our strategic objectives. The RMF provides business units with appropriate tools, processes and capabilities for the identification, assessment and, where required, upward referral of identified material risks for further evaluation.

The Group's RMF consists of the following key components:

- Risk Culture;
- Risk Management Process;
- Risk Governance;
- Risk Appetite; and
- Risk Landscape.

The Group's RMF is described on pages 58 to 66 and note 36 to the financial statements on pages 204 to 211 of the Company's Annual Report 2016.

CORPORATE GOVERNANCE

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the six months ended 31 May 2017, the Company complied with all applicable code provisions set out in the Corporate Governance Code.

COMPLIANCE WITH MODEL CODE

The Company has adopted its own Directors' and Chief Executives' Dealing Policy (Dealing Policy) on terms no less exacting than those set out in the Model Code in respect of dealings by the Directors in the securities of the Company. All of the Directors confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Model Code and the Dealing Policy throughout the six months ended 31 May 2017.

CHANGES IN DIRECTORS' INFORMATION

Changes in the Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Change
Mr. Edmund Sze-Wing Tse	<ul style="list-style-type: none">Re-designated as an Independent Non-executive Director of the Company with effect from 23 March 2017.
Ms. Swee-Lian Teo	<ul style="list-style-type: none">Appointed as the Chairman of the Risk Committee of Singapore Telecommunications Limited with effect from 1 April 2017.
Mr. John Barrie Harrison	<ul style="list-style-type: none">Retired as an independent non-executive director of Hong Kong Exchanges and Clearing Limited, The London Metal Exchange Limited and LME Clear Limited with effect from 26 April 2017.Received an honorary fellowship from The Hong Kong University of Science and Technology on 9 June 2017.
Mr. Mark Edward Tucker	<ul style="list-style-type: none">Retired as an independent director of The Goldman Sachs Group, Inc. with effect from 28 April 2017.Retired as the Group Chief Executive and President, re-designated as a Non-executive Director of the Company and ceased to be a member of the Risk Committee of the Board with effect from 1 June 2017.Resigned as Chairman and Chief Executive Officer of AIA Co. and AIA International Limited (AIA International) with effect from 1 June 2017.
Mr. Chung-Kong Chow	<ul style="list-style-type: none">Appointed as a director of the Community Chest of Hong Kong with effect from 19 June 2017.Appointed for a new term of office as non-official member of the Executive Council of the Hong Kong Special Administrative Region (HKSAR) with effect from 1 July 2017.
Mr. Jack Chak-Kwong So	<ul style="list-style-type: none">Awarded the Grand Bauhinia Medal by the HKSAR Government in June 2017.

Directors' biographies are available on the Company's website.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' AND THE CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 May 2017, the Directors' and the Chief Executive's interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (Hong Kong Stock Exchange) pursuant to the Model Code, are as follows:

Interests and short positions in the shares and underlying shares of the Company:

Name of Director	Number of shares or underlying shares	Class	Percentage of the total number of shares in issue ⁽¹⁾	Capacity
Mr. Mark Edward Tucker	13,968,133 (L) ⁽²⁾	Ordinary	0.12	Beneficial owner
Mr. Edmund Sze-Wing Tse	3,560,400 (L) ⁽³⁾	Ordinary	0.03	Beneficial owner
Mr. Chung-Kong Chow	86,000 (L) ⁽³⁾	Ordinary	< 0.01	Beneficial owner
Mr. Jack Chak-Kwong So	260,000 (L) ⁽³⁾	Ordinary	< 0.01	Interest of controlled corporation ⁽⁴⁾
Mr. John Barrie Harrison	50,000 (L) ⁽³⁾	Ordinary	< 0.01	Beneficial owner
Mr. George Yong-Boon Yeo	100,000 (L) ⁽³⁾	Ordinary	< 0.01	Beneficial owner
Professor Lawrence Juen-Yee Lau	40,000 (L) ⁽³⁾	Ordinary	< 0.01	Beneficial owner
	100,000 (L) ⁽³⁾	Ordinary	< 0.01	Interest of spouse ⁽⁵⁾

Notes:

- (1) Based on 12,074,050,092 ordinary shares in issue as at 31 May 2017.
- (2) The interests include 6,713 ordinary shares of the Company, 10,542,414 share options under the Share Option Scheme (SO Scheme), 3,415,650 restricted share units under the Restricted Share Unit Scheme (RSU Scheme) and 3,356 matching RSPUs under the ESPP.
- (3) The interests are ordinary shares of the Company.
- (4) The 260,000 shares were held by Cyber Project Developments Limited, a company beneficially wholly owned by Mr. Jack Chak-Kwong So.
- (5) The 100,000 shares were held by the spouse of Professor Lawrence Juen-Yee Lau, Ms. Ayesha Abbas Macpherson, as beneficial owner.

Save as disclosed above, as at 31 May 2017, neither the Chief Executive nor any Director of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF PERSONS OTHER THAN THE DIRECTORS OR THE CHIEF EXECUTIVE

As at 31 May 2017, the following are the persons, other than the Directors or the Chief Executive of the Company, who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Number of shares or underlying shares (Note 1)		Class	Percentage of the total number of shares in issue (Note 2)		Capacity
	Long Position (L)	Short Position (S)		Long Position (L)	Short Position (S)	
JPMorgan Chase & Co.	1,088,254,932 (L)		Ordinary	9.01 (L)		Note 3
	19,556,741 (S)			0.16 (S)		
	737,449,866 (P)			6.11 (P)		
The Capital Group Companies, Inc.	984,372,860 (L)		Ordinary	8.15 (L)		Interest of controlled corporation
BlackRock, Inc.	604,419,448 (L)		Ordinary	5.01 (L)		Interest of controlled corporation
	4,404,600 (S)			0.04 (S)		

Notes:

(1) The interests or short positions include underlying shares as follows:

Name of Shareholder	Long Position				Short Position			
	Physically settled listed equity derivatives	Cash settled listed equity derivatives	Physically settled unlisted equity derivatives	Cash settled unlisted equity derivatives	Physically settled listed equity derivatives	Cash settled listed equity derivatives	Physically settled unlisted equity derivatives	Cash settled unlisted equity derivatives
JPMorgan Chase & Co.	4,623,648	1,556,000	491,200	6,687,175	1,082,000	10,685,300	1,725,066	5,889,375
The Capital Group Companies, Inc.	-	-	3,593,080	-	-	-	-	-
BlackRock, Inc.	-	-	-	281,400	-	-	-	3,238,000

(2) Based on 12,074,050,092 ordinary shares in issue as at 31 May 2017.

(3) The interests held by JPMorgan Chase & Co. were held in the following capacities:

Capacity	Number of shares or underlying shares (Long Position)	Number of shares or underlying shares (Short Position)
Beneficial owner	100,979,108	19,556,741
Investment manager	249,550,900	-
Trustee (other than a bare trustee)	275,058	-
Custodian corporation/approved lending agent	737,449,866	-

Save as disclosed above, as at 31 May 2017, no person, other than the Directors or the Chief Executive of the Company, whose interests are set out in the section entitled "Directors' and the Chief Executive's Interests and Short Positions in Shares and Underlying Shares", had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save for the purchase of 757,630 shares of the Company under the ESPP at a total consideration of approximately US\$5 million, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 May 2017. These purchases were made by the scheme trustee on the Hong Kong Stock Exchange. These shares are held on trust for participants of the scheme and therefore were not cancelled.

SHARE-BASED COMPENSATION

Long-term Incentive Plan

The RSU Scheme and the SO Scheme were adopted on 28 September 2010 and are effective for a period of 10 years from the date of adoption. For further information on these schemes, please refer to pages 106 to 110 of the Company's Annual Report 2016.

Under these schemes, the Company may award restricted share units and/or share options to employees, Directors (excluding Independent Non-executive Directors) or officers of the Company or any of its subsidiaries.

RSU SCHEME

During the six months ended 31 May 2017, 15,450,272 restricted share units were awarded by the Company under the RSU Scheme. For restricted share units awarded during this period, the Company adopted the same performance measures and vesting scales as restricted share units awarded in the year ended 30 November 2016.

Movements in restricted share unit awards are summarised below:

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day/month/year) ⁽¹⁾	Vesting date(s) (day/month/year)	Restricted share units outstanding as at 1 December 2016	Restricted share units awarded during the six months ended 31 May 2017	Restricted share units vested during the six months ended 31 May 2017	Restricted share units cancelled/lapsed during the six months ended 31 May 2017 ⁽⁸⁾	Restricted share units outstanding as at 31 May 2017 ⁽⁹⁾
Group Chief Executive and President	5/3/2014	5/3/2017 ⁽²⁾	1,261,874	–	(1,091,900)	(169,974)	–
and President	12/3/2015	12/3/2018 ⁽²⁾	1,061,627	–	–	–	1,061,627
Mr. Mark Edward Tucker	9/3/2016	9/3/2019 ⁽²⁾	1,258,693	–	–	–	1,258,693
	10/3/2017	10/3/2020 ⁽²⁾	–	1,095,330	–	–	1,095,330
Key Management Personnel (excluding Group Chief Executive and President)	5/3/2014	5/3/2017 ⁽²⁾	1,484,144	–	(1,284,233)	(199,911)	–
Personnel (excluding Group Chief Executive and President)	14/4/2014	14/4/2017 ⁽²⁾	203,016	–	(175,670)	(27,346)	–
	12/3/2015	12/3/2018 ⁽²⁾	1,373,882	–	–	–	1,373,882
	12/3/2015	12/3/2017 ⁽³⁾	32,800	–	(32,800)	–	–
	1/9/2015	See note ⁽⁴⁾	678,753	–	–	–	678,753
	9/3/2016	9/3/2019 ⁽²⁾	1,752,539	–	–	–	1,752,539
	17/10/2016	1/8/2019 ⁽⁵⁾	101,217	–	–	–	101,217
	17/10/2016	See note ⁽⁶⁾	62,812	–	–	–	62,812
	10/3/2017	10/3/2020 ⁽²⁾	–	1,534,806	–	–	1,534,806
Other eligible employees and participants	5/3/2014	5/3/2017 ⁽²⁾	12,458,262	–	(10,443,122)	(2,015,140)	–
	11/9/2014	11/9/2017 ⁽²⁾	48,724	–	–	–	48,724
	11/9/2014	5/3/2017 ⁽²⁾	4,193	–	(3,629)	(564)	–
	12/3/2015	12/3/2018 ⁽²⁾	11,498,537	–	(13,016)	(638,204)	10,847,317
	12/3/2015	12/3/2017 ⁽³⁾	1,215,706	–	(1,187,219)	(28,487)	–
	1/9/2015	1/9/2018 ⁽²⁾	20,316	–	–	–	20,316
	9/3/2016	9/3/2019 ⁽²⁾	14,508,327	–	(6,541)	(764,769)	13,737,017
	9/3/2016	See note ⁽⁷⁾	156,876	–	–	–	156,876
	1/8/2016	9/3/2019 ⁽²⁾	79,134	–	–	–	79,134
	1/8/2016	1/8/2019 ⁽²⁾	75,870	–	–	–	75,870
	10/3/2017	10/3/2020 ⁽²⁾	–	12,820,136	–	(135,325)	12,684,811

Notes:

- (1) The measurement dates (i.e. the date used to determine the value of the awards for accounting purposes) for awards made during the year ended 30 November 2014 were determined to be 5 March 2014, 14 April 2014 and 11 September 2014. The measurement dates for awards made during the year ended 30 November 2015 were determined to be 12 March 2015 and 1 September 2015. The measurement dates for awards made during the year ended 30 November 2016 were determined to be 9 March 2016, 1 August 2016 and 17 October 2016. The measurement date for awards made during the six months ended 31 May 2017 was determined to be 10 March 2017. These measurement dates were determined in accordance with IFRS 2.
- (2) The vesting of these restricted share units is subject to the achievement of performance conditions shown on page 107 of the Company's Annual Report 2016.
- (3) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). All restricted share units vested on 12 March 2017.
- (4) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). Three-quarters of restricted share units will vest on 1 September 2017 and one-quarter will vest on 1 September 2018.
- (5) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). All restricted share units will vest on 1 August 2019.
- (6) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). One-third of restricted share units will vest on 1 August 2017, one-third will vest on 1 August 2018, and one-third will vest on 1 August 2019.
- (7) The vesting of these restricted share units is service-based only (meaning there are no further performance conditions attached). One-half of restricted share units vested on 30 November 2016 and one-half will vest on 30 November 2017.
- (8) There were no cancelled restricted share units during the six months ended 31 May 2017.
- (9) Includes restricted share units outstanding as at 31 May 2017 that, in accordance with the RSU Scheme rules, will lapse on or before their respective vesting date.

SO SCHEME

During the six months ended 31 May 2017, the Company awarded 8,286,431 share options under the SO Scheme. No share options have been awarded to substantial shareholders, or in excess of the individual limit. Details of the valuation of the share options are set out in note 23 to the interim financial statements.

Movements in share option awards are summarised below:

Group Chief Executive and President, Key Management Personnel and other eligible employees and participants	Date of grant (day/month/year) ⁽¹⁾	Period during which share options are exercisable (day/month/year)	Share options outstanding as at 1 December 2016	Share options awarded during the six months ended 31 May 2017	Share options vested during the six months ended 31 May 2017	Share options cancelled/lapsed during the six months ended 31 May 2017 ⁽¹¹⁾	Share options exercised during the six months ended 31 May 2017	Exercise price (HK\$)	Share options outstanding as at 31 May 2017 ⁽¹²⁾	Weighted	
										average closing price of shares immediately before the dates on which share options were exercised (HK\$)	
Group Chief Executive and President	1/6/2011	1/4/2014 – 31/5/2021 ⁽²⁾	2,149,724	–	–	–	(2,149,724)	27.35	–	54.50	
	1/6/2011	1/4/2014 – 31/5/2021 ⁽³⁾	2,418,439	–	–	–	(2,418,439)	27.35	–	54.53	
	15/3/2012	15/3/2015 – 14/3/2022 ⁽⁴⁾	2,152,263	–	–	–	(2,152,263)	28.40	–	54.50	
	11/3/2013	11/3/2016 – 10/3/2023 ⁽⁵⁾	2,183,144	–	–	–	(2,183,144)	34.35	–	54.50	
	5/3/2014	5/3/2017 – 4/3/2024 ⁽⁶⁾	2,169,274	–	2,169,274	–	–	37.56	2,169,274	n/a	
	12/3/2015	12/3/2018 – 11/3/2025 ⁽⁷⁾	2,028,555	–	–	–	–	47.73	2,028,555	n/a	
Mr. Mark Edward Tucker	9/3/2016	9/3/2019 – 8/3/2026 ⁽⁸⁾	3,346,701	–	–	–	–	41.90	3,346,701	n/a	
	10/3/2017	10/3/2020 – 9/3/2027 ⁽⁹⁾	–	2,997,884	–	–	–	50.30	2,997,884	n/a	
	Key Management Personnel (excluding Group Chief Executive and President)	1/6/2011	1/4/2014 – 31/5/2021 ⁽²⁾	1,121,607	–	–	–	(694,328)	27.35	427,279	50.10
		1/6/2011	1/4/2014 – 31/5/2021 ⁽³⁾	1,794,570	–	–	–	(1,353,652)	27.35	440,918	50.13
Other eligible employees and participants	15/3/2012	15/3/2015 – 14/3/2022 ⁽⁴⁾	1,604,204	–	–	–	(1,003,656)	28.40	600,548	50.92	
	11/3/2013	11/3/2016 – 10/3/2023 ⁽⁵⁾	2,112,906	–	–	–	(1,134,228)	34.35	978,678	49.27	
	5/3/2014	5/3/2017 – 4/3/2024 ⁽⁶⁾	2,551,368	–	2,551,368	–	(1,050,925)	37.56	1,500,443	49.68	
	14/4/2014	14/4/2017 – 13/4/2024 ⁽¹⁰⁾	332,282	–	332,282	–	–	39.45	332,282	n/a	
	12/3/2015	12/3/2018 – 11/3/2025 ⁽⁷⁾	2,625,207	–	–	–	–	47.73	2,625,207	n/a	
	9/3/2016	9/3/2019 – 8/3/2026 ⁽⁸⁾	4,659,768	–	–	–	–	41.90	4,659,768	n/a	
	10/3/2017	10/3/2020 – 9/3/2027 ⁽⁹⁾	–	4,200,707	–	–	–	50.30	4,200,707	n/a	
	Other eligible employees and participants	1/6/2011	1/4/2014 – 31/5/2021 ⁽²⁾	889,337	–	–	–	(175,504)	27.35	713,833	48.55
1/6/2011		1/4/2014 – 31/5/2021 ⁽³⁾	2,022,136	–	–	–	(1,284,219)	27.35	737,917	52.72	
15/3/2012		15/3/2015 – 14/3/2022 ⁽⁴⁾	1,058,875	–	–	–	(257,722)	28.40	801,153	52.38	
11/3/2013		11/3/2016 – 10/3/2023 ⁽⁵⁾	1,068,302	–	–	–	(326,329)	34.35	741,973	52.33	
5/3/2014		5/3/2017 – 4/3/2024 ⁽⁶⁾	1,015,354	–	980,500	(34,854)	(360,500)	37.56	620,000	53.19	
12/3/2015		12/3/2018 – 11/3/2025 ⁽⁷⁾	862,621	–	–	(32,278)	(17,139)	47.73	813,204	48.30	
9/3/2016		9/3/2019 – 8/3/2026 ⁽⁸⁾	1,414,396	–	–	(82,947)	–	41.90	1,331,449	n/a	
10/3/2017	10/3/2020 – 9/3/2027 ⁽⁹⁾	–	1,087,840	–	–	–	50.30	1,087,840	n/a		

Notes:

- The measurement date (i.e. the date used to determine the value of the awards for accounting purposes) for awards made during the year ended 30 November 2011 was determined to be 15 June 2011. The measurement date for awards made during the year ended 30 November 2012 was determined to be 15 March 2012. The measurement date for awards made during the year ended 30 November 2013 was determined to be 11 March 2013. The measurement dates for awards made during the year ended 30 November 2014 were determined to be 5 March 2014 and 14 April 2014. The measurement date for awards made during the year ended 30 November 2015 was determined to be 12 March 2015. The measurement date for awards made during the year ended 30 November 2016 was determined to be 9 March 2016. The measurement date for awards made during the six months ended 31 May 2017 was determined to be 10 March 2017. These measurement dates were determined in accordance with IFRS 2.
- The vesting of share options is service-based only. All share options vested on 1 April 2014.
- The vesting of share options is service-based only. One-third of share options vested on 1 April 2014, one-third vested on 1 April 2015, and one-third vested on 1 April 2016.
- The vesting of share options is service-based only. All share options vested on 15 March 2015.
- The vesting of share options is service-based only. All share options vested on 11 March 2016.
- The vesting of share options is service-based only. All share options vested on 5 March 2017.

- (7) The vesting of share options is service-based only. All share options will vest on 12 March 2018.
- (8) The vesting of share options is service-based only. All share options will vest on 9 March 2019.
- (9) The closing price of the Company's shares immediately before the date on which share options were awarded was HK\$49.60. The vesting of share options is service-based only. All share options will vest on 10 March 2020.
- (10) The vesting of share options is service-based only. All share options vested on 14 April 2017.
- (11) There were no cancelled share options during the six months ended 31 May 2017.
- (12) Includes share options outstanding as at 31 May 2017 that, in accordance with the SO Scheme rules, will lapse on or before the respective periods during which the share options are exercisable.

ESPP

The Company adopted the ESPP on 25 July 2011 (ESPP Adoption Date). Under the ESPP, eligible employees of the Group may elect to purchase the Company's shares and receive one matching share for each two shares purchased after having been in the plan for a period of three years through the award of matching RSPUs. Each eligible employee's participation level is currently capped at a maximum purchase in any plan year of 8 per cent of his or her base salary or HK\$117,000, whichever is lower. Upon vesting of the matching RSPUs, those employees who are still in employment with the Group will receive one matching share for each RSPU which he or she holds. The matching shares can either be purchased on market by the trustee of the ESPP or through the issuance of new shares by the Company. The aggregate number of shares which can be issued by the Company under the ESPP during the 10-year period shall not exceed 2.5 per cent of the number of shares in issue on the ESPP Adoption Date. For further information on the ESPP, please refer to page 214 of the Company's Annual Report 2016.

During the six months ended 31 May 2017, the Company awarded 757,634 matching RSPUs, 21,931 matching RSPUs vested and no new shares have been issued pursuant to the ESPP. Since the ESPP Adoption Date and up to 31 May 2017, a total of 1,919,308 matching RSPUs vested under the ESPP, representing approximately 0.02 per cent of the shares in issue as at the ESPP Adoption Date, and no new shares have been issued under the ESPP.

Agency Share Purchase Plan (ASPP)

The Company adopted the ASPP on 23 February 2012 (ASPP Adoption Date). Under the ASPP, certain agents and agency leaders of the Group were selected to participate in the plan. Those agents selected for participation may elect to purchase the Company's shares and receive one matching share for each two shares purchased after having been in the plan for a period of three years through the award of matching RSSUs. Each eligible agent's participation level is capped at a maximum purchase in any plan year of US\$15,000. Upon vesting of the matching RSSUs, those agents who remain as agents of the Group will receive one matching share for each RSSU which he or she holds. The aggregate number of shares which can be issued by the Company under the ASPP during the 10-year period shall not exceed 2.5 per cent of the number of shares in issue on the ASPP Adoption Date.

During the six months ended 31 May 2017, the Company awarded 695,195 matching RSSUs, 1,037,294 matching RSSUs vested and 1,037,294 new shares were issued pursuant to the ASPP. The proceeds received amounted to approximately US\$1 million. Since the ASPP Adoption Date and up to 31 May 2017, a total of 3,006,026 new shares were issued under the ASPP, representing approximately 0.02 per cent of the shares in issue as at the ASPP Adoption Date.

FINANCIAL STATEMENTS

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED

(incorporated in Hong Kong with limited liability)



羅兵咸永道

Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 40 to 93, which comprise the interim consolidated statement of financial position of AIA Group Limited (the "Company") and its subsidiaries (together, the "Group") as at 31 May 2017 and the related interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" (HKAS 34) issued by the Hong Kong Institute of Certified Public Accountants or International Accounting Standard 34 "Interim Financial Reporting" (IAS 34) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34 and IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34 and IAS 34.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', is written over a faint, larger version of the PwC logo.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
28 July 2017

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

INTERIM CONSOLIDATED INCOME STATEMENT

US\$m	Notes	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Revenue			
Premiums and fee income		12,530	10,026
Premiums ceded to reinsurers		(714)	(630)
Net premiums and fee income		<u>11,816</u>	<u>9,396</u>
Investment return	7	6,488	3,364
Other operating revenue		101	100
Total revenue		<u>18,405</u>	<u>12,860</u>
Expenses			
Insurance and investment contract benefits		12,610	8,654
Insurance and investment contract benefits ceded		(619)	(523)
Net insurance and investment contract benefits		<u>11,991</u>	<u>8,131</u>
Commission and other acquisition expenses		1,606	1,296
Operating expenses		936	831
Finance costs		85	71
Other expenses		278	199
Total expenses	8	<u>14,896</u>	<u>10,528</u>
Profit before share of profit/(losses) from associates and joint venture			
		3,509	2,332
Share of profit/(losses) from associates and joint venture		3	(3)
Profit before tax		<u>3,512</u>	<u>2,329</u>
Income tax expense attributable to policyholders' returns			
		(104)	(50)
Profit before tax attributable to shareholders' profits		<u>3,408</u>	<u>2,279</u>
Tax expense			
	9	(553)	(234)
Tax attributable to policyholders' returns		104	50
Tax expense attributable to shareholders' profits		(449)	(184)
Net profit		<u>2,959</u>	<u>2,095</u>
<i>Net profit attributable to:</i>			
Shareholders of AIA Group Limited		2,925	2,065
Non-controlling interests		34	30
Earnings per share (US\$)			
Basic	10	0.24	0.17
Diluted	10	0.24	0.17

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US\$m	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Net profit	2,959	2,095
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on available for sale financial assets (net of tax of: six months ended 31 May 2017: US\$264m; six months ended 31 May 2016: US\$(235)m)	882	2,918
Fair value (gains)/losses on available for sale financial assets transferred to income on disposal and impairment (net of tax of: six months ended 31 May 2017: US\$7m; six months ended 31 May 2016: nil)	(51)	2
Foreign currency translation adjustments	470	(18)
Cash flow hedges	(11)	2
Share of other comprehensive (expense)/income from associates and joint venture	(35)	3
Subtotal	<u>1,255</u>	<u>2,907</u>
Items that will not be reclassified subsequently to profit or loss:		
Revaluation gains on property held for own use (net of tax of: six months ended 31 May 2017: US\$(6)m; six months ended 31 May 2016: US\$(62)m)	30	291
Effect of remeasurement of net liability of defined benefit schemes (net of tax of: six months ended 31 May 2017: nil; six months ended 31 May 2016: US\$(3)m)	(2)	(3)
Share of other comprehensive income from associates and joint venture	2	–
Subtotal	<u>30</u>	<u>288</u>
Total other comprehensive income	<u>1,285</u>	<u>3,195</u>
Total comprehensive income	<u>4,244</u>	<u>5,290</u>
<i>Total comprehensive income attributable to:</i>		
Shareholders of AIA Group Limited	4,212	5,252
Non-controlling interests	32	38

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$m	Notes	As at 31 May 2017 (Unaudited)	As at 30 November 2016
Assets			
Intangible assets	12	1,771	1,743
Investments in associates and joint venture		630	650
Property, plant and equipment		1,166	1,132
Investment property		4,145	3,910
Reinsurance assets		2,240	2,046
Deferred acquisition and origination costs		20,370	18,898
Financial investments:			
Loans and deposits	13, 15	7,282	7,062
Available for sale			
Debt securities		97,370	90,092
At fair value through profit or loss			
Debt securities		24,408	23,526
Equity securities		34,459	30,211
Derivative financial instruments	14	167	107
		<u>163,686</u>	<u>150,998</u>
Deferred tax assets		9	7
Current tax recoverable		77	59
Other assets		4,312	3,989
Cash and cash equivalents	16	1,724	1,642
Total assets		<u>200,130</u>	<u>185,074</u>
Liabilities			
Insurance contract liabilities	17	138,346	128,186
Investment contract liabilities	17	7,487	7,028
Borrowings	18	3,957	3,460
Obligations under repurchase agreements	19	2,222	1,984
Derivative financial instruments	14	363	644
Provisions		246	253
Deferred tax liabilities		3,338	3,276
Current tax liabilities		424	210
Other liabilities		5,072	4,723
Total liabilities		<u>161,455</u>	<u>149,764</u>

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

US\$m	Notes	As at 31 May 2017 (Unaudited)	As at 30 November 2016
Equity			
Share capital	20	14,064	13,998
Employee share-based trusts	20	(294)	(351)
Other reserves	20	(11,985)	(11,954)
Retained earnings		31,285	29,334
Fair value reserve	20	6,118	5,352
Foreign currency translation reserve	20	(1,310)	(1,812)
Property revaluation reserve	20	481	449
Others		(45)	(32)
Amounts reflected in other comprehensive income		5,244	3,957
<i>Total equity attributable to:</i>			
Shareholders of AIA Group Limited		38,314	34,984
Non-controlling interests		361	326
Total equity		38,675	35,310
Total liabilities and equity		200,130	185,074

Approved and authorised for issue by the Board of Directors on 28 July 2017.



Ng Keng Hooi
Director



Edmund Sze-Wing Tse
Director

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$m	Note	Other comprehensive income								Total equity	
		Share capital	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others		Non-controlling interests
Balance at 1 December 2016		13,998	(351)	(11,954)	29,334	5,352	(1,812)	449	(32)	326	35,310
Net profit		-	-	-	2,925	-	-	-	-	34	2,959
Fair value gains/(losses) on available for sale financial assets		-	-	-	-	884	-	-	-	(2)	882
Fair value gains on available for sale financial assets transferred to income on disposal		-	-	-	-	(51)	-	-	-	-	(51)
Foreign currency translation adjustments		-	-	-	-	-	470	-	-	-	470
Cash flow hedges		-	-	-	-	-	-	-	(11)	-	(11)
Share of other comprehensive (expense)/income from associates and joint venture		-	-	-	-	(67)	32	2	-	-	(33)
Revaluation gains on property held for own use		-	-	-	-	-	-	30	-	-	30
Effect of remeasurement of net liability of defined benefit schemes		-	-	-	-	-	-	-	(2)	-	(2)
Total comprehensive income/ (expense) for the period		-	-	-	2,925	766	502	32	(13)	32	4,244
Dividends	11	-	-	-	(983)	-	-	-	-	(1)	(984)
Shares issued under share option scheme and agency share purchase plan		66	-	-	-	-	-	-	-	-	66
Share-based compensation		-	-	40	-	-	-	-	-	-	40
Purchase of shares held by employee share-based trusts		-	(5)	-	-	-	-	-	-	-	(5)
Transfer of vested shares from employee share-based trusts		-	62	(62)	-	-	-	-	-	-	-
Capital contributions		-	-	-	-	-	-	-	-	4	4
Others		-	-	(9)	9	-	-	-	-	-	-
Balance at 31 May 2017 – Unaudited		14,064	(294)	(11,985)	31,285	6,118	(1,310)	481	(45)	361	38,675

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

US\$m	Note	Other comprehensive income									Total equity
		Share capital	Employee share-based trusts	Other reserves	Retained earnings	Fair value reserve	Foreign currency translation reserve	Property revaluation reserve	Others	Non-controlling interests	
Balance at 1 December 2015		13,971	(321)	(11,978)	26,294	4,414	(1,389)	140	(12)	303	31,422
Opening adjustments on revaluation gains on property held for own use		-	-	-	-	-	-	259	-	-	259
Net profit		-	-	-	2,065	-	-	-	-	30	2,095
Fair value gains on available for sale financial assets		-	-	-	-	2,911	-	-	-	7	2,918
Fair value losses on available for sale financial assets transferred to income on disposal and impairment		-	-	-	-	2	-	-	-	-	2
Foreign currency translation adjustments		-	-	-	-	-	(19)	-	-	1	(18)
Cash flow hedges		-	-	-	-	-	-	-	2	-	2
Share of other comprehensive income/(expense) from associates and joint venture		-	-	-	-	11	(8)	-	-	-	3
Revaluation gains on property held for own use		-	-	-	-	-	-	32	-	-	32
Effect of remeasurement of net liability of defined benefit schemes		-	-	-	-	-	-	-	(3)	-	(3)
Total comprehensive income/ (expense) for the period		-	-	-	2,065	2,924	(27)	291	(1)	38	5,290
Dividends	11	-	-	-	(786)	-	-	-	-	(1)	(787)
Shares issued under share option scheme and agency share purchase plan		2	-	-	-	-	-	-	-	-	2
Share-based compensation		-	-	44	-	-	-	-	-	-	44
Purchase of shares held by employee share-based trusts		-	(84)	-	-	-	-	-	-	-	(84)
Transfer of vested shares from employee share-based trusts		-	55	(55)	-	-	-	-	-	-	-
Others		-	-	(6)	-	-	-	-	-	-	(6)
Balance at 31 May 2016 – Unaudited		<u>13,973</u>	<u>(350)</u>	<u>(11,995)</u>	<u>27,573</u>	<u>7,338</u>	<u>(1,416)</u>	<u>431</u>	<u>(13)</u>	<u>340</u>	<u>35,881</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

US\$m	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Cash flows from operating activities		
Profit before tax	3,512	2,329
Adjustments for:		
Financial investments	(9,595)	(5,697)
Insurance and investment contract liabilities	6,767	5,356
Obligations under repurchase agreements	192	(534)
Other non-cash operating items, including investment income	(3,342)	(3,343)
Operating cash items:		
Interest received	2,735	2,563
Dividends received	313	292
Interest paid	(23)	(22)
Tax paid	(166)	(198)
Net cash provided by operating activities	393	746
Cash flows from investing activities		
Payments for intangible assets	(32)	(25)
Payments for investment property and property, plant and equipment	(44)	(122)
Payments for increase in interest of an associate	–	(310)
Contribution to a joint venture	(6)	–
Net cash used in investing activities	(82)	(457)
Cash flows from financing activities		
Issuance of medium term notes	497	733
Interest paid on medium term notes	(62)	(45)
Proceeds from other borrowings	–	13
Repayment of other borrowings	–	(333)
Capital contributions from non-controlling interests	4	–
Dividends paid during the period	(984)	(787)
Purchase of shares held by employee share-based trusts	(5)	(84)
Shares issued under share option scheme and agency share purchase plan	66	2
Net cash used in financing activities	(484)	(501)
Net decrease in cash and cash equivalents	(173)	(212)
Cash and cash equivalents at beginning of the financial period	1,482	1,750
Effect of exchange rate changes on cash and cash equivalents	31	–
Cash and cash equivalents at end of the financial period	1,340	1,538

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Cash and cash equivalents in the above interim condensed consolidated statement of cash flows can be further analysed as follows:

		Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
	Note		
Cash and cash equivalents in the interim consolidated statement of financial position	16	1,724	1,722
Bank overdrafts		(384)	(184)
Cash and cash equivalents in the interim condensed consolidated statement of cash flows		<u>1,340</u>	<u>1,538</u>

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

AIA Group Limited (the “Company”) was established as a company with limited liability incorporated in Hong Kong on 24 August 2009. The address of its registered office is 35/F, AIA Central, No. 1 Connaught Road Central, Hong Kong.

AIA Group Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited under the stock code “1299” with American Depositary Receipts (Level 1) being traded on the over-the-counter market (ticker symbol: “AAGIY”).

AIA Group Limited and its subsidiaries (collectively “AIA” or the “Group”) is a life insurance based financial services provider operating in 18 markets throughout the Asia-Pacific region. The Group’s principal activity is the writing of life insurance business, providing life insurance, accident and health insurance and savings plans throughout Asia, and distributing related investment and other financial services products to its customers.

2. Basis of preparation and statement of compliance

The interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (HKAS) 34, Interim Financial Reporting and International Accounting Standard (IAS) 34, Interim Financial Reporting. International Financial Reporting Standards (IFRS) is substantially consistent with Hong Kong Financial Reporting Standards (HKFRS) and the accounting policy selections that the Group has made in preparing these interim condensed consolidated financial statements are such that the Group is able to comply with both HKFRS and IFRS. References to IFRS, IAS and Interpretations developed by the IFRS Interpretations Committee (IFRS IC) in these interim condensed consolidated financial statements should be read as referring to the equivalent HKFRS, HKAS and Hong Kong (IFRIC) Interpretations (HK(IFRIC) – Int) as the case may be. Accordingly, there are no differences of accounting practice between HKFRS and IFRS affecting these interim condensed consolidated financial statements. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 November 2016. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

The accounting policies adopted are consistent with those of the previous financial year, except as described as follows.

2. Basis of preparation and statement of compliance (continued)

The following relevant new amendments to standards have been adopted for the first time for the financial year ending 30 November 2017 and have no material impact to the Group:

- Amendments to IAS 1, Disclosure Initiative;
- Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation;
- Amendments to IAS 19, Employee Benefits, Discount rate: regional market issue;
- Amendments to IAS 27, Equity Method in Separate Financial Statements;
- Amendments to IAS 34, Interim Financial Reporting, Disclosure of information 'elsewhere in the interim financial report';
- Amendments to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, Changes in methods of disposal;
- Amendments to IFRS 7, Financial Instruments: Disclosure, Servicing contracts and applicability of the amendments to IFRS 7 to condensed interim financial statements; and
- Amendments to IFRS 11, Acquisitions of Interests in Joint Operations.

The following relevant new standards, interpretation and amendments to standards have been issued but are not effective for the financial year ending 30 November 2017 and have not been early adopted (the financial years for which the adoption is required for the Group are stated in parentheses). The Group has assessed the full impact of these new standards on its financial position and results of operations and they are not expected to have a material impact on the financial position or results of operations of the Group but may require additional disclosures:

- IFRIC 22, Foreign Currency Transactions and Advance Consideration (2019);
- Amendments to IAS 7, Disclosure Initiative (2018);
- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (2018);
- Amendments to IAS 28, Measuring an Associate or Joint Venture at Fair Value (2019);
- Amendments to IAS 40, Transfers of Investment Property (2019);
- IFRS 15, Revenue from Contracts with Customers and amendments thereto (2019);
- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (2019); and
- Amendments to IFRS 12, Clarification of the Scope of the Standard (2018).

2. Basis of preparation and statement of compliance (continued)

The following relevant new standards and requirements have been issued but are not effective for the financial year ending 30 November 2017 and have not been early adopted, but are expected to have a material impact on the financial position or results of operations of the Group:

- IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into separate measurement categories: those measured as at fair value with changes either recognised in profit or loss or in other comprehensive income and those measured at amortised cost. The determination is made at initial recognition depending on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. In addition, a revised expected credit losses model will replace the incurred loss impairment model in IAS 39. The Group is yet to fully assess the impact of the standard on its financial position and results of operations.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity's risk management strategies. The Group is yet to fully assess the impact of the new requirements for hedge accounting and financial liabilities, but the impact is not expected to be material. The standard is mandatorily effective for financial periods beginning on or after 1 January 2018, but the Group qualifies for a temporary exemption as explained below.

- On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the financial reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied. Based on the amendments to IFRS 4, the Group is eligible for and will elect to apply the temporary option to defer the effective date of IFRS 9 in order to implement the changes in parallel with IFRS 17, Insurance Contracts.
- IFRS 17, Insurance Contracts (previously IFRS 4 Phase II) will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, IFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. The Group is yet to undertake a detailed assessment of the new standard. The standard is mandatorily effective for financial periods beginning on or after 1 January 2021.

2. Basis of preparation and statement of compliance (continued)

- IFRS 16, Leases, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is yet to assess the full impact of the standard on its financial position and results of operations. The standard is mandatorily effective for financial periods beginning on or after 1 January 2019.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgement on estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses. Actual results may differ from these estimates.

The interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The interim condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRS and IFRS.

The interim condensed consolidated financial statements are unaudited, but have been reviewed by PricewaterhouseCoopers in accordance with the Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers' independent review report to the Board of Directors is included on page 39. The interim condensed consolidated financial statements have also been reviewed by the Company's Audit Committee.

The financial statements relating to the financial year ended 30 November 2016 that are included in the interim condensed consolidated financial statements as comparative information does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. The Group has delivered the financial statements for the year ended 30 November 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 February 2017. Their report did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

Items included in the interim condensed consolidated financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The interim condensed consolidated financial statements are presented in millions of US dollars (US\$m) unless otherwise stated, which is the Company's functional currency, and the presentation currency of the Company and the Group.

3. Exchange rates

The Group's principal overseas operations during the reporting period were located within the Asia-Pacific region. The results and cash flows of these operations have been translated into US dollars at the following average rates:

	US dollar exchange rates		
	Six months ended 31 May 2017 (Unaudited)	Year ended 30 November 2016	Six months ended 31 May 2016 (Unaudited)
Hong Kong	7.77	7.76	7.77
Thailand	35.02	35.30	35.59
Singapore	1.41	1.38	1.39
Malaysia	4.42	4.13	4.13
China	6.89	6.60	6.51

Assets and liabilities have been translated at the following period-end rates:

	US dollar exchange rates		
	As at 31 May 2017 (Unaudited)	As at 30 November 2016	As at 31 May 2016 (Unaudited)
Hong Kong	7.79	7.76	7.77
Thailand	34.08	35.61	35.73
Singapore	1.38	1.43	1.38
Malaysia	4.28	4.47	4.13
China	6.83	6.89	6.58

Exchange rates are expressed in units of local currency per US\$1.

4. Operating profit after tax

Operating profit after tax may be reconciled to net profit as follows:

US\$m	Note	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Operating profit after tax	6	2,277	1,974
Non-operating items, net of related changes in insurance and investment contract liabilities:			
Short-term fluctuations in investment return related to equities and real estate (net of tax of: six months ended 31 May 2017: US\$(37)m; six months ended 31 May 2016: US\$10m)			
		789	(27)
Other non-operating investment return and other items (net of tax of: six months ended 31 May 2017: US\$17m; six months ended 31 May 2016: US\$167m)			
		(107)	148
Net profit		<u>2,959</u>	<u>2,095</u>
<i>Operating profit after tax attributable to:</i>			
Shareholders of AIA Group Limited		2,262	1,956
Non-controlling interests		15	18
<i>Net profit attributable to:</i>			
Shareholders of AIA Group Limited		2,925	2,065
Non-controlling interests		34	30

Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.

5. Total weighted premium income and annualised new premiums

For management decision-making and internal performance management purposes, the Group measures business volumes during the period using a performance measure referred to as total weighted premium income (TWPI). The Group measures new business activity using a performance measure referred to as annualised new premiums (ANP). The presentation of this note is consistent with our reportable segment presentation in note 6.

TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded, and includes deposits and contributions for contracts that are accounted for as deposits in accordance with the Group's accounting policies.

Management considers that TWPI provides an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not intended to be indicative of premiums and fee income recorded in the interim consolidated income statement.

ANP is a key internal measure of new business activities, which consists of 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. ANP excludes new business of pension business, personal lines and motor insurance.

TWPI	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
US\$m		
TWPI by geography		
Hong Kong	4,507	2,991
Thailand	1,594	1,566
Singapore	1,143	1,114
Malaysia	875	870
China	1,509	1,187
Other Markets	2,765	2,604
Total	12,393	10,332
First year premiums by geography		
Hong Kong	1,601	885
Thailand	214	202
Singapore	127	125
Malaysia	137	139
China	460	301
Other Markets	408	441
Total	2,947	2,093
Single premiums by geography		
Hong Kong	942	834
Thailand	90	85
Singapore	554	780
Malaysia	73	73
China	71	90
Other Markets	313	266
Total	2,043	2,128

5. Total weighted premium income and annualised new premiums (continued)

TWPI (continued) US\$m	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Renewal premiums by geography		
Hong Kong	2,812	2,023
Thailand	1,371	1,355
Singapore	960	911
Malaysia	731	724
China	1,042	877
Other Markets	2,326	2,136
Total	9,242	8,026
	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
ANP US\$m		
ANP by geography		
Hong Kong	1,696	988
Thailand	232	216
Singapore	187	214
Malaysia	167	159
China	474	321
Other Markets	440	457
Total	3,196	2,355

6. Segment information

The Group's operating segments, based on the reports received by the ExCo, are each of the geographical markets in which the Group operates. Each of the reportable segments, other than the "Group Corporate Centre" segment, writes life insurance business, providing life insurance, accident and health insurance and savings plans to customers in its local market, and distributes related investment and other financial services products. The reportable segments are Hong Kong (including Macau), Thailand, Singapore (including Brunei), Malaysia, China, Other Markets and Group Corporate Centre. Other Markets includes the Group's operations in Australia (including New Zealand), Cambodia, Indonesia, Korea, the Philippines, Sri Lanka, Taiwan, Vietnam and India. The activities of the Group Corporate Centre segment consist of the Group's corporate functions, shared services and eliminations of intragroup transactions.

As each reportable segment other than the Group Corporate Centre segment focuses on serving the life insurance needs of its local market, there are limited transactions between reportable segments. The key performance indicators reported in respect of each segment are:

- ANP;
- TWPI;
- investment return;
- operating expenses;
- operating profit after tax attributable to shareholders of AIA Group Limited;
- expense ratio, measured as operating expenses divided by TWPI;
- operating margin, measured as operating profit after tax expressed as a percentage of TWPI; and
- operating return on shareholders' allocated equity measured on an annualised basis as operating profit after tax attributable to shareholders of AIA Group Limited expressed as a percentage of the simple average of opening and closing shareholders' allocated segment equity (being the segment assets less segment liabilities in respect of each reportable segment less non-controlling interests and fair value reserve).

In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable segments by the Group Corporate Centre segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.

Business volumes in respect of the Group's five largest customers are less than 30 per cent of premiums and fee income.

6. Segment information (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
Six months ended 31 May 2017 – Unaudited								
ANP	1,696	232	187	167	474	440	–	3,196
TWPI	4,507	1,594	1,143	875	1,509	2,765	–	12,393
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	4,932	1,618	1,312	778	1,456	1,820	1	11,917
Investment return	1,022	561	524	260	341	521	173	3,402
Total revenue	5,954	2,179	1,836	1,038	1,797	2,341	174	15,319
Net insurance and investment contract benefits	4,273	1,182	1,330	691	1,166	1,256	–	9,898
Commission and other acquisition expenses	551	360	151	109	90	343	(3)	1,601
Operating expenses	171	97	86	81	129	265	107	936
Finance costs and other expenses	56	23	10	5	9	21	57	181
Total expenses	5,051	1,662	1,577	886	1,394	1,885	161	12,616
Share of profit from associates and joint venture	–	–	–	–	–	3	–	3
Operating profit before tax	903	517	259	152	403	459	13	2,706
Tax on operating profit before tax	(61)	(104)	(24)	(32)	(98)	(102)	(8)	(429)
Operating profit after tax	842	413	235	120	305	357	5	2,277
<i>Operating profit after tax attributable to:</i>								
Shareholders of AIA Group Limited	836	413	235	119	305	349	5	2,262
Non-controlling interests	6	–	–	1	–	8	–	15

Key operating ratios:

Expense ratio	3.8%	6.1%	7.5%	9.3%	8.5%	9.6%	–	7.6%
Operating margin	18.7%	25.9%	20.6%	13.7%	20.2%	12.9%	–	18.4%
Operating return on shareholders' allocated equity	24.4%	17.0%	16.8%	17.1%	19.8%	12.0%	–	14.2%

Operating profit before tax includes:

Finance costs	14	3	–	–	2	1	46	66
Depreciation and amortisation	12	5	7	4	4	16	3	51

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets	Group Corporate Centre	Total
31 May 2017 – Unaudited								
Total assets	59,697	28,198	33,990	13,459	18,701	35,268	10,817	200,130
Total liabilities	49,647	22,188	30,671	12,105	15,665	27,638	3,541	161,455
Total equity	10,050	6,010	3,319	1,354	3,036	7,630	7,276	38,675
Shareholders' allocated equity	6,908	4,882	2,864	1,332	2,995	5,961	7,254	32,196
Net capital (out)/in flows	(482)	(197)	–	(192)	(134)	8	115	(882)

Total assets include:

Investments in associates and joint venture	–	–	1	6	–	623	–	630
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6. Segment information (continued)

Segment information may be reconciled to the interim consolidated income statement as shown below:

US\$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items ⁽¹⁾	Interim consolidated income statement	
Six months ended 31 May 2017					
- Unaudited					
Net premiums, fee income and other operating revenue	11,917	-	-	11,917	Net premiums, fee income and other operating revenue
Investment return	3,402	1,109	1,977	6,488	Investment return
Total revenue	15,319	1,109	1,977	18,405	Total revenue
Net insurance and investment contract benefits	9,898	283	1,810	11,991	Net insurance and investment contract benefits
Other expenses	2,718	-	187	2,905	Other expenses
Total expenses	12,616	283	1,997	14,896	Total expenses
Share of profit from associates and joint venture	3	-	-	3	Share of profit from associates and joint venture
Operating profit before tax	2,706	826	(20)	3,512	Profit before tax

Note:

(1) Include unit-linked contracts.

6. Segment information (continued)

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets ⁽¹⁾	Group Corporate Centre	Total
Six months ended 31 May 2016 – Unaudited								
ANP	988	216	214	159	321	457	–	2,355
TWPI	2,991	1,566	1,114	870	1,187	2,604	–	10,332
Net premiums, fee income and other operating revenue (net of reinsurance ceded)	2,997	1,518	1,307	787	1,117	1,773	(3)	9,496
Investment return	856	515	502	268	325	504	167	3,137
Total revenue	3,853	2,033	1,809	1,055	1,442	2,277	164	12,633
Net insurance and investment contract benefits	2,621	1,162	1,321	729	967	1,249	(11)	8,038
Commission and other acquisition expenses	323	304	150	85	80	329	–	1,271
Operating expenses	141	91	83	78	105	246	87	831
Finance costs and other expenses	50	19	8	5	6	21	46	155
Total expenses	3,135	1,576	1,562	897	1,158	1,845	122	10,295
Share of losses from associates and joint venture	–	–	–	–	–	(3)	–	(3)
Operating profit before tax	718	457	247	158	284	429	42	2,335
Tax on operating profit before tax	(43)	(90)	(36)	(32)	(63)	(93)	(4)	(361)
Operating profit after tax	675	367	211	126	221	336	38	1,974
<i>Operating profit after tax attributable to:</i>								
Shareholders of AIA Group Limited	670	367	211	125	221	324	38	1,956
Non-controlling interests	5	–	–	1	–	12	–	18

Key operating ratios:

Expense ratio	4.7%	5.8%	7.5%	9.0%	8.8%	9.4%	–	8.0%
Operating margin	22.6%	23.4%	18.9%	14.5%	18.6%	12.9%	–	19.1%
Operating return on shareholders' allocated equity	21.9%	18.1%	16.8%	17.6%	15.7%	13.0%	–	13.8%

Operating profit before tax includes:

Finance costs	13	2	6	1	10	–	39	71
Depreciation and amortisation	8	4	5	6	5	15	6	49

US\$m	Hong Kong	Thailand	Singapore	Malaysia	China	Other Markets ⁽¹⁾	Group Corporate Centre	Total
30 November 2016								
Total assets	52,916	26,800	31,087	12,409	18,672	33,011	10,179	185,074
Total liabilities	45,166	21,163	28,345	11,079	15,064	25,881	3,066	149,764
Total equity	7,750	5,637	2,742	1,330	3,608	7,130	7,113	35,310
Shareholders' allocated equity	5,935	4,400	2,502	1,331	2,864	5,369	7,231	29,632
Net capital (out)/in flows	(1,034)	(411)	(209)	(186)	(46)	175	608	(1,103)

Total assets include:

Investments in associates and joint venture	–	–	1	6	–	643	–	650
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Note:

(1) Includes Korea. The figures have been adjusted to conform to the current period presentation.

6. Segment information (continued)

Segment information may be reconciled to the interim consolidated income statement as shown below:

US\$m	Segment information	Short-term fluctuations in investment return related to equities and real estate	Other non-operating items ⁽¹⁾	Interim consolidated income statement	
Six months ended 31 May 2016					
- Unaudited					
Net premiums, fee income and other operating revenue	9,496	–	–	9,496	Net premiums, fee income and other operating revenue
Investment return	3,137	(195)	422	3,364	Investment return
Total revenue	12,633	(195)	422	12,860	Total revenue
Net insurance and investment contract benefits	8,038	(158)	251	8,131	Net insurance and investment contract benefits
Other expenses	2,257	–	140	2,397	Other expenses
Total expenses	10,295	(158)	391	10,528	Total expenses
Share of losses from associates and joint venture	(3)	–	–	(3)	Share of losses from associates and joint venture
Operating profit before tax	2,335	(37)	31	2,329	Profit before tax

Note:

(1) Include unit-linked contracts.

7. Investment return

US\$m	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Interest income	2,727	2,615
Dividend income	325	305
Rental income	74	68
Investment income	3,126	2,988
Available for sale		
Net realised gains from debt securities	60	20
Impairment of debt securities	–	(22)
Net gains/(losses) of available for sale financial assets reflected in the interim consolidated income statement	60	(2)
At fair value through profit or loss		
Net gains of financial assets designated at fair value through profit or loss		
Net gains of debt securities	78	403
Net gains/(losses) of equity securities	3,011	(182)
Net gains of financial instruments held for trading		
Net fair value movement on derivatives	310	63
Net gains in respect of financial instruments at fair value through profit or loss	3,399	284
Net fair value movement of investment property	198	218
Net foreign exchange losses	(294)	(116)
Other net realised losses	(1)	(8)
Investment experience	3,362	376
Investment return	6,488	3,364

Foreign currency movements resulted in the following gains recognised in the interim consolidated income statement (other than gains and losses arising on items measured at fair value through profit or loss):

US\$m	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Foreign exchange (losses)/gains	(142)	52

8. Expenses

US\$m	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Insurance contract benefits	5,171	4,993
Change in insurance contract liabilities	6,799	3,738
Investment contract benefits	640	(77)
Insurance and investment contract benefits	12,610	8,654
Insurance and investment contract benefits ceded	(619)	(523)
Insurance and investment contract benefits, net of reinsurance ceded	11,991	8,131
Commission and other acquisition expenses incurred	2,826	2,203
Deferral and amortisation of acquisition costs	(1,220)	(907)
Commission and other acquisition expenses	1,606	1,296
Employee benefit expenses	603	559
Depreciation	30	31
Amortisation	21	18
Operating lease rentals	72	58
Other operating expenses	210	165
Operating expenses	936	831
Investment management expenses and others	181	164
Depreciation on property held for own use	11	10
Restructuring and other non-operating costs ⁽¹⁾	71	15
Change in third-party interests in consolidated investment funds	15	10
Other expenses	278	199
Finance costs	85	71
Total	14,896	10,528

Note:

- (1) Restructuring costs represent costs related to restructuring programmes and are primarily comprised of redundancy and contract termination costs. Other non-operating costs primarily consist of acquisition-related and integration expenses.

8. Expenses (continued)

Finance costs may be analysed as:

US\$m	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Repurchase agreements (see note 19 for details)	23	19
Medium term notes	60	50
Other loans	2	2
Total	85	71

Employee benefit expenses consist of:

US\$m	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Wages and salaries	491	447
Share-based compensation	36	40
Pension costs – defined contribution plans	34	32
Pension costs – defined benefit plans	4	4
Other employee benefit expenses	38	36
Total	603	559

9. Income tax

US\$m	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Tax charged in the interim consolidated income statement		
Current income tax – Hong Kong Profits Tax	54	37
Current income tax – overseas	244	181
Deferred income tax on temporary differences	255	16
Total	<u>553</u>	<u>234</u>

Income tax expense is recognised based on the management's best estimate of the weighted average annual income tax rate expected for the full financial year.

The tax benefit or expense attributable to life insurance policyholder returns in Singapore, Brunei, Malaysia, Australia, Indonesia, the Philippines and Sri Lanka is included in the tax charge or credit and is analysed separately in the interim consolidated income statement in order to permit comparison of the underlying effective rate of tax attributable to shareholders from period to period. The tax attributable to policyholders' returns included above is US\$104m (six months ended 31 May 2016: US\$50m).

During the interim period of 2016, Thailand enacted a permanent change in the corporate income tax rate from 30 per cent to 20 per cent from assessment year 2016 onwards. The decrease in tax rate resulted in a reduction in deferred tax liabilities of US\$314m, of which US\$181m was recognised in profit or loss and US\$133m was recognised in other comprehensive income for the six months ended 31 May 2016.

10. Earnings per share

BASIC

Basic earnings per share is calculated by dividing the net profit attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the period. The shares held by employee share-based trusts are not considered to be outstanding from the date of the purchase for purposes of computing basic and diluted earnings per share.

	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	2,925	2,065
Weighted average number of ordinary shares in issue (million)	11,989	11,969
Basic earnings per share (US cents per share)	<u>24.40</u>	<u>17.25</u>

10. Earnings per share (continued)

DILUTED

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of 31 May 2017 and 2016, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 23.

	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Net profit attributable to shareholders of AIA Group Limited (US\$m)	2,925	2,065
Weighted average number of ordinary shares in issue (million)	11,989	11,969
Adjustment for share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded under share-based compensation plans (million)	23	23
Weighted average number of ordinary shares for diluted earnings per share (million)	12,012	11,992
Diluted earnings per share (US cents per share)	24.35	17.22

At 31 May 2017, 13,673,927 share options (31 May 2016: 15,511,085) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

OPERATING PROFIT AFTER TAX PER SHARE

Operating profit after tax (see note 4) per share is calculated by dividing the operating profit after tax attributable to shareholders of AIA Group Limited by the weighted average number of ordinary shares in issue during the period. As of 31 May 2017 and 2016, the Group has potentially dilutive instruments which are the share options, restricted share units, restricted stock purchase units and restricted stock subscription units awarded to eligible directors, officers, employees and agents under various share-based compensation plans as described in note 23.

	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Basic (US cents per share)	18.87	16.34
Diluted (US cents per share)	18.83	16.31

11. Dividends

Dividends to shareholders of the Company attributable to the interim period:

US\$m	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Interim dividend declared after the reporting date of 25.62 Hong Kong cents per share (six months ended 31 May 2016: 21.90 Hong Kong cents per share) ⁽¹⁾	395	337

Note:

- (1) Based upon shares outstanding at 31 May 2017 and 2016 that are entitled to a dividend, other than those held by employee share-based trusts.

The above interim dividend was declared after the reporting date and has not been recognised as a liability at the reporting date.

Dividends to shareholders of the Company attributable to the previous financial year, approved and paid during the interim period:

US\$m	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period of 63.75 Hong Kong cents per share (six months ended 31 May 2016: 51.00 Hong Kong cents per share)	983	786

12. Intangible assets

US\$m	Goodwill	Computer software	Distribution and other rights	Total
Cost				
At 1 December 2016	775	458	815	2,048
Additions	–	27	1	28
Disposals	–	(1)	–	(1)
Foreign exchange movements	29	7	7	43
At 31 May 2017 – Unaudited	804	491	823	2,118
Accumulated amortisation				
At 1 December 2016	(4)	(232)	(69)	(305)
Amortisation charge for the period	–	(20)	(15)	(35)
Foreign exchange movements	–	(6)	(1)	(7)
At 31 May 2017 – Unaudited	(4)	(258)	(85)	(347)
Net book value				
At 30 November 2016	771	226	746	1,743
At 31 May 2017 – Unaudited	800	233	738	1,771

The Group holds intangible assets for its long-term use and the annual amortisation charge of US\$70m (30 November 2016: US\$63m) approximates the amount that is expected to be recovered through consumption within 12 months after the end of the reporting period.

13. Financial investments

DEBT SECURITIES

Debt securities by type comprise the following:

US\$m	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Consolidated investment funds ⁽⁴⁾ FVTPL	Total
	Participating funds	Other policyholder and shareholder					
	FVTPL	FVTPL	AFS				
31 May 2017 – Unaudited							
Government bonds	5,048	72	33,060	38,180	1,094	–	39,274
Government agency bonds ⁽¹⁾	3,367	13	9,309	12,689	205	275	13,169
Corporate bonds	10,841	164	54,287	65,292	1,352	1,691	68,335
Structured securities ⁽²⁾	239	47	714	1,000	–	–	1,000
Total⁽³⁾	19,495	296	97,370	117,161	2,651	1,966	121,778
US\$m	Policyholder and shareholder			Subtotal	Unit-linked FVTPL	Consolidated investment funds ⁽⁴⁾ FVTPL	Total
	Participating funds	Other policyholder and shareholder					
	FVTPL	FVTPL	AFS				
30 November 2016							
Government bonds	4,630	67	31,214	35,911	1,039	–	36,950
Government agency bonds ⁽¹⁾	3,200	12	8,720	11,932	223	231	12,386
Corporate bonds	10,611	168	49,405	60,184	1,295	1,667	63,146
Structured securities ⁽²⁾	266	116	753	1,135	1	–	1,136
Total⁽³⁾	18,707	363	90,092	109,162	2,558	1,898	113,618

Notes:

- (1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities; government-related entities; multilateral development banks and supranational organisations.
- (2) Structured securities include collateralised debt obligations, mortgage-backed securities and other asset-backed securities.
- (3) Debt securities of US\$4,245m (30 November 2016: US\$3,964m) are restricted due to local regulatory requirements.
- (4) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

13. Financial investments (continued)

EQUITY SECURITIES

Equity securities by type comprise the following:

US\$m	Policyholder and shareholder		Subtotal	Unit-linked FVTPL	Consolidated investment funds ⁽¹⁾ FVTPL	Total
	Participating funds FVTPL	Other policyholder and shareholder FVTPL				
31 May 2017 – Unaudited						
Equity shares	4,319	8,782	13,101	4,252	–	17,353
Interests in investment funds	2,093	1,831	3,924	13,179	3	17,106
Total	6,412	10,613	17,025	17,431	3	34,459
30 November 2016						
Equity shares	3,705	6,967	10,672	3,608	1	14,281
Interests in investment funds	1,746	2,295	4,041	11,886	3	15,930
Total	5,451	9,262	14,713	15,494	4	30,211

Note:

(1) Consolidated investment funds reflect 100 per cent of assets and liabilities held by such funds.

DEBT AND EQUITY SECURITIES

US\$m	As at 31 May 2017 (Unaudited)	As at 30 November 2016
Debt securities		
Listed	93,467	86,105
Unlisted	28,311	27,513
Total	121,778	113,618
Equity securities		
Listed	19,143	16,394
Unlisted ⁽¹⁾	15,316	13,817
Total	34,459	30,211

Note:

(1) Including US\$14,328m (30 November 2016: US\$13,067m) of investment funds which can be redeemed daily.

13. Financial investments (continued)

LOANS AND DEPOSITS

US\$m	As at 31 May 2017 (Unaudited)	As at 30 November 2016
Policy loans	2,590	2,448
Mortgage loans on residential real estate	572	546
Mortgage loans on commercial real estate	52	51
Other loans	852	737
Allowance for loan losses	(12)	(13)
Loans	4,054	3,769
Term deposits	1,716	1,847
Promissory notes ⁽¹⁾	1,512	1,446
Total	7,282	7,062

Note:

(1) The promissory notes are issued by a government.

Certain term deposits with financial institutions and promissory notes are restricted due to local regulatory requirements or other pledge restrictions. The restricted balance held within term deposits and promissory notes is US\$1,701m (30 November 2016: US\$1,638m).

Other loans include receivables from reverse repurchase agreements under which the Group does not take physical possession of securities purchased under the agreements. Sales or transfers of securities are not permitted by the respective clearing house on which they are registered while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the clearing house. At 31 May 2017, the carrying value of such receivables is US\$284m (30 November 2016: US\$224m).

14. Derivative financial instruments

The Group's non-hedge derivative exposure was as follows:

US\$m	Notional amount	Fair value	
		Assets	Liabilities
31 May 2017 – Unaudited			
Foreign exchange contracts			
Cross-currency swaps	7,315	94	(300)
Forwards	1,386	21	(17)
Foreign exchange futures	807	–	–
Currency options	9	–	–
Total foreign exchange contracts	9,517	115	(317)
Interest rate contracts			
Interest rate swaps	2,093	35	(46)
Other			
Warrants and options	445	17	–
Netting	(807)	–	–
Total	11,248	167	(363)
30 November 2016			
Foreign exchange contracts			
Cross-currency swaps	7,660	28	(567)
Forwards	1,710	36	(6)
Foreign exchange futures	192	–	–
Currency options	13	–	–
Total foreign exchange contracts	9,575	64	(573)
Interest rate contracts			
Interest rate swaps	1,851	30	(35)
Other			
Warrants and options	1,520	13	(36)
Netting	(192)	–	–
Total	12,754	107	(644)

The column “notional amount” in the above table represents the pay leg of derivative transactions other than equity index option. For certain equity-index call and put options with same notional amount that are purchased to hedge the downside risk of the underlying equities by means of a collar strategy, the notional amount represents the exposure of the hedged equities.

Of the total derivatives, US\$8m (30 November 2016: US\$12m) are listed in exchange or dealer markets and the rest are over-the-counter (OTC) derivatives. OTC derivative contracts are individually negotiated between contracting parties and not cleared through an exchange. OTC derivatives include forwards, swaps and options. Derivatives are subject to various risks including market, liquidity and credit risks, similar to those related to the underlying financial instruments.

Derivative assets and derivative liabilities are recognised in the interim consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities respectively. The Group's derivative contracts are established to economic hedge financial exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the interim consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the previous table reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of derivative transactions.

14. Derivative financial instruments (continued)

FOREIGN EXCHANGE CONTRACTS

Foreign exchange forward and futures contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Currency options are agreements that give the buyer the right to exchange the currency of one country for the currency of another country at agreed prices and settlement dates. Currency swaps are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gains and losses on the foreign exchange contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, implied volatilities of the underlying indices and the timing of payments.

INTEREST RATE SWAPS

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments.

OTHER DERIVATIVES

Warrants and options are option agreements that give the owner the right to buy or sell securities at an agreed price and settlement date.

NETTING ADJUSTMENT

The netting adjustment is related to futures contracts executed through clearing house where the settlement arrangement satisfied the netting criteria under IFRS.

COLLATERAL UNDER DERIVATIVE TRANSACTIONS

At 31 May 2017, the Group had posted cash collateral of US\$43m (30 November 2016: US\$188m) and pledged debt securities with carrying value of US\$220m (30 November 2016: US\$440m) for liabilities and held cash collateral of US\$15m (30 November 2016: US\$6m), debt securities collateral with carrying value of US\$3m (30 November 2016: US\$5m) for assets in respect of derivative transactions. The Group did not sell or repledge the collateral received. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard repurchase agreements.

15. Fair value measurement of financial instruments

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group classifies all financial assets as either at fair value through profit or loss, or as available for sale, which are carried at fair value, or as loans and receivables, which are carried at amortised cost. Financial liabilities are classified as either at fair value through profit or loss or at amortised cost, except for investment contracts with DPF which are accounted for under IFRS 4.

The following tables present the fair values of the Group's financial assets and financial liabilities:

US\$m	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
31 May 2017 – Unaudited						
Financial investments	13					
Loans and deposits		–	–	7,282	7,282	7,287
Debt securities		24,408	97,370	–	121,778	121,778
Equity securities		34,459	–	–	34,459	34,459
Derivative financial instruments	14	167	–	–	167	167
Reinsurance receivables		–	–	413	413	413
Other receivables		–	–	1,948	1,948	1,948
Accrued investment income		–	–	1,494	1,494	1,494
Cash and cash equivalents	16	–	–	1,724	1,724	1,724
Financial assets		59,034	97,370	12,861	169,265	169,270
	Notes	Fair value through profit or loss		Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities						
Investment contract liabilities	17	6,937		550	7,487	7,487
Borrowings	18	–		3,957	3,957	4,102
Obligations under repurchase agreements	19	–		2,222	2,222	2,222
Derivative financial instruments	14	363		–	363	363
Other liabilities		1,251		3,821	5,072	5,072
Financial liabilities		8,551		10,550	19,101	19,246

15. Fair value measurement of financial instruments (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

US\$m	Notes	Fair value		Cost/ amortised cost	Total carrying value	Total fair value
		Fair value through profit or loss	Available for sale			
30 November 2016						
Financial investments	13					
Loans and deposits		–	–	7,062	7,062	7,066
Debt securities		23,526	90,092	–	113,618	113,618
Equity securities		30,211	–	–	30,211	30,211
Derivative financial instruments	14	107	–	–	107	107
Reinsurance receivables		–	–	335	335	335
Other receivables		–	–	1,934	1,934	1,934
Accrued investment income		–	–	1,383	1,383	1,383
Cash and cash equivalents	16	–	–	1,642	1,642	1,642
Financial assets		53,844	90,092	12,356	156,292	156,296
	Notes	Fair value through profit or loss		Cost/ amortised cost	Total carrying value	Total fair value
Financial liabilities						
Investment contract liabilities	17	6,499		529	7,028	7,028
Borrowings	18	–		3,460	3,460	3,479
Obligations under repurchase agreements	19	–		1,984	1,984	1,984
Derivative financial instruments	14	644		–	644	644
Other liabilities		1,239		3,484	4,723	4,723
Financial liabilities		8,382		9,457	17,839	17,858

The Group does not have assets or liabilities measured at fair value on a non-recurring basis during the six months ended 31 May 2017.

When the Group holds a group of derivative assets and derivative liabilities entered into with a particular counterparty, the Group takes into account the arrangements that mitigate credit risk exposure in the event of default (e.g. International Swap and Derivatives Association (ISDA) Master Agreements and Credit Support Annex (CSA) that require the exchange of collateral on the basis of each party's net credit risk exposure). The Group measures the fair value of the group of financial assets and financial liabilities on the basis of its net exposure to the credit risk of that counterparty or the counterparty's net exposure to our credit risk that reflects market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

15. Fair value measurement of financial instruments (continued)

FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS ON A RECURRING BASIS

A summary of financial assets and liabilities carried at fair value on a recurring basis according to fair value hierarchy is given below:

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
31 May 2017 – Unaudited				
Recurring fair value measurement				
Financial assets				
Available for sale				
Debt securities	16	96,137	1,217	97,370
At fair value through profit or loss				
Debt securities				
Participating funds	17	19,060	418	19,495
Unit-linked contracts and consolidated investment funds	–	4,447	170	4,617
Other policyholder and shareholder	–	226	70	296
Equity securities				
Participating funds	5,612	407	393	6,412
Unit-linked contracts and consolidated investment funds	17,365	69	–	17,434
Other policyholder and shareholder	9,391	705	517	10,613
Derivative financial instruments				
Foreign exchange contracts	–	115	–	115
Interest rate contracts	–	35	–	35
Other contracts	8	9	–	17
Total financial assets on a recurring fair value measurement basis	32,409	121,210	2,785	156,404
<i>% of Total</i>	<i>20.7</i>	<i>77.5</i>	<i>1.8</i>	<i>100.0</i>
Financial liabilities				
Investment contract liabilities	–	–	6,937	6,937
Derivative financial instruments				
Foreign exchange contracts	–	317	–	317
Interest rate contracts	–	46	–	46
Other liabilities	–	1,251	–	1,251
Total financial liabilities on a recurring fair value measurement basis	–	1,614	6,937	8,551
<i>% of Total</i>	<i>–</i>	<i>18.9</i>	<i>81.1</i>	<i>100.0</i>

15. Fair value measurement of financial instruments (continued)

FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS ON A RECURRING BASIS (continued)

US\$m	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
30 November 2016				
Recurring fair value measurement				
Financial assets				
Available for sale				
Debt securities	24	88,819	1,249	90,092
At fair value through profit or loss				
Debt securities				
Participating funds	–	18,366	341	18,707
Unit-linked contracts and consolidated investment funds	–	4,239	217	4,456
Other policyholder and shareholder	–	223	140	363
Equity securities				
Participating funds	4,856	324	271	5,451
Unit-linked contracts and consolidated investment funds	15,434	64	–	15,498
Other policyholder and shareholder	8,117	728	417	9,262
Derivative financial instruments				
Foreign exchange contracts	–	64	–	64
Interest rate contracts	–	30	–	30
Other contracts	12	1	–	13
Total financial assets on a recurring fair value measurement basis	28,443	112,858	2,635	143,936
<i>% of Total</i>	<i>19.8</i>	<i>78.4</i>	<i>1.8</i>	<i>100.0</i>
Financial liabilities				
Investment contract liabilities	–	–	6,499	6,499
Derivative financial instruments				
Foreign exchange contracts	–	573	–	573
Interest rate contracts	–	35	–	35
Other contracts	–	36	–	36
Other liabilities	–	1,239	–	1,239
Total financial liabilities on a recurring fair value measurement basis	–	1,883	6,499	8,382
<i>% of Total</i>	<i>–</i>	<i>22.5</i>	<i>77.5</i>	<i>100.0</i>

The Group's policy is to recognise transfers of assets and liabilities between Level 1 and Level 2 at their fair values as at the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the six months ended 31 May 2017, the Group transferred US\$44m (30 November 2016: US\$241m) of assets measured at fair value from Level 1 to Level 2. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Group transferred US\$22m (30 November 2016: US\$463m) of assets from Level 2 to Level 1 during the six months ended 31 May 2017.

The Group's Level 2 financial instruments include debt securities, equity securities and derivative instruments. The fair values of Level 2 financial instruments are estimated using values obtained from private pricing services and brokers corroborated with internal review as necessary. When the quotes from third-party pricing services and brokers are not available, internal valuation techniques and inputs will be used to derive the fair value for the financial instruments.

15. Fair value measurement of financial instruments (continued)

FAIR VALUE HIERARCHY FOR FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS ON A RECURRING BASIS (continued)

The table below sets out a summary of changes in the Group's Level 3 financial assets and liabilities measured at fair value on a recurring basis for the six months ended 31 May 2017. The table reflects gains and losses, including gains and losses on financial assets and liabilities categorised as Level 3 as at 31 May 2017.

Level 3 financial assets and liabilities

US\$m	Debt securities	Equity securities	Derivative financial assets/ (liabilities)	Investment contracts
At 1 December 2016	1,947	688	-	(6,499)
Net movement on investment contract liabilities	-	-	-	(438)
Total gains/(losses)				
Reported under investment return in the interim consolidated income statement	(28)	37	-	-
Reported under fair value reserve and foreign currency translation reserve in the interim consolidated statement of comprehensive income	4	16	-	-
Purchases	188	191	-	-
Sales	(10)	(15)	-	-
Settlements	(226)	-	-	-
Transfer into Level 3	-	1	-	-
Transfer out of Level 3	-	(8)	-	-
At 31 May 2017 – Unaudited	<u>1,875</u>	<u>910</u>	<u>-</u>	<u>(6,937)</u>
Change in unrealised gains or losses included in the interim consolidated income statement for assets and liabilities held at the end of the reporting period, under investment return	<u>(20)</u>	<u>24</u>	<u>-</u>	<u>-</u>

Movements in investment contract liabilities at fair value are offset by movements in the underlying portfolio of matching assets.

Assets transferred out of Level 3 mainly relate to corporate debt instruments of which market-observable inputs became available during the period and were used in determining the fair value.

There are not any differences between the fair values on initial recognition and the amounts determined using valuation techniques since the models adopted are calibrated using initial transaction prices.

15. Fair value measurement of financial instruments (continued)

SIGNIFICANT UNOBSERVABLE INPUTS FOR LEVEL 3 FAIR VALUE MEASUREMENTS

As at 31 May 2017, the valuation techniques and applicable unobservable inputs used to measure the Group's Level 3 financial instruments are summarised as follows:

Description	Fair value at 31 May 2017 (Unaudited) (US\$m)	Valuation techniques	Unobservable inputs	Range
Debt securities	921	Discounted cash flows	Discount rate for liquidity	4.95% – 14.64%

VALUATION PROCESSES

The Group has the valuation policies, procedures and analyses in place to govern the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. In determining the fair values of financial assets, the Group in general uses third-party pricing providers and, only in rare cases when third-party prices do not exist, will use prices derived from internal models. The Chief Investment Officers of each of the business units are required to review the reasonableness of the prices used and report price exceptions, if any. The Group Investment team analyses reported price exceptions and reviews price challenge responses from third-party pricing providers and provides the final recommendation on the appropriate price to be used. Any changes in valuation policies are reviewed and approved by the Group Pricing Committee (GPC) which is part of the Group's wider financial risk governance processes. Changes in Level 2 and 3 fair values are analysed at each reporting date.

The main Level 3 input used by the Group pertains to the discount rate for the fixed income securities and investment contracts. The unobservable inputs for determining the fair value of these instruments include the obligor's credit spread and/or the liquidity spread. A significant increase/(decrease) in any of the unobservable input may result in a significantly lower/(higher) fair value measurement. The Group has subscriptions to private pricing services for gathering such information. If the information from private pricing services is not available, the Group uses the proxy pricing method based on internally-developed valuation inputs.

16. Cash and cash equivalents

US\$m	As at 31 May 2017 (Unaudited)	As at 30 November 2016
Cash	1,280	1,120
Cash equivalents	444	522
Total⁽¹⁾	1,724	1,642

Note:

(1) Of cash and cash equivalents, US\$379m (30 November 2016: US\$412m) are held to back unit-linked contracts and US\$80m (30 November 2016: US\$92m) are held by consolidated investment funds.

Cash comprises cash at bank and cash in hand. Cash equivalents comprise bank deposits and highly liquid short-term investments with maturities at acquisition of three months or less and money market funds. Accordingly, all such amounts are expected to be realised within 12 months after the end of the reporting period.

17. Insurance and investment contract liabilities

INSURANCE CONTRACT LIABILITIES

Insurance contract liabilities (including liabilities in respect of investment contracts with DPF) can be analysed as follows:

US\$m	As at 31 May 2017 (Unaudited)	As at 30 November 2016
Deferred profit	6,320	5,761
Unearned revenue	2,724	2,906
Policyholders' share of participating surplus	7,509	6,731
Liabilities for future policyholder benefits	121,793	112,788
Total	138,346	128,186

INVESTMENT CONTRACT LIABILITIES

Investment contract liabilities include deferred fee income of US\$517m (30 November 2016: US\$558m).

18. Borrowings

US\$m	As at 31 May 2017 (Unaudited)	As at 30 November 2016
Other loans	1	1
Medium term notes	<u>3,956</u>	<u>3,459</u>
Total	<u>3,957</u>	<u>3,460</u>

At 31 May 2017 and 30 November 2016, the Group did not have assets pledged as security with respect to amounts disclosed as other loans above.

The following table summarises the Company's outstanding medium term notes at 31 May 2017:

Issue date	Nominal amount	Interest rate	Tenor
13 March 2013 ⁽¹⁾	US\$500m	1.750%	5 years
13 March 2013 ⁽¹⁾	US\$500m	3.125%	10 years
11 March 2014 ⁽¹⁾	US\$500m	2.250%	5 years
11 March 2014 ⁽¹⁾	US\$500m	4.875%	30 years
11 March 2015 ⁽¹⁾	US\$750m	3.200%	10 years
16 March 2016 ⁽¹⁾	US\$750m	4.500%	30 years
23 May 2017 ⁽²⁾	US\$500m	4.470%	30 years

Notes:

(1) These medium term notes are listed on The Stock Exchange of Hong Kong Limited.

(2) These medium term notes are listed on The Taipei Exchange, Taiwan. The Company has the right to redeem these notes at par on 23 May of each year beginning on 23 May 2022.

The net proceeds from issuance during the six months ended 31 May 2017 are used for general corporate purposes.

The Group has access to an aggregate of US\$2,226m unsecured committed credit facilities, which includes a US\$300m revolving three-year credit facility expiring in 2019 and a US\$1,926m five-year credit facility expiring in 2021. The credit facilities will be used for general corporate purposes. There were nil outstanding borrowings under these credit facilities as of 31 May 2017 (30 November 2016: nil).

19. Obligations under repurchase agreements

The Group has entered into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date.

The securities related to these agreements are not de-recognised from the Group's interim consolidated statement of financial position, but are retained within the appropriate financial asset classification. During the term of the repurchase agreements, the Group is restricted from selling or pledging the transferred debt securities. The following table specifies the amounts included within financial investments subject to repurchase agreements which do not qualify for de-recognition at each period end:

US\$m	As at 31 May 2017 (Unaudited)	As at 30 November 2016
Debt securities – AFS	2,155	2,045
Debt securities – FVTPL	105	98
Total	2,260	2,143

COLLATERAL

At 31 May 2017, the Group had pledged cash of US\$1m (30 November 2016: nil) and no pledged debt securities (30 November 2016: US\$6m). Cash collateral of US\$4m (30 November 2016: US\$1m) were held based on the market value of the securities transferred. In the absence of default, the Group does not sell or repledge the debt securities collateral received and they are not recognised in the interim consolidated statement of financial position.

At 31 May 2017, the obligations under repurchase agreements were US\$2,222m (30 November 2016: US\$1,984m).

20. Share capital and reserves

SHARE CAPITAL

	As at 31 May 2017		As at 30 November 2016	
	Million shares (Unaudited)	US\$m (Unaudited)	Million shares	US\$m
At beginning of the financial period	12,056	13,998	12,048	13,971
Shares issued under share option scheme and agency share purchase plan	18	66	8	27
At end of the financial period	12,074	14,064	12,056	13,998

The Company issued 16,561,772 shares under share option scheme (30 November 2016: 7,174,665 shares) and 1,037,294 shares under agency share purchase plan (30 November 2016: 927,042 shares) during the six months ended 31 May 2017.

The Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares during the six months ended 31 May 2017 with the exception of 758,547 shares (30 November 2016: 16,849,376 shares) of the Company purchased by and nil share (30 November 2016: 276,401 shares) of the Company sold by the employee share-based trusts. These purchases were made by the relevant scheme trustees on the Hong Kong Stock Exchange. These shares are held on trust for participants of the relevant schemes and therefore were not cancelled.

During the six months ended 31 May 2017, 14,417,864 shares (six months ended 31 May 2016: 12,837,386 shares) were transferred to eligible directors, officers and employees of the Group from the employee share-based trusts under share-based compensation plans as a result of vesting. As at 31 May 2017, 64,396,698 shares (30 November 2016: 78,056,013 shares) of the Company were held by the employee share-based trusts.

20. Share capital and reserves (continued)

RESERVES

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

Employee share-based trusts

Trusts have been established to acquire shares of the Company for distribution to participants in future periods through the share-based compensation plans. Those shares acquired by the trusts, to the extent not transferred to the participants upon vesting, are reported as "Employee share-based trusts".

Property revaluation reserve

Property revaluation reserve comprises the cumulative net change in the revalued amount of property held for own use at the end of the reporting period. Property revaluation surplus is not considered to be a realised profit available for distribution to shareholders.

Other reserves

Other reserves mainly include the impact of merger accounting for business combinations under common control and share-based compensation.

21. Group capital structure

The Group is in compliance with the solvency and capital adequacy requirements applied by its regulators. The Group's primary insurance regulator at the AIA Company Limited (AIA Co.) and AIA International Limited (AIA International) levels is the Hong Kong Insurance Authority (HKIA), which requires that AIA Co. and AIA International meet the solvency margin requirements of the Hong Kong Insurance Ordinance (HKIO). The HKIO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. AIA has given an undertaking to the HKIA to maintain an excess of assets over liabilities for branches other than Hong Kong at no less than 100% of the Hong Kong statutory minimum solvency margin requirement in each of AIA Co. and AIA International.

The capital positions of the Group's two principal operating companies as of 31 May 2017 and 30 November 2016 are as follows:

US\$m	31 May 2017 (Unaudited)			30 November 2016		
	Total available capital	Regulatory minimum capital	Solvency ratio	Total available capital	Regulatory minimum capital	Solvency ratio
AIA Co.	7,357	1,722	427%	6,699	1,659	404%
AIA International	7,184	2,259	318%	6,237	2,072	301%

For these purposes, the Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the HKIO and "regulatory minimum capital" as the required minimum margin of solvency calculated in accordance with the HKIO. The solvency ratio is the ratio of total available capital to regulatory minimum capital.

The Group's individual branches and subsidiaries are also subject to the supervision of government regulators in the jurisdictions in which those branches and subsidiaries and their parent entity operate and, in relation to subsidiaries, in which they are incorporated. The various regulators overseeing the Group actively monitor our local solvency positions. AIA Co. and AIA International submit annual filings to the HKIA of their solvency margin position based on their annual audited financial statements.

The ability of the Company to pay dividends to shareholders and to meet other obligations depends ultimately on dividends and other payments being received from its operating subsidiaries and branches, which are subject to contractual, regulatory and other limitations. The various regulators overseeing the individual branches and subsidiaries of the Group have the discretion to impose additional restrictions on the ability of those regulated subsidiaries and branches to make payment of dividends or other distributions and payments to AIA Co., including increasing the required margin of solvency that an operating unit must maintain. For example, capital may not be remitted without the consent from regulators for certain individual branches or subsidiaries of the Group. The payment of dividends, distributions and other payments to shareholders is subject to the oversight of the HKIA.

In Hong Kong, the HKIA being a statutory body established under the Insurance Companies (Amendment) Ordinance 2015 replaced the Office of the Commissioner of Insurance as the regulator of insurance companies with effect from 26 June 2017. It is anticipated that the HKIA will directly regulate intermediaries within two years. A multi-year consultation process is also underway towards the development of a risk-based capital regime for Hong Kong insurers, including group-wide capital requirements. As previously disclosed, AIA is closely and constructively engaged in these developments.

22. Risk management

The risks that the Group is exposed to include, but are not limited to, credit risk, interest rate risk, equity price risk, foreign exchange rate risk and liquidity risk.

CREDIT RISK

Credit risk is the risk that third parties fail to meet their obligations to the Group when they fall due. Although the primary source of credit risk is the Group's investment portfolio, such risk can also arise through reinsurance, procurement, and treasury activities.

The Group's credit risk management oversight process is governed centrally, but provides for decentralised management and accountability by our lines of business. A key to AIA's credit risk management is adherence to a well-controlled underwriting process. The Group's credit risk management starts with the assignment of an internal rating to all counterparties. A detailed analysis of each counterparty is performed and a rating recommended by the first lines of business. The Group's Risk Management function manages the Group's internal ratings framework and reviews these recommendations and make final decision on the assigned ratings. Measuring and monitoring of credit risk is an ongoing process and is designed to enable early identification of emerging risk.

INTEREST RATE RISK

The Group's exposure to interest rate risk predominantly arises from any differences between the duration of the Group's liabilities and assets. Since most markets do not have assets of sufficient tenor to match life insurance liabilities, an uncertainty arises around the reinvestment of maturing assets to match the Group's insurance liabilities.

AIA manages interest rate risk primarily on an economic basis to determine the durations of both assets and liabilities. Interest rate risk on local solvency basis is also taken into consideration for business units where local solvency regimes deviate from economic basis. Furthermore, for products with discretionary benefits, additional modelling of interest rate risk is performed to guide determination of appropriate management actions. Management also takes into consideration the asymmetrical impact of interest rate movements when evaluating products with options and guarantees.

EQUITY PRICE RISK

Equity price risk arises from changes in the market value of equity securities. Investments in equity securities on a long-term basis are expected to provide diversification benefits and enhance returns. The extent of exposure to equities at any time is subject to the terms of the Group's strategic asset allocations.

Equity price risk is managed in the first instance through the individual investment mandates which define benchmarks and any tracking error targets. Equity limits are also applied to contain individual exposures. Equity exposures are included in the aggregate exposure reports on each individual counterparty to ensure concentrations are avoided.

22. Risk management (continued)

Sensitivity analysis

Sensitivity analysis to the key variables affecting financial assets and liabilities is set out in the table below. The carrying values of other financial assets are not subject to changes in response to movements in interest rates or equity prices. In calculating the sensitivity of debt and equity instruments to changes in interest rates and equity prices, the Group has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders. Assets held to support unit-linked contracts have been excluded on the basis that changes in fair value are wholly borne by policyholders.

Information is presented to illustrate the estimated impact on profits and total equity arising from a change in a single variable before taking into account the effects of taxation.

The impact of any impairments of financial assets has been ignored for the purpose of illustrating the sensitivity of profit before tax and total equity before the effects of taxation to changes in interest rates and equity prices on the grounds that default events reflect the characteristics of individual issuers. As the Group's accounting policies lock in interest rate assumptions on policy inception and the Group's assumptions incorporate a provision for adverse deviations, the level of movement illustrated in this sensitivity analysis does not result in loss recognition and so there is not any corresponding effect on liabilities.

US\$m	31 May 2017 (Unaudited)			30 November 2016		
	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)	Impact on profit before tax	Impact on total equity (before the effects of taxation)	Impact on allocated equity (before the effects of taxation)
Equity price risk						
10 per cent increase in equity prices	1,143	1,143	1,143	995	995	995
10 per cent decrease in equity prices	(1,143)	(1,143)	(1,143)	(995)	(995)	(995)
Interest rate risk						
+ 50 basis points shift in yield curves	(155)	(5,082)	(155)	(204)	(4,699)	(204)
- 50 basis points shift in yield curves	166	5,600	166	219	5,179	219

FOREIGN EXCHANGE RATE RISK

The Group's foreign exchange rate risk arises mainly from the Group's operations in multiple geographical markets in the Asia-Pacific region and the translation of multiple currencies to US dollar for financial reporting purposes. The balance sheet values of our operating units and subsidiaries are not hedged to the Group's presentation currency, the US dollar.

However, assets, liabilities and local regulatory and stress capital in each business unit are generally currency matched with the exception of holdings of equities denominated in currencies other than the functional currency, or any expected capital movements due within one year which may be hedged. Bonds denominated in currencies other than the functional currency are commonly hedged with cross-currency swaps or foreign exchange forward contracts.

22. Risk management (continued)

FOREIGN EXCHANGE RATE RISK (continued)

Foreign exchange rate net exposure

US\$m	United States Dollar	Hong Kong Dollar	Thai Baht	Singapore Dollar	Malaysian Ringgit	China Renminbi
31 May 2017 – Unaudited						
Equity analysed by original currency	22,797	2,801	3,099	(3,046)	1,981	3,463
Net notional amounts of currency derivative positions	(7,432)	598	2,294	2,776	–	9
Currency exposure	15,365	3,399	5,393	(270)	1,981	3,472
5% strengthening of original currency						
Impact on profit before tax	211	15	(7)	26	5	19
Impact on other comprehensive income	(229)	125	277	(40)	94	155
Impact on total equity	(18)	140	270	(14)	99	174
5% strengthening of the US dollar						
Impact on profit before tax	211	17	(7)	(10)	(4)	(15)
Impact on other comprehensive income	(229)	(157)	(263)	24	(95)	(159)
Impact on total equity	(18)	(140)	(270)	14	(99)	(174)
30 November 2016						
Equity analysed by original currency	20,429	2,208	2,902	(2,786)	1,939	4,098
Net notional amounts of currency derivative positions	(7,104)	601	2,010	2,861	(187)	(122)
Currency exposure	13,325	2,809	4,912	75	1,752	3,976
5% strengthening of original currency						
Impact on profit before tax	169	11	(7)	35	(6)	14
Impact on other comprehensive income	(184)	99	252	(31)	94	185
Impact on total equity	(15)	110	245	4	88	199
5% strengthening of the US dollar						
Impact on profit before tax	169	21	(6)	(20)	7	(10)
Impact on other comprehensive income	(184)	(131)	(239)	16	(95)	(189)
Impact on total equity	(15)	(110)	(245)	(4)	(88)	(199)

22. Risk management (continued)

LIQUIDITY RISK

AIA identifies liquidity risk as occurring in two ways, financial liquidity risk and investment liquidity risk. Financial liquidity risk is the risk that insufficient cash is available to meet payment obligations to counterparties as they fall due. One area of particular focus in the management of financial liquidity is collateral. AIA manages this exposure by determining limits for its activities in the derivatives and repurchase agreement markets based on the collateral available within the relevant fund or subsidiary to withstand extreme market events. More broadly AIA supports its liquidity through committed bank facilities, use of the bond repurchase markets and maintaining access to debt markets via the Company's Global Medium Term Note and Securities programme.

Investment liquidity risk occurs in relation to the Group's ability to buy and sell investments. This is a function of the size of the Group's holdings relative to the availability of counterparties willing to buy or sell these holdings at any given time. In times of stress, market losses will generally be compounded by forced sellers seeking unwilling buyers.

While life insurance companies are characterised by a relatively low need for liquidity to cover those of their liabilities which are directly linked to mortality and morbidity, this risk is nevertheless carefully managed by continuously assessing the relative liquidity of the Group's assets and managing the size of individual holdings through limits.

US\$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
31 May 2017 – Unaudited						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	7,144	863	1,091	314	2,284	2,592
Other receivables	1,614	1,503	66	5	-	40
Debt securities	117,161	2,778	17,345	31,054	65,984	-
Equity securities	17,025	-	-	-	-	17,025
Reinsurance receivables	413	413	-	-	-	-
Accrued investment income	1,445	1,438	-	-	-	7
Cash and cash equivalents	1,265	1,265	-	-	-	-
Derivative financial instruments	153	32	51	59	11	-
Subtotal	146,220	8,292	18,553	31,432	68,279	19,664
Financial assets (Unit-linked contracts and consolidated investment funds)						
	22,823	-	-	-	-	22,823
Total	169,043	8,292	18,553	31,432	68,279	42,487

22. Risk management (continued)

LIQUIDITY RISK (continued)

US\$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)	101,995	2,933	10,034	10,888	78,140	-
Borrowings	3,957	499	500 ⁽¹⁾	1,242	1,716 ⁽²⁾	-
Obligations under repurchase agreements	2,222	2,222	-	-	-	-
Other liabilities	3,692	2,635	46	2	-	1,009
Derivative financial instruments	363	75	88	165	35	-
Subtotal	112,229	8,364	10,668	12,297	79,891	1,009
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)	22,798	-	-	-	-	22,798
Total	135,027	8,364	10,668	12,297	79,891	23,807

Notes:

(1) There were nil borrowing falling due after 2 years through 5 years.

(2) Includes amounts of US\$500m where the Company has the right to redeem these notes at par on 23 May of each year beginning on 23 May 2022.

22. Risk management (continued)

LIQUIDITY RISK (continued)

US\$m	Total	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	No fixed maturity
30 November 2016						
Financial assets (Policyholder and shareholder investments)						
Loans and deposits	6,866	818	1,095	298	2,204	2,451
Other receivables	1,676	1,558	78	6	–	34
Debt securities	109,162	3,098	16,341	28,291	61,432	–
Equity securities	14,713	–	–	–	–	14,713
Reinsurance receivables	335	335	–	–	–	–
Accrued investment income	1,341	1,333	1	–	–	7
Cash and cash equivalents	1,137	1,137	–	–	–	–
Derivative financial instruments	104	53	12	26	13	–
Subtotal	135,334	8,332	17,527	28,621	63,649	17,205
Financial assets (Unit-linked contracts and consolidated investment funds)						
	20,757	–	–	–	–	20,757
Total	156,091	8,332	17,527	28,621	63,649	37,962
Financial and insurance contract liabilities (Policyholder and shareholder investments)						
Insurance and investment contract liabilities (net of deferred acquisition and origination costs, and reinsurance)						
	95,007	2,725	9,799	10,529	71,954	–
Borrowings	3,460	–	998 ⁽¹⁾	1,241	1,221	–
Obligations under repurchase agreements	1,984	1,984	–	–	–	–
Other liabilities	3,379	2,354	47	2	13	963
Derivative financial instruments	642	93	208	313	28	–
Subtotal	104,472	7,156	11,052	12,085	73,216	963
Financial and insurance contract liabilities (Unit-linked contracts and consolidated investment funds)						
	20,743	–	–	–	–	20,743
Total	125,215	7,156	11,052	12,085	73,216	21,706

Note:

(1) Includes amounts of US\$498m falling due after 2 years through 5 years.

23. Share-based compensation

SHARE-BASED COMPENSATION PLANS

During the six months ended 31 May 2017, the Group made further awards of share options, restricted share units (RSUs) and restricted stock purchase units (RSPUs) to certain directors, officers and employees of the Group under the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme) and the Employee Share Purchase Plan (ESPP). In addition, the Group made further awards of restricted stock subscription units (RSSUs) to eligible agents under the Agency Share Purchase Plan (ASPP).

VALUATION METHODOLOGY

The Group utilises a binomial lattice model to calculate the fair value of the share option awards, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU, ESPP and ASPP awards, taking into account the terms and conditions upon which the awards were made. The price volatility is estimated on the basis of implied volatility of the Company's shares which is based on an analysis of historical data since they are traded in the Hong Kong Stock Exchange. The expected life of the share options is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behaviour of the Company's employees. The estimate of market condition for performance-based RSUs is based on one-year historical data preceding the grant date. An allowance for forfeiture prior to vesting is not included in the valuation of the awards.

The fair value calculated for share options is inherently subjective due to the assumptions made and the limitations of the model utilised.

	Share option awards	
	Six months ended 31 May 2017 (Unaudited)	Year ended 30 November 2016
Assumptions		
Risk-free interest rate	1.90%	1.25%
Volatility	20%	20%
Dividend yield	1.8%	1.8%
Exercise price (HK\$)	50.30	41.90
Share option life (in years)	10	10
Expected life (in years)	7.95	8.03
Weighted average fair value per option/unit at measurement date (HK\$)	10.27	7.74

The weighted average share price for share option valuation for awards made during the six months ended 31 May 2017 is HK\$50.30 (30 November 2016: HK\$41.60). The total fair value of share options awarded during the six months ended 31 May 2017 is US\$11m (six months ended 31 May 2016: US\$10m).

RECOGNISED COMPENSATION COST

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards made under the RSU Scheme, SO Scheme, ESPP and ASPP by the Group for the six months ended 31 May 2017 is US\$39m (six month ended 31 May 2016: US\$42m).

24. Remuneration of key management personnel

Key management personnel have been identified as the members of the Group's Executive Committee.

US\$	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Key management compensation and other expenses		
Salaries and other short-term employee benefits	9,101,227	10,239,843
Post-employment benefits	4,792,340	275,266
Share-based payments	12,431,182	10,311,046
Termination benefits	4,725,943	–
Total	31,050,692	20,826,155

The emoluments of the key management personnel are within the following bands:

US\$	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)
Below 1,000,000	3	2
1,000,001 to 2,000,000	5	8
2,000,001 to 3,000,000	1	1
3,000,001 to 4,000,000	1	–
4,000,001 to 5,000,000	1	–
6,000,001 to 7,000,000	–	1
7,000,001 and above	1	–

25. Commitments and contingencies

COMMITMENTS UNDER OPERATING LEASES

Total future aggregate minimum lease payments under non-cancellable operating leases are as follows:

US\$m	As at 31 May 2017 (Unaudited)	As at 30 November 2016
Properties and others expiring		
Not later than one year	128	120
Later than one and not later than five years	202	178
Later than five years	44	94
Total	374	392

The Group is the lessee in respect of a number of properties and items of office equipment held under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually reviewed at the end of the lease term to reflect market rates. None of the leases include contingent rentals.

25. Commitments and contingencies (continued)

INVESTMENT AND CAPITAL COMMITMENTS

US\$m	As at 31 May 2017 (Unaudited)	As at 30 November 2016
Not later than one year	1,023	682
Later than one and not later than five years	3	10
Total	1,026	692

Investment and capital commitments consist of commitments to invest in private equity partnerships and other assets.

CONTINGENCIES

The Group is subject to regulation in each of the geographical markets in which it operates from insurance, securities, capital markets, pension, data privacy and other regulators and is exposed to the risk of regulatory actions in response to perceived or actual non-compliance with regulations relating to suitability, sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties. The Group believes that these matters have been adequately provided for in these financial statements.

The Group is exposed to legal proceedings, complaints and other actions from its activities including those arising from commercial activities, sales practices, suitability of products, policies and claims. The Group believes that these matters are adequately provided for in these financial statements.

The Group is the reinsurer in a residential mortgage credit reinsurance agreement covering residential mortgages in Australia. The Group is exposed to the risk of losses in the event of the failure of the retrocessionaire, a subsidiary of American International Group, Inc., to honour its outstanding obligations which is mitigated by a trust agreement. The principal balance outstanding of mortgage loans to which the reinsurance agreement relates were approximately US\$583m at 31 May 2017 (30 November 2016: US\$616m). The liabilities and related reinsurance assets, which totalled US\$2m (30 November 2016: US\$3m), respectively, arising from these agreements are reflected and presented on a gross basis in these financial statements in accordance with the Group's accounting policies. The Group expects to fully recover amounts outstanding at the reporting date under the terms of this agreement from the retrocessionaire.

26. Events after the reporting period

On 28 July 2017, a Committee appointed by the Board of Directors declared an interim dividend of 25.62 Hong Kong cents per share (six months ended 31 May 2016: 21.90 Hong Kong cents per share).

REPORT ON REVIEW OF SUPPLEMENTARY EMBEDDED VALUE INFORMATION AS AT AND FOR THE SIX-MONTH PERIOD ENDED 31 MAY 2017 TO THE BOARD OF DIRECTORS OF AIA GROUP LIMITED

(incorporated in Hong Kong with limited liability)



羅兵咸永道

Introduction

We have reviewed the Supplementary Embedded Value Information (the “EV Information”) set out on pages 95 to 114, which comprises the EV consolidated results of AIA Group Limited (the “Company”) and its subsidiaries as at and for the six-month period ended 31 May 2017, sensitivity analysis and a summary of significant methodology and assumptions and other explanatory notes. The directors of the Company are responsible for the preparation of the EV Information in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information. Our responsibility is to express a conclusion on this EV Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of the EV Information, including the summary of significant methodology and assumptions, consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the EV Information is not prepared, in all material respects, in accordance with the EV basis of preparation set out in Sections 4 and 5 of the EV Information.

Basis of Preparation

Without modifying our conclusion, we draw attention to Sections 4 and 5 of the EV Information, which describes the EV basis of preparation. As a result, the EV Information may not be suitable for another purpose. This report does not extend to any financial statements of the Company.

Other Matter

The EV Information includes comparative information. The comparative information as at 30 November 2016 is based on the audited EV Information as at 30 November 2016. The comparative information for the three-month period ended 29 February 2016 and for the six-month period ended 31 May 2016 has not been audited or reviewed.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', is written over a faint, larger version of the PwC logo.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 July 2017

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SUPPLEMENTARY EMBEDDED VALUE INFORMATION

Cautionary statements concerning Supplementary Embedded Value Information

This report includes non-IFRS financial measures and should not be viewed as a substitute for IFRS financial measures.

The results shown in this report are not intended to represent an opinion of market value and should not be interpreted in that manner. This report does not purport to encompass all of the many factors that may bear upon a market value.

The results shown in this report are based on a series of assumptions as to the future. It should be recognised that actual future results may differ from those shown, on account of changes in the operating and economic environments and natural variations in experience. The results shown are presented at the valuation dates stated in this report and no warranty is given by the Group that future experience after these valuation dates will be in line with the assumptions made.

The Supplementary Embedded Value Information is unaudited, but has been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers' independent review report to the Board of Directors is included on page 94.

1. Highlights

The embedded value (EV) is a measure of the value of shareholders' interests in the earnings distributable from assets allocated to the in-force business after allowance for the aggregate risks in that business. The Group uses a traditional deterministic discounted cash flow methodology for determining its EV and value of new business (VONB). This methodology makes an implicit overall level of allowance for risk including the cost of investment return guarantees and policyholder options, asset-liability mismatch risk, credit risk, the risk that actual experience in future years differs from that assumed, and the economic cost of capital, through the use of a risk discount rate. The equity attributable to shareholders of the Company on the embedded value basis (EV Equity) is the total of EV, goodwill and other intangible assets attributable to shareholders of the Company. More details of the EV results, methodology and assumptions are covered in later sections of this report.

Summary of Key Metrics⁽¹⁾ (US\$ millions)

	As at 31 May 2017 (Unaudited)	As at 30 November 2016	Growth CER	Growth AER
Equity attributable to shareholders of the Company on the embedded value basis (EV Equity)	47,832	43,650	8%	10%
Embedded value (EV)	46,273	42,114	8%	10%
Adjusted net worth (ANW)	18,650	16,544	13%	13%
Value of in-force business (VIF)	27,623	25,570	6%	8%
	Six months ended 31 May 2017 (Unaudited)	Six months ended 31 May 2016 (Unaudited)	YoY CER	YoY AER
Value of new business (VONB)	1,753	1,260	42%	39%
Annualised new premiums (ANP)	3,196	2,355	37%	36%
VONB margin	54.2%	52.7%	1.8 pps	1.5 pps

Note:

- (1) The results are after adjustment to reflect the consolidated reserving and capital requirements and the present value of future after-tax unallocated Group Office expenses.

2. EV Results

2.1 EMBEDDED VALUE BY BUSINESS UNIT

The EV as at 31 May 2017 is presented consistently with the segment information in the IFRS financial statements.

Summary of EV by Business Unit (US\$ millions)

Business Unit	As at 31 May 2017 (Unaudited)				As at 30 November 2016	
	VIF before		VIF after		EV	EV
	ANW ⁽¹⁾	CoC	CoC	CoC		
AIA Hong Kong	5,618	10,643	783	9,860	15,478	13,794
AIA Thailand	4,278	3,681	678	3,003	7,281	6,712
AIA Singapore	2,475	3,408	696	2,712	5,187	4,946
AIA Malaysia	963	1,398	201	1,197	2,160	2,116
AIA China	2,116	3,776	–	3,776	5,892	5,485
Other Markets	4,719	3,037	1,028	2,009	6,728	6,059
Group Corporate Centre	7,678	(208)	–	(208)	7,470	7,097
Subtotal	27,847	25,735	3,386	22,349	50,196	46,209
Adjustment to reflect consolidated reserving and capital requirements ⁽²⁾	(9,197)	6,216	–	6,216	(2,981)	(3,131)
After-tax value of unallocated Group Office expenses	–	(942)	–	(942)	(942)	(964)
Total	18,650	31,009	3,386	27,623	46,273	42,114

Notes:

- (1) ANW by Business Unit is after net capital flows between Business Units and Group Corporate Centre as reported in the IFRS financial statements.
- (2) Adjustment to reflect consolidated reserving and capital requirements as described in Section 2.3 of this report.

2. EV Results (continued)

2.2 RECONCILIATION OF ANW TO IFRS EQUITY

Derivation of the Consolidated ANW from IFRS Equity (US\$ millions)

	As at 31 May 2017 (Unaudited)	As at 30 November 2016
IFRS Equity attributable to shareholders of the Company	38,314	34,984
Elimination of IFRS deferred acquisition and origination costs assets	(20,370)	(18,898)
Difference between IFRS policy liabilities and local statutory policy liabilities	9,547	9,646
Difference between net IFRS policy liabilities and local statutory policy liabilities	(10,823)	(9,252)
Mark-to-market adjustment for property and mortgage loan investments, net of amounts attributable to participating funds	363	336
Elimination of intangible assets	(1,771)	(1,743)
Recognition of deferred tax impacts of the above adjustments	1,713	1,602
Recognition of non-controlling interests impacts of the above adjustments	51	50
ANW (Business Unit)	27,847	25,977
Adjustment to reflect consolidated reserving requirements, net of tax	(9,197)	(9,433)
ANW (Consolidated)	18,650	16,544

2. EV Results (continued)

2.3 BREAKDOWN OF ANW

The breakdown of the ANW for the Group between the required capital, as defined in Section 4.1 of this report, and the free surplus, which is the ANW in excess of the required capital, is set out below:

Free surplus and required capital for the Group (US\$ millions)

	As at 31 May 2017 (Unaudited)		As at 30 November 2016	
	Business Unit	Consolidated	Business Unit	Consolidated
Free surplus	19,926	10,958	19,089	9,782
Required capital	7,921	7,692	6,888	6,762
ANW	27,847	18,650	25,977	16,544

The Company's subsidiaries, AIA Co. and AIA International, are both subject to the Hong Kong reserving and capital requirements. In addition, AIA International, which is incorporated in Bermuda, is subject to the Bermuda Monetary Authority (BMA) reserving and capital requirements with effect from 1 December 2016. These regulatory requirements apply in addition to the relevant local reserving and capital requirements applicable to our Business Units.

As at 31 May 2017, the Hong Kong reserving and capital requirements are in excess of both the local reserving and capital requirements and the BMA reserving and capital requirements.

2. EV Results (continued)

2.4 EARNINGS PROFILE

The table below shows how the after-tax distributable earnings from the assets backing the statutory reserves and required capital of the in-force business of the Group are projected to emerge over future years. The projected values reflect the consolidated reserving and capital requirements.

Profile of projected after-tax distributable earnings for the Group's in-force business (US\$ millions)

Expected period of emergence	As at 31 May 2017 (Unaudited)	
	Undiscounted	Discounted
1-5 years	16,683	13,869
6-10 years	13,351	7,487
11-15 years	13,045	5,024
16-20 years	11,913	3,175
21 years and thereafter	98,777	5,760
Total	153,769	35,315

The profile of distributable earnings is shown on an undiscounted and discounted basis. The discounted value of after-tax distributable earnings of US\$35,315 million (30 November 2016: US\$32,332 million) plus the free surplus of US\$10,958 million (30 November 2016: US\$9,782 million) shown in Section 2.3 of this report is equal to the EV of US\$46,273 million (30 November 2016: US\$42,114 million) shown in Section 2.1 of this report.

2. EV Results (continued)

2.5 VALUE OF NEW BUSINESS

The VONB for the Group for the six months ended 31 May 2017 is summarised in the table below. The VONB is defined as the present value, at the point of sale, of the projected after-tax statutory profits less the cost of required capital. Results are presented consistently with the segment information in the IFRS financial statements.

The Group VONB for the six months ended 31 May 2017 was US\$1,753 million, an increase of US\$493 million, or 39 per cent on actual exchange rates, from US\$1,260 million for the same period in 2016.

Summary of VONB by Business Unit (US\$ millions)

Business Unit ⁽¹⁾	Six months ended 31 May 2017 (Unaudited)			Six months ended 31 May 2016 (Unaudited)
	VONB before CoC	CoC	VONB after CoC ⁽²⁾	VONB after CoC ⁽²⁾
AIA Hong Kong	904	76	828	537
AIA Thailand	196	23	173	175
AIA Singapore	153	18	135	152
AIA Malaysia	113	9	104	90
AIA China	468	34	434	278
Other Markets	217	33	184	136
Total before unallocated Group Office expenses (Business Unit)	2,051	193	1,858	1,368
Adjustment to reflect consolidated reserving and capital requirements	(35)	(8)	(27)	(35)
Total before unallocated Group Office expenses (Consolidated)	2,016	185	1,831	1,333
After-tax value of unallocated Group Office expenses	(78)	–	(78)	(73)
Total	1,938	185	1,753	1,260

Notes:

- (1) Korea has been included as part of the Other Markets segment, as previously disclosed in our Annual Report 2016. Prior period comparatives have been adjusted accordingly to conform to current period presentation.
- (2) VONB for the Group is calculated before deducting the amount attributable to non-controlling interests. The amounts of VONB attributable to non-controlling interests for the six months ended 31 May 2017 and for the six months ended 31 May 2016 were US\$10 million and US\$9 million respectively.

2. EV Results (continued)

2.5 VALUE OF NEW BUSINESS (continued)

The table below shows the VONB margin for the Group. The VONB margin is defined as VONB, excluding pension business, expressed as a percentage of ANP. The VONB for pension business is excluded from the margin calculation to be consistent with the definition of ANP.

The Group VONB margin for the six months ended 31 May 2017 was 54.2 per cent compared with 52.7 per cent for the same period in 2016.

Summary of VONB Margin by Business Unit (US\$ millions)

Business Unit	Six months ended 31 May 2017 (Unaudited)			Six months ended 31 May 2016 (Unaudited)
	VONB Excluding Pension	ANP	VONB Margin	VONB Margin
AIA Hong Kong	812	1,696	47.9%	52.9%
AIA Thailand	173	232	74.7%	80.9%
AIA Singapore	135	187	72.0%	71.1%
AIA Malaysia	103	167	61.8%	55.7%
AIA China	434	474	91.7%	86.8%
Other Markets	182	440	41.1%	29.2%
Total before unallocated Group Office expenses (Business Unit)	1,839	3,196	57.5%	57.3%
Adjustment to reflect consolidated reserving and capital requirements	(28)	–		
Total before unallocated Group Office expenses (Consolidated)	1,811	3,196	56.7%	55.8%
After-tax value of unallocated Group Office expenses	(78)	–		
Total	1,733	3,196	54.2%	52.7%

2. EV Results (continued)

2.5 VALUE OF NEW BUSINESS (continued)

The table below shows the breakdown of the VONB, ANP and VONB margin for the Group by quarter for business written in the six months ended 31 May 2017. For comparison purposes, the quarterly VONB, ANP and VONB margin for business written in the six months ended 31 May 2016 are also shown in the same table.

Summary of VONB, ANP and VONB Margin by quarter for the Group (US\$ millions)

Quarter	VONB after CoC	ANP	VONB Margin
Values for 2017			
3 months ended 28 February 2017 (Unaudited)	884	1,779	49.2%
3 months ended 31 May 2017 (Unaudited)	869	1,417	60.6%
Values for 2016			
3 months ended 29 February 2016 (Unaudited)	578	1,103	51.6%
3 months ended 31 May 2016 (Unaudited)	682	1,252	53.7%

2. EV Results (continued)

2.6 ANALYSIS OF EV MOVEMENT

Analysis of movement in EV (US\$ millions)

	Six months ended 31 May 2017 (Unaudited)			Six months ended 31 May 2016 (Unaudited)	YoY AER
	ANW	VIF	EV	EV	EV
Opening EV	16,544	25,570	42,114	38,198	10%
Value of new business	(261)	2,014	1,753	1,260	39%
Expected return on EV	2,005	(380)	1,625	1,393	17%
Operating experience variances	266	(69)	197	301	(35)%
Operating assumption changes	(213)	154	(59)	(8)	n/m
Finance costs on medium term notes	(60)	–	(60)	(50)	20%
EV operating profit	1,737	1,719	3,456	2,896	19%
Investment return variances	951	273	1,224	(379)	n/m
Effect of changes in economic assumptions	–	–	–	–	n/m
Other non-operating variances	272	(496)	(224)	97	n/m
Total EV profit	2,960	1,496	4,456	2,614	70%
Dividends	(983)	–	(983)	(786)	25%
Other capital movements	88	–	88	–	n/m
Effect of changes in exchange rates	41	557	598	43	n/m
Closing EV	18,650	27,623	46,273	40,069	15%

EV operating profit grew by 19 per cent on actual exchange rates to US\$3,456 million (2016: US\$2,896 million) compared with the first half of 2016. The growth reflected a combination of a higher VONB of US\$1,753 million (2016: US\$1,260 million) and a higher expected return on EV of US\$1,625 million (2016: US\$1,393 million). Overall operating experience variances and operating assumption changes were again positive at US\$138 million (2016: US\$293 million). Finance costs from the medium term notes were US\$60 million (2016: US\$50 million).

The VONB is calculated at the point of sale for business written during the period before deducting the amount attributable to non-controlling interests. The expected return on EV is the expected change in the EV over the period plus the expected return on the VONB from the point of sale to 31 May 2017 less the VONB attributable to non-controlling interests. Operating experience variances reflect the impact on the ANW and VIF from differences between the actual experience over the period and that expected based on the operating assumptions.

2. EV Results (continued)

2.6 ANALYSIS OF EV MOVEMENT (continued)

The main operating experience variances, net of tax, were US\$197 million (2016: US\$301 million), reflecting:

- Expense variances of US\$45 million (2016: US\$36 million);
- Mortality and morbidity claims variances of US\$126 million (2016: US\$110 million); and
- Persistency and other variances of US\$26 million (2016: US\$155 million).

The effect of changes to operating assumptions during the period was US\$(59) million (2016: US\$(8) million).

The EV profit of US\$4,456 million (2016: US\$2,614 million) is the total of EV operating profit, investment return variances, the effect of changes in economic assumptions and other non-operating variances.

The investment return variances arise from the impact of differences between the actual investment returns in the period and the expected investment returns. This amounted to US\$1,224 million (2016: US\$(379) million) from the net effect of short-term capital market movements on the Group's investment portfolio and statutory reserves compared with the expected returns.

Other non-operating variances amounted to US\$(224) million (2016: US\$97 million) which include a decrease in EV of US\$148 million mainly due to changes in regulatory capital requirements, comprising the strengthening of risk-based capital requirements in Singapore, and others including modelling-related enhancements.

The final dividend declared for 2016 was US\$983 million (2016: US\$786 million) which was paid in the first half of 2017.

Foreign exchange movements were US\$598 million (2016: US\$43 million).

2. EV Results (continued)

2.7 EV EQUITY

The EV Equity grew to US\$47,832 million at 31 May 2017, an increase of 10 per cent on actual exchange rates, from US\$43,650 million as at 30 November 2016.

Derivation of EV Equity from EV (US\$ millions)

	As at 31 May 2017 (Unaudited)	As at 30 November 2016	Change CER	Change AER
EV	46,273	42,114	8%	10%
Goodwill and other intangible assets ⁽¹⁾	1,559	1,536	–	1%
EV Equity	47,832	43,650	8%	10%

Note:

(1) Consistent with the IFRS financial statements, net of tax, amounts attributable to participating funds and non-controlling interests.

3. Sensitivity Analysis

The EV as at 31 May 2017 and the VONB for the six months ended 31 May 2017 have been recalculated to illustrate the sensitivity of the results to changes in certain central assumptions discussed in Section 5 of this report.

The sensitivities analysed were:

- Risk discount rates 200 basis points per annum higher than the central assumptions;
- Risk discount rates 200 basis points per annum lower than the central assumptions;
- Interest rates 50 basis points per annum higher than the central assumptions;
- Interest rates 50 basis points per annum lower than the central assumptions;
- The presentation currency (as explained below) appreciated by 5 per cent;
- The presentation currency depreciated by 5 per cent;
- Lapse and premium discontinuance rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Lapse and premium discontinuance rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Mortality/morbidity rates increased proportionally by 10 per cent (i.e. 110 per cent of the central assumptions);
- Mortality/morbidity rates decreased proportionally by 10 per cent (i.e. 90 per cent of the central assumptions);
- Maintenance expenses 10 per cent lower (i.e. 90 per cent of the central assumptions); and
- Expense inflation set to 0 per cent.

The EV as at 31 May 2017 has been further analysed for the following sensitivities:

- Equity prices increased proportionally by 10 per cent (i.e. 110 per cent of the prices at 31 May 2017); and
- Equity prices decreased proportionally by 10 per cent (i.e. 90 per cent of the prices at 31 May 2017).

For the interest rate sensitivities, the investment return assumptions and the risk discount rates were changed by 50 basis points per annum; the projected bonus rates on participating business, the statutory reserving bases at 31 May 2017 and the values of debt instruments held at 31 May 2017 were changed to be consistent with the interest rate assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

As the Group operates in multiple geographical markets in the Asia-Pacific region, the EV results for the Group are translated from multiple currencies to US dollar which is the Group's presentation currency. In order to provide sensitivity results for EV and VONB of the impact of foreign currency movements, a change of 5 per cent to the US dollar is included.

3. Sensitivity Analysis (continued)

For the equity price sensitivities, the projected bonus rates on participating business and the values of equity securities and equity funds held at 31 May 2017 were changed to be consistent with the equity price assumptions in the sensitivity analysis, while all the other assumptions were unchanged.

For each of the remaining sensitivity analyses, the statutory reserving bases as at 31 May 2017 and the projected bonus rates on participating business were changed to be consistent with the sensitivity analysis assumptions, while all the other assumptions remain unchanged.

The sensitivities chosen do not represent the boundaries of possible outcomes, but instead illustrate how certain alternative assumptions would affect the results.

Sensitivity of EV as at 31 May 2017 (US\$ millions) (Unaudited)

Scenario	EV
Central value	46,273
200 bps increase in risk discount rates	40,413
200 bps decrease in risk discount rates	55,506
10% increase in equity prices	47,009
10% decrease in equity prices	45,534
50 bps increase in interest rates	45,774
50 bps decrease in interest rates	46,440
5% appreciation in the presentation currency	44,985
5% depreciation in the presentation currency	47,561
10% increase in lapse/discontinuance rates	45,532
10% decrease in lapse/discontinuance rates	47,119
10% increase in mortality/morbidity rates	42,751
10% decrease in mortality/morbidity rates	49,773
10% decrease in maintenance expenses	46,819
Expense inflation set to 0%	46,840

Sensitivity of VONB for the six months ended 31 May 2017 (US\$ millions) (Unaudited)

Scenario	VONB
Central value	1,753
200 bps increase in risk discount rates	1,239
200 bps decrease in risk discount rates	2,757
50 bps increase in interest rates	1,850
50 bps decrease in interest rates	1,605
5% appreciation in the presentation currency	1,702
5% depreciation in the presentation currency	1,804
10% increase in lapse rates	1,664
10% decrease in lapse rates	1,847
10% increase in mortality/morbidity rates	1,593
10% decrease in mortality/morbidity rates	1,908
10% decrease in maintenance expenses	1,794
Expense inflation set to 0%	1,780

4. Methodology

The methodology used by the Group for determining the EV results for the period is consistent with that described in Section 4 of the Supplementary Embedded Value Information in the Company's Annual Report 2016 taking into account the regulatory capital requirements as set out in Section 4.1 below.

4.1 REQUIRED CAPITAL

Each of the Business Units has a regulatory requirement to hold shareholder capital in addition to the assets backing the insurance liabilities. The Group's assumed levels of required capital for each Business Unit are set out in the table below.

Required Capital by Business Unit

Business Unit	Required Capital
AIA Australia	100% of regulatory capital adequacy requirement
AIA China	100% of required capital as specified under the CAA EV assessment guidance ⁽¹⁾
AIA Hong Kong	150% of required minimum solvency margin
AIA Indonesia	120% of regulatory Risk-Based Capital requirement
AIA Korea	150% of regulatory Risk-Based Capital requirement
AIA Malaysia	170% of regulatory Risk-Based Capital requirement
Philam Life	100% of regulatory Risk-Based Capital requirement
AIA Singapore	180% of regulatory Risk-Based Capital requirement
AIA Sri Lanka	120% of regulatory Risk-Based Capital requirement
AIA Taiwan	250% of regulatory Risk-Based Capital requirement
AIA Thailand	140% of regulatory Risk-Based Capital requirement
AIA Vietnam	100% of required minimum solvency margin

Note:

- (1) On 22 November 2016, the China Association of Actuaries (CAA) issued new guidance for embedded value calculations. The new guidance was applied to the EV calculations for AIA China with effect from 30 November 2016. Consistent with prior reporting periods, VONB is calculated as at the point of sale and therefore the new guidance is reflected in the VONB for AIA China with effect from 1 December 2016. The additional Hong Kong reserving and capital requirements continue to apply and therefore there is no material impact of this change to the Group's overall results.

Capital Requirements on Consolidation

The Group has an undertaking to the Hong Kong Insurance Authority (HKIA) to maintain required capital not less than the aggregate of 150% of the Hong Kong statutory minimum solvency margin requirement in respect of AIA Hong Kong and no less than 100% of the Hong Kong statutory minimum solvency margin requirement for branches other than Hong Kong.

AIA International and its subsidiaries hold required capital at no less than 120% of the BMA regulatory capital requirements.

5. Assumptions

5.1 INTRODUCTION

This section summarises certain assumptions used by the Group to determine the EV as at 31 May 2017 and the VONB for the six months ended 31 May 2017.

Long-term economic assumptions used in the EV basis for the interim results remain unchanged from those shown in Section 5.2 of the Supplementary Embedded Value Information in the Company's Annual Report 2016. This is consistent with the approach that has been followed since the IPO in 2010. Note that VONB results were calculated based on start-of-period economic assumptions consistent with measurement at the point of sale.

The non-economic assumptions used are based on those at 30 November 2016, updated to reflect the Group's view of the latest experience observed. A detailed description of the assumptions can be found in Section 5 of the Supplementary Embedded Value Information in the Company's Annual Report 2016.

5.2 ECONOMIC ASSUMPTIONS

Investment returns

The Group has set the assumed long-term future returns for fixed income assets to reflect its view of expected returns having regard to estimates of long-term forward rates from yields available on government bonds and current bond yields. In determining returns on fixed income assets the Group allows for the risk of default, and this allowance varies by the credit rating of the underlying asset.

Where long-term views of investment return assumptions differ from current market yields on existing fixed income assets such that there would be a significant impact on value, an adjustment was made to make allowance for the current market yields. In these cases, in calculating the VIF, adjustments have been made to the investment return assumptions such that the investment returns on existing fixed income assets were set consistently with the current market yield on these assets for their full remaining term, to be consistent with the valuation of the assets backing the policy liabilities.

The Group has set the equity return and property return assumptions by reference to the return on 10-year government bonds, allowing for an internal assessment of risk premia that vary by asset class and by territory.

For each Business Unit, the non-linked portfolio is divided into a number of distinct product groups, and the returns for each of these product groups have been derived by considering current and future targeted asset allocations and associated investment returns for major asset classes.

For unit-linked business, fund growth assumptions have been determined based on actual asset mix within the funds at the valuation date and expected long-term returns for major asset classes.

5. Assumptions (continued)

5.2 ECONOMIC ASSUMPTIONS (continued)

Risk discount rates

The risk discount rates can be considered as the sum of the appropriate risk-free interest rate, to reflect the time value of money, and a risk margin to make an implicit overall level of allowance for risk.

The table below summarises the current market 10-year government bond yields referenced in EV calculations.

Business Unit	Current market 10-year government bond yields referenced in EV calculations (%)		
	As at 31 May 2017 (Unaudited)	As at 30 Nov 2016	As at 31 May 2016 (Unaudited)
AIA Australia	2.39	2.72	2.30
AIA China	3.64	2.95	2.97
AIA Hong Kong ⁽¹⁾	2.24	2.38	1.85
AIA Indonesia	6.95	8.14	7.87
AIA Korea	2.24	2.15	1.81
AIA Malaysia	3.88	4.41	3.93
Philam Life	4.97	4.52	4.47
AIA Singapore	2.08	2.30	2.24
AIA Sri Lanka	13.04	14.11	13.62
AIA Taiwan	1.04	1.12	0.83
AIA Thailand	2.72	2.69	2.34
AIA Vietnam	5.95	6.30	6.95

Note:

- (1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond yields shown above are those of US dollar-denominated bonds.

5. Assumptions (continued)

5.2 ECONOMIC ASSUMPTIONS (continued)

Risk discount rates (continued)

The table below summarises the risk discount rates and long-term investment returns assumed in EV calculations. The same risk discount rates were used for all the EV results shown in Section 1 and Section 2 of this report. The present value of unallocated Group Office expenses was calculated using the AIA Hong Kong risk discount rate. The investment returns on existing fixed income assets were set consistently with the market yields on these assets. Note that VONB results were calculated based on start-of-quarter economic assumptions consistent with the measurement at the point of sale. The investment returns shown are gross of tax and investment expenses.

Business Unit	Risk discount rates assumed in EV calculations (%)			Long-term investment returns assumed in EV calculations (%)					
				10-year government bonds			Local equities		
	As at 31 May 2017 (Unaudited)	As at 30 Nov 2016	As at 31 May 2016 (Unaudited)	As at 31 May 2017 (Unaudited)	As at 30 Nov 2016	As at 31 May 2016 (Unaudited)	As at 31 May 2017 (Unaudited)	As at 30 Nov 2016	As at 31 May 2016 (Unaudited)
	AIA Australia	7.35	7.35	7.75	3.00	3.00	3.40	7.50	7.50
AIA China	9.55	9.55	9.75	3.50	3.50	3.70	9.30	9.30	9.50
AIA Hong Kong ⁽¹⁾	7.00	7.00	7.00	2.50	2.50	2.50	7.60	7.60	7.55
AIA Indonesia	13.50	13.50	13.50	8.00	8.00	8.00	12.50	12.50	12.80
AIA Korea	8.60	8.60	9.10	2.70	2.70	3.20	7.20	7.20	7.20
AIA Malaysia	8.75	8.75	8.75	4.20	4.20	4.20	8.80	8.80	8.75
Philam Life	11.00	11.00	10.50	4.50	4.50	4.00	9.70	9.70	9.20
AIA Singapore	6.90	6.90	6.90	2.50	2.50	2.50	7.00	7.00	7.00
AIA Sri Lanka	15.70	15.70	15.70	10.00	10.00	10.00	12.00	12.00	11.70
AIA Taiwan	7.85	7.85	7.85	1.60	1.60	1.60	6.60	6.60	6.60
AIA Thailand	8.60	8.60	8.80	3.20	3.20	3.40	9.00	9.00	9.20
AIA Vietnam	12.80	12.80	13.80	7.00	7.00	8.00	12.30	12.30	13.80

Note:

- (1) The majority of AIA Hong Kong's assets and liabilities are denominated in US dollars. The 10-year government bond assumptions shown above are those of US dollar-denominated bonds.

5. Assumptions (continued)

5.3 EXPENSE INFLATION

The assumed expense inflation rates are based on expectations of long-term consumer price and salary inflation.

Expense inflation assumptions by Business Unit (%)

Business Unit	As at 31 May 2017 (Unaudited)	As at 30 November 2016
AIA Australia	3.0	3.0
AIA China	2.0	2.0
AIA Hong Kong	2.0	2.0
AIA Indonesia	6.0	6.0
AIA Korea	3.5	3.5
AIA Malaysia	3.0	3.0
Philam Life	3.5	3.5
AIA Singapore	2.0	2.0
AIA Sri Lanka	6.5	6.5
AIA Taiwan	1.2	1.2
AIA Thailand	2.0	2.0
AIA Vietnam	5.0	5.0

Unallocated Group Office expenses are assumed to inflate by the weighted average of the Business Unit expense inflation rates.

5. Assumptions (continued)

5.4 TAXATION

The projections of distributable earnings underlying the values presented in this report are net of corporate income tax, based on current taxation legislation and corporate income tax rates. The projected amount of tax payable in any year allows, where relevant, for the benefits arising from any tax loss carried forward.

The local corporate income tax rates used by each Business Unit are set out below:

Local corporate income tax rates by Business Unit (%)

Business Unit	As at 31 May 2017 (Unaudited)	As at 30 November 2016
AIA Australia	30.0	30.0
AIA China	25.0	25.0
AIA Hong Kong	16.5	16.5
AIA Indonesia	25.0	25.0
AIA Korea	24.2	24.2
AIA Malaysia	24.0	24.0
Philam Life	30.0	30.0
AIA Singapore	17.0	17.0
AIA Sri Lanka	28.0	28.0
AIA Taiwan	17.0	17.0
AIA Thailand	20.0	20.0
AIA Vietnam	20.0	20.0

The tax assumptions used in the valuation reflect the local corporate income tax rates set out above. Where applicable, tax payable on investment income has been reflected in projected investment returns.

The EV of the Group as at 31 May 2017 is calculated after deducting any remittance taxes payable on the anticipated distribution of both the ANW and VIF.

6. Events after the Reporting Period

On 28 July 2017, a Committee appointed by the Board of Directors declared an interim dividend of 25.62 Hong Kong cents per share (six months ended 31 May 2016: 21.90 Hong Kong cents per share).

INFORMATION FOR SHAREHOLDERS

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the Group's unaudited interim condensed consolidated financial statements for the six months ended 31 May 2017.

INTERIM DIVIDEND

The Board has declared an interim dividend of 25.62 Hong Kong cents per share (2016: 21.90 Hong Kong cents per share).

The interim dividend will be payable on Thursday, 31 August 2017 to shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 15 August 2017.

Relevant Dates for the 2017 Interim Dividend Payment

Ex-dividend date	14 August 2017
Record date	15 August 2017
Payment date	31 August 2017

RECORD DATE

In order to qualify for the entitlement of the interim dividend, all properly completed transfer forms, accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 15 August 2017.

SHARE REGISTRAR

If you have any enquiries relating to your shareholding, please contact the Company's share registrar with the contact details set out below:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Telephone: + 852 2862 8555
Email: hkinfo@computershare.com.hk (for general enquiries)
aia.ecom@computershare.com.hk (for printed copies of the Company's corporate communications)
Website: www.computershare.com

INTERIM REPORT

This Interim Report is printed in English and Chinese and is available on the website of the Company. If you would like to have a printed version of this Interim Report, please contact the Company's share registrar using the contact details provided in this corporate communication.

The Company makes every effort to ensure consistency between the Chinese and English versions of this corporate communication. In the event of any inconsistency, however, the English version shall prevail.

For environmental and cost reasons, shareholders are encouraged to elect to receive shareholder documents electronically. You may at any time send written notice to the Company c/o the Company's share registrar or via email at aia.ecom@computershare.com.hk specifying your name, address and request to change your choice of language or means of receipt of all shareholder documents.

INVESTMENT COMMUNITY AND NEWS MEDIA

Enquiries may be directed to:

Investment Community		News Media	
Paul Lloyd	+852 2832 6160	Stephen Thomas	+852 2832 6178
Yan Guo	+852 2832 1878	Allister Fowler	+852 2832 1978
Feon Lee	+852 2832 4704	Emerald Ng	+852 2832 4720

BOARD OF DIRECTORS

The Board comprises:

Independent Non-executive Chairman and Independent Non-executive Director:

Mr. Edmund Sze-Wing Tse

Executive Director, Group Chief Executive and President:

Mr. Ng Keng Hooi

Non-executive Director:

Mr. Mark Edward Tucker

Independent Non-executive Directors:

Mr. Jack Chak-Kwong So, Mr. Chung-Kong Chow, Mr. John Barrie Harrison, Mr. George Yong-Boon Yeo, Mr. Mohamed Azman Yahya, Professor Lawrence Juen-Yee Lau, Ms. Swee-Lian Teo and Dr. Narongchai Akrasanee

FORWARD-LOOKING STATEMENTS

This document may contain certain forward-looking statements relating to the Group that are based on the beliefs of the Group's management as well as assumptions made by and information currently available to the Group's management. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to the Group's business prospects, future developments, trends and conditions in the industry and geographical markets in which the Group operates, its strategies, plans, objectives and goals, its ability to control costs, statements relating to prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

When used in this document, the words "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "project", "seek", "should", "will", "would" and similar expressions, as they relate to the Group or the Group's management, are intended to identify forward-looking statements. These forward-looking statements reflect the Group's views as of the date hereof with respect to future events and are not a guarantee of future performance or developments. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. Actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including any changes in the laws, rules and regulations relating to any aspects of the Group's business operations, general economic, market and business conditions, including capital market developments, changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, the actions and developments of the Group's competitors and the effects of competition in the insurance industry on the demand for, and price of, the Group's products and services, various business opportunities that the Group may or may not pursue, changes in population growth and other demographic trends, including mortality, morbidity and longevity rates, persistency levels, the Group's ability to identify, measure, monitor and control risks in the Group's business, including its ability to manage and adapt its overall risk profile and risk management practices, its ability to properly price its products and services and establish reserves for future policy benefits and claims, seasonal fluctuations and factors beyond the Group's control. Subject to the requirements of the Listing Rules, the Group does not intend to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, forward-looking events and circumstances discussed in this document might not occur in the way the Group expects, or at all. Accordingly, you should not place reliance on any forward-looking information or statements. All forward-looking statements in this document are qualified by reference to the cautionary statements set forth in this section.

GLOSSARY

active agent	An agent who sells at least one policy per month.
active market	<p>A market in which all the following conditions exist:</p> <ul style="list-style-type: none">• the items traded within the market are homogeneous;• willing buyers and sellers can normally be found at any time; and• prices are available to the public. <p>A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.</p>
adjusted net worth or ANW	ANW is the market value of assets in excess of the assets backing the policy reserves and other liabilities of the life (and similar) business of AIA, plus the IFRS equity value of other activities, such as general insurance business, less the value of intangible assets. It excludes any amounts not attributable to shareholders of AIA Group Limited. ANW for AIA is stated after adjustment to reflect consolidated reserving requirements. ANW by market is stated before adjustment to reflect consolidated reserving requirements, and presented on a local statutory basis.
AER	Actual exchange rates.
AIA or the Group	AIA Group Limited and its subsidiaries.
AIA Co.	AIA Company Limited, a company incorporated in Hong Kong and a subsidiary of the Company.
AIA International	AIA International Limited, a company incorporated in Bermuda and an indirect subsidiary of the Company.
AIA Vitality	A science-backed wellness programme that provides participants with the knowledge, tools and motivation to help them achieve their personal health goals. The programme is a partnership between AIA and Discovery Limited, a specialist insurer headquartered in South Africa.
ALC	The AIA Leadership Centre located in Bangkok, Thailand.
amortised cost	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.
annualised new premiums or ANP	ANP represents 100 per cent of annualised first year premiums and 10 per cent of single premiums, before reinsurance ceded. It is an internally used measure of new business sales or activity for all entities within AIA. ANP excludes new business of pension business, personal lines and motor insurance.
ASPP	Agency Share Purchase Plan, adopted by the Company on 23 February 2012, a share purchase plan with matching offer to facilitate and encourage AIA share ownership by agents.

available for sale (AFS) financial assets	Financial assets that may be sold before maturity and that are used to back insurance and investment contract liabilities and shareholders' equity, and which are not managed on a fair value basis. Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value recorded in other comprehensive income.
bancassurance	The distribution of insurance products through banks or other financial institutions.
Board	The board of Directors.
CER	Constant exchange rates. Change on constant exchange rates is calculated using constant average exchange rates for the current period and for the prior period other than for balance sheet items that use constant exchange rates as at the end of the current period and as at the end of the prior year.
CIRC	China Insurance Regulatory Commission.
Company	AIA Group Limited, a company incorporated in Hong Kong.
consolidated investment funds	Investment funds in which the Group has interests and power to direct their relevant activities that affect the return of the funds.
Corporate Governance Code	Corporate Governance Code set out in Appendix 14 to the Listing Rules.
cost of capital or CoC	CoC is calculated as the face value of the required capital as at the valuation date less the present value of the net-of-tax investment return on the shareholder assets backing the required capital and the present value of projected releases from the assets backing the required capital. Where the required capital may be covered by policyholder assets such as surplus assets in participating funds, there is no associated cost of capital included in the VIF or VONB. CoC for AIA is stated after adjustment to reflect consolidated capital requirements. CoC by market is stated before adjustment to reflect consolidated capital requirements, and presented on a local statutory basis.
Dealing Policy	Directors' and Chief Executives' Dealing Policy of the Company.
deferred acquisition costs or DAC	DAC are expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed to the consolidated income statement on a systematic basis over the life of the policy. DAC assets are tested for recoverability at least annually.

deferred origination costs or DOC	Origination costs are expenses which are incurred in connection with the origination of new investment contracts or the renewal of existing investment contracts. For contracts that involve the provision of investment management services, these include commissions and other incremental expenses directly related to the issue of each new contract. Origination costs on contracts with investment management services are deferred and recognised as an asset in the consolidated statement of financial position and expensed to the consolidated income statement on a systematic basis in line with the revenue generated by the investment management services provided. Such assets are tested for recoverability.
Director(s)	The director(s) of the Company.
embedded value or EV	An actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business. EV for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. EV by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
EPS	Earnings per share.
equity attributable to shareholders of the Company on the embedded value basis or EV Equity	EV Equity is the total of embedded value, goodwill and other intangible assets attributable to shareholders of the Company.
ESPP	Employee Share Purchase Plan, adopted by the Company on 25 July 2011 (as amended), a share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees.
ExCo	The Executive Committee of the Group.
fair value through profit or loss or FVTPL	Financial assets that are held to back unit-linked contracts and participating funds or financial assets and liabilities that are held for trading. A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the period.
first half	The six months from 1 December to 31 May.
first quarter	The three months from 1 December to the last day of February.
first year premiums	First year premiums are the premiums received in the first year of a recurring premium policy. As such, they provide an indication of the volume of new policies sold.
free surplus	ANW in excess of the required capital. Free surplus for AIA is stated after adjustment to reflect consolidated reserving and capital requirements.

group insurance	An insurance scheme whereby individual participants are covered by a master contract held by a single group or entity on their behalf.
Group Office	Group Office includes the activities of the Group Corporate Centre segment consisting of the Group's corporate functions, shared services and eliminations of intragroup transactions.
HKFRS	Hong Kong Financial Reporting Standards.
HKIA	Insurance Authority established under the Insurance Companies (Amendment) Ordinance 2015 or prior to 26 June 2017, the Office of the Commissioner of Insurance.
Hong Kong	The Hong Kong Special Administrative Region of the PRC; in the context of our reportable segments, Hong Kong includes Macau.
Hong Kong Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended from time to time.
Hong Kong Insurance Ordinance or HKIO	Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), as amended from time to time. It provides a legislative framework for the prudential supervision of the insurance industry in Hong Kong.
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited.
IAIS	International Association of Insurance Supervisors.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
IFA	Independent financial adviser.
IFRS	Standards and interpretations adopted by the IASB comprising: <ul style="list-style-type: none"> • International Financial Reporting Standards; • IAS; and • Interpretations developed by the IFRS Interpretations Committee (IFRS IC) or the former Standing Interpretations Committee (SIC).
interactive Mobile Office or iMO	iMO is a mobile office platform with a comprehensive suite of applications that allow agents and agency leaders to manage their daily activities from lead generation, sales productivity and recruitment activity through to development training and customer analytics.
interactive Point of Sale or iPoS	iPoS is a secure, mobile point-of-sale technology that features a paperless sales process from the completion of the customer's financial-needs analysis to proposal generation with electronic biometric signature of life insurance applications on tablet devices. It is part of iMO.

investment experience	Realised and unrealised investment gains and losses recognised in the consolidated income statement.
investment income	Investment income comprises interest income, dividend income and rental income.
investment return	Investment return consists of investment income plus investment experience.
IPO	Initial Public Offering.
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
Million Dollar Round Table or MDRT	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.
net funds to Group Corporate Centre	In presenting net capital in/(out) flows to reportable segments, capital outflows consist of dividends and profit distributions to the Group Corporate Centre segment and capital inflows consist of capital injections into reportable segments by the Group Corporate Centre segment. For the Group, net capital in/(out) flows reflect the net amount received from shareholders by way of capital contributions less amounts distributed by way of dividends.
n/a	Not available.
n/m	Not meaningful.
operating profit after tax or OPAT	Operating profit is determined using, among others, expected long-term investment return for equities and real estate. Short-term fluctuations between expected long-term investment return and actual investment return for these asset classes are excluded from operating profit. The investment return assumptions used to determine expected long-term investment return are based on the same assumptions used by the Group in determining its embedded value and are disclosed in the Supplementary Embedded Value Information.
operating return on EV or operating ROEV	Operating return on EV is calculated as EV operating profit, expressed as a percentage of the opening embedded value.
operating return on shareholders' allocated equity or operating ROE	Operating return on shareholders' allocated equity is calculated as operating profit after tax attributable to shareholders of the Company, expressed as a percentage of the simple average of opening and closing shareholders' allocated equity.
OTC	Over-the-counter.
participating funds	Participating funds are distinct portfolios where the policyholders have a contractual right to receive at the discretion of the insurer additional benefits based on factors such as the performance of a pool of assets held within the fund, as a supplement to any guaranteed benefits. The Group may either have discretion as to the timing of the allocation of those benefits to participating policyholders or may have discretion as to the timing and the amount of the additional benefits.

persistence	The percentage of insurance policies remaining in force from month to month in the past 12 months, as measured by premiums.
Philam Life	The Philippine American Life and General Insurance (PHILAM LIFE) Company, a subsidiary of AIA Co.; in the context of the Supplementary Embedded Value Information, Philam Life includes BPI-Philam Life Assurance Corporation.
policyholder and shareholder investments	Investments other than those held to back unit-linked contracts as well as assets from consolidated investment funds.
pps	Percentage points.
PRC	The People's Republic of China.
regulatory minimum capital	Net assets held to meet the minimum solvency margin requirement set by the HKIO that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.
renewal premiums	Premiums receivable in subsequent years of a recurring premium policy.
rider	A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premiums.
Risk-Based Capital or RBC	RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.
RMF	Risk Management Framework.
RSPUs	Restricted stock purchase units.
RSSUs	Restricted stock subscription units.
RSU Scheme	Restricted Share Unit Scheme, adopted by the Company on 28 September 2010 (as amended), under which the Company may award restricted share units to employees, Directors (excluding independent non-executive Directors) or officers of the Company or any of its subsidiaries.
second half	The six months from 1 June to 30 November.
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time.
share(s)	For the Company, shall mean ordinary share(s) in the capital of the Company.
shareholders' allocated equity	Shareholders' allocated equity is total equity attributable to shareholders of the Company less fair value reserve.
Singapore	The Republic of Singapore; in the context of our reportable segments, Singapore includes Brunei.
single premium	A single payment that covers the entire cost of an insurance policy.

SO Scheme	Share Option Scheme, adopted by the Company on 28 September 2010 (as amended), under which the Company may award share options to employees, Directors (excluding independent non-executive Directors) or officers of the Company or any of its subsidiaries.
solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
solvency ratio	The ratio of the total available capital to the regulatory minimum capital applicable to the insurer pursuant to relevant regulations.
takaful	Islamic insurance which is based on the principles of mutual assistance and risk sharing.
Tata AIA	Tata AIA Life Insurance Company Limited.
total weighted premium income or TWPI	TWPI consists of 100 per cent of renewal premiums, 100 per cent of first year premiums and 10 per cent of single premiums, before reinsurance ceded. As such it provides an indication of AIA's longer-term business volumes as it smoothes the peaks and troughs in single premiums.
unit-linked investments	Financial investments held to back unit-linked contracts.
unit-linked products	Unit-linked products are insurance products where the policy value is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of death of the insured or surrender or maturity of the policy, subject to surrender charges.
value of in-force business or VIF	VIF is the present value of projected after-tax statutory profits emerging in the future from the current in-force business less the cost arising from holding the required capital (CoC) to support the in-force business. VIF for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VIF by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
value of new business or VONB	VONB is the present value, measured at the point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding the required capital in excess of regulatory reserves to support this business. VONB for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.

VONB margin	VONB excluding pension business, expressed as a percentage of ANP. VONB margin for AIA is stated after adjustments to reflect consolidated reserving and capital requirements and the after-tax value of unallocated Group Office expenses. VONB margin by market is stated before adjustments to reflect consolidated reserving and capital requirements and unallocated Group Office expenses, and presented on a local statutory basis.
working capital	Working capital comprises debt and equity securities, deposits and cash and cash equivalents held at the Group Corporate Centre. These liquid assets are available to invest in building the Group's business operations.



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