AIA Group Limited

Expanding Asian Leadership

Analyst and Investor Briefing – Transcript

11 October 2012

Mark Tucker, Group Chief Executive and President:

Okay, yes let's begin. Good morning and welcome back to AIA Central. My apologies for getting you in such a short notice. But I think, certainly for me, that has been most worst kept secret in the history of the planet. So, I think it couldn't have been a total surprise, given the activity of the media. What I want to do this morning is take you through the details of our announcement, AIA's acquisition of ING Malaysia. The transaction offers an outstanding opportunity to acquire a high quality life insurance business in an attractive South East Asian growth market. The combination of ING and AIA will create the number one life insurance business in Malaysia. And under AIA's profitable growth strategy will generate substantial and sustainable financial benefits for our shareholders.

To an extent, and mirroring our own history and experience, ING's strategic exit from its Asian insurance businesses has presented us with a rare opportunity to acquire a strong and growing business, and to take it to new levels.

I will start with a summary of the transaction. We have agreed to acquire ING's Malaysian life insurance operations for a price of 1.73 billion US dollars. ING Malaysia is currently the third largest life insurer in the country, and the second largest in bancassurance. With an exclusive distribution agreement with Public Bank, the second largest bank in Malaysia.

ING Malaysia is also the clear number one in Employee Benefits, which will significantly enhance our Group Insurance presence. It has been achieving good levels of profitability, with value of new business of nearly $50 million in 2011. We will finance the purchase of the combination of internal cash resources and debt financing, both well within our capacity given we have strong cash flows, no existing debt and a strong capital base. The completion of the transaction, which we hope will happen by the first quarter of 2013, requires the approval of Bank Negara Malaysia, the Minister of Finance, the Securities Commission of Malaysia and the Dutch Central Bank.

ING Malaysia represents a rare and high quality acquisition opportunity for us. And one that is an excellent fit with our strategic strengths and priorities, and our relentless focus on shareholder value. You will have heard me say in the past that AIA will only enter into M&A

transactions if they make sense both strategically and financially, and to rigorous standards for creating sustainable shareholder value.

We have chosen to acquire ING Malaysia precisely because it satisfies these standards. Malaysia is an attractive growth market with strong underlying demographic fundamentals for insurance. AIA has had an established and successful presence in Malaysia since 1948 and our combined tied agency force will become the largest in the country. However it is not a matter of agency scale that excites us. As I will discuss a little bit more later, it is also the complementary nature of the agency forces and our improved geographic coverage.

The bancassurance partnership with Public Bank adds to our other partnerships in the region with leading banks such as BCA and BPI. We have an exclusive long term contract with Public Bank, and as the number two bancassurance player in the market, we will look to grow further from here.

Looking at the specific components of the AIA and ING businesses and how they fit together provides some impressive data. On a combined basis, the New AIA Malaysia produces over \$100 million of VONB, \$235 million of Net Profit and \$2 billion of Embedded Value. We will also have a tied agency force of around 16,000 and our combined bancassurance channel will account for 14 percent of ANP sales up from just 1 percent today. The current number three ranking for ING and number four for AIA combines to produce the number one player in the market with close to 25 percent market share. And all of this comes before the benefit of synergies from combining the businesses and we believe there is significant room for growth beyond these levels.

Looking briefly at the impact of the transaction for AIA Group, Malaysia will be the fourth largest market in our portfolio and further enhances the overall quality of earnings of the Group. The \$100 million of pro forma VONB that I just mentioned will account for 10 percent of the Group, up from 6 percent. Our net profit contribution from Malaysia will increase from 8 to 13 percent. And these increased contributions reflect a greater balance and additional diversification benefits, as well as increased exposure to one of South East Asia's most attractive and fastest growing insurance markets.

A key attraction of this acquisition is the significant enhancement it brings to our distribution reach in Malaysia. As I mentioned earlier, ING Malaysia's agency presence is highly complementary to our own. ING Malaysia's 9,200 agents will more than double our agency force, to become the largest in Malaysia. And we look forward to welcoming them to AIA. But it is not simply a matter of agent numbers that makes this combination so powerful. Our two agency forces are naturally present in scale across all of Malaysia, with similarly sized presence in Kuala Lumpur, Melaka and Johor. Across the rest of the country, the agency forces are highly complementary with strengths in different geographic locations. Overall, this brings us scale without duplication, and much enhanced regional coverage.

We are also delighted to have the opportunity to work with Public Bank as an exclusive bancassurance partner. Public Bank is the second largest bank in Malaysia by assets, with over 250 branches and 5 million customers. Throughout its long cooperation with ING, Public Bank has shown it is a reliable, focused and value-oriented partner. The Bank's reach and size of customer base represents a great opportunity.

Given the strong track record of both companies, we believe there is significant upside value to be achieved. The enhanced distribution platform will be fed by the broader range of profitable AIA products, which gives us a major opportunity to deliver increased VONB growth. As a result of our strategy since IPO of promoting the sale of long-term savings and financial protection business, the proportion of unit-linked products has increased from 22 percent to 36 percent at the end of 2011. With unit-linked products representing just 13 percent of ANP at ING Malaysia, there is significant upside potential here.

At AIA Malaysia, we have seen a direct improvement in VONB margin by 15 percentage points, and VONB has doubled since 2009 to $58 million. ING's VONB margin today is similar to the level AIA was achieving in 2009. And this has not been achieved simply through re-pricing or launching new products. Our Premier Agency execution has also been key, changing sales behavior through training, incentives, and sales tools, to ensure that we align agents' interests with customers' needs for financial protection and long-term savings. There is a substantial opportunity for growth and margin uplift at ING Malaysia, which is in addition to the profitable organic growth it has already been achieving.

Financially, this is a compelling acquisition for AIA's shareholders. We expect this transaction to be immediately accretive to AIA's operating profit after tax. The valuation multiples are attractive, at 1.8 times price to historical and I think it is important to emphasis, historical 2011 EV and 14.3 times historical 2011 P/E. And these include run rate cost synergies. And again, I think you understand, that we are limited by the Hong Kong Stock Exchange rules to make forward forecasts, and therefore we have to rely on historical end for full year. I think rolling that forward, I think you will begin to understand some of the value of this acquisition. We anticipate financing the purchase price through a combination of internal cash resources and debt issuance. The exact mix will be confirmed at the time of completion.

In terms of dividends to the Group, we expect the newly acquired business to be cash accretive and so support our current dividend policy. AIA's solvency position will remain strong post the transaction, whether it is financed by debt or cash, or a combination of the two.

The overall value creation potential for us is significant. We are buying a high quality franchise in unique circumstances, in a very attractive market in which we already have expertise, and on financially attractive terms, with significant operational upside achievable from the combination of our businesses and the application of AIA's profitable growth strategy.

A focused and efficient transition and integration process will allow us to capture the significant upside in this transaction. There is a strong fit with our own business in Malaysia, with the additional benefit of being a single-country consolidation in a market with which we are intimately familiar. A joint Transition Committee has already been setup between AIA and ING, and starting almost immediately, this group will meet regularly to ensure a seamless hand-over.

Ng Keng Hooi, our Malaysian regional Chief Executive and Khor Hock Seng, our Malaysian CEO, cannot be here today because they are in Malaysia working with the local teams managing the announcement of the deal within the two organizations. I think you will remember we also have two other former CEOs of life insurance businesses in Malaysia within our Group, our Chief Distribution Officer Bill Lisle and CEO of Taiwan, Tan Kar Hor, have both been Chief Executives of Life Businesses in Malaysia. Keng Hooi and Hock Seng are supported by a strong team on the ground, such as our current Deputy General Manager in Malaysia, Anusha Thav-a-rajah, who was previously CFO of ING Malaysia. Post-closing we will be ready to address immediately the needs across all priority areas such as agency training, bancassurance, product launches, operating platform and branding. As we said this morning, we estimate overall pre-integration costs of approximately $55 million spread over the next three years.

Okay, in closing, let me reinforce the reasons behind this important and very positive step in AIA's growth strategy. We view the acquisition of ING Malaysia as a rare and compelling opportunity in an attractive growth market. This transaction represents a step-change in the scale and reach of our Malaysian business. The acquisition will unite two market-leading franchises to create the leading player in Malaysia. It adds over 1.6 million customers, 9,200 agents and an exclusive bancassurance partnership to our operations. It is financially compelling today, but also offers significant upside from the application of AIA's profitable growth strategy to the combined business. We are delighted to have secured this highly attractive opportunity for our shareholders.

And finally, I would like to take this opportunity to warmly welcome the customers, the agents and the staff of ING Malaysia to AIA. We are very excited about working together with you.

Let me now open this up to questions.