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**THE REAL LIFE  
COMPANY**

**AIA Group Limited**

**友邦保險控股有限公司**

*(Incorporated in Hong Kong with limited liability)*

**Stock Code: 1299**

## **DISCLOSEABLE TRANSACTION**

# **PROPOSED ACQUISITION OF COMMONWEALTH BANK OF AUSTRALIA'S LIFE INSURANCE BUSINESSES IN AUSTRALIA AND NEW ZEALAND AND ENTRY INTO 20-YEAR STRATEGIC PARTNERSHIPS WITH EXCLUSIVITY IN THE BANCASSURANCE CHANNEL IN BOTH MARKETS**

# **AIA FURTHER EXTENDS PROTECTION LEADERSHIP POSITION IN THE AUSTRALIAN AND NEW ZEALAND LIFE INSURANCE MARKETS**

## **ACQUISITION AND 20-YEAR STRATEGIC PARTNERSHIPS WITH EXCLUSIVITY IN THE BANCASSURANCE CHANNEL EXPECTED TO DELIVER SIGNIFICANT VALUE AND SCALE BENEFITS**

**HONG KONG, 21 September 2017** – AIA Group Limited (the “Company”, together with its subsidiaries, “AIA”) is pleased to announce that, on 21 September 2017, its wholly-owned subsidiary AIA International Limited has reached agreement, subject to securing all necessary regulatory and governmental approvals, to acquire Commonwealth Bank of Australia’s life insurance business in Australia and life and health insurance businesses in New Zealand and enter into 20-year strategic bancassurance partnerships in both markets<sup>(1)</sup>.

Specifically, AIA has agreed (i) to purchase the entire share capital of The Colonial Mutual Life Assurance Society Limited (“CMLA”) and certain affiliated companies<sup>(2)</sup>, (ii) to purchase the life and health insurance businesses of Sovereign Assurance Company Limited (“Sovereign”)<sup>(3)</sup> ((i) and (ii) together, the “Proposed Acquisition”), and (iii) to enter into 20-year distribution agreements with Commonwealth Bank of Australia (“CBA”) in Australia and ASB Bank Limited (“ASB”) in New Zealand (the “Proposed Bancassurance Partnerships”) ((i) to (iii) together, the “Proposed Transaction”). CMLA, Sovereign and ASB are each wholly-owned subsidiaries of CBA.

The gross consideration to be paid with respect to the Proposed Transaction is AUD3,800 million (equivalent to US\$3,036 million) payable in cash on completion of the Proposed Transaction and subject to certain adjustments at completion. This compares to the aggregate gross Embedded Value of CMLA and Sovereign of AUD3,531 million (equivalent to US\$2,821 million)<sup>(4)</sup> as at 30 June 2017 and represents 11.7 times the adjusted aggregated 2017 net profit after tax of CMLA and Sovereign<sup>(5)</sup> pre synergies.

Immediately following the completion of the Proposed Transaction, AIA (through its wholly-owned subsidiaries) will enter into agreements, under pre-agreed binding terms, with highly-rated counterparties to reinsure the majority of CMLA and Sovereign’s in-force businesses (the “Reinsurance Agreements”). This will reduce the effective net cash outlay of the Proposed Transaction by AIA. After taking into account the proceeds from the Reinsurance Agreements, the net cash outlay by AIA is expected to be AUD2,088 million (equivalent to US\$1,668 million).

As at 30 June 2017, there is approximately AUD206 million (equivalent to US\$165 million) of free surplus<sup>(6)</sup> within CMLA and Sovereign. For clarity, taking into account this free surplus, the final net cash outlay would be AUD1,882 million (equivalent to US\$1,503 million).

The Proposed Transaction is expected to be accretive to AIA’s earnings<sup>(7)</sup> in the first year following completion and is expected to generate significant ongoing annualised pre-tax cost synergies of at least US\$60 million<sup>(8)</sup> per annum to be achieved within three years of completion. Pre-tax integration costs of approximately US\$120 million in total are also expected to be incurred over the first three years.

The Proposed Bancassurance Partnerships will be for a 20-year period in each market and provide access to CBA and ASB’s bank customers, totalling 13 million<sup>(9)</sup>, for the distribution of AIA’s life insurance products in Australia and New Zealand respectively. The partnerships will involve all retail distribution channels, aligned financial advisers and the Colonial First State investment platform and includes exclusive distribution through CBA’s general advice channels (including branches and digital channels) and exclusive distribution through all of ASB’s channels.

**Ng Keng Hooi, AIA’s Group Chief Executive and President, commenting on the Proposed Transaction, said:**

“This transaction provides a highly-attractive opportunity to transform AIA’s businesses in Australia and New Zealand by extending our protection market leadership positions and expanding our distribution capabilities through strategic long-term partnerships with leading retail banks in these markets.

“The transaction will generate substantial financial benefits for our shareholders through enabling us to deliver further profitable new business growth by leveraging AIA’s capabilities and leading product solutions, while realising significant operational synergies.

“Our new long-term partnerships will significantly expand AIA’s access to potential new customers and enable us to engage with them in a new way through CBA and ASB’s extensive retail bank networks. We look forward to welcoming our new customers and colleagues and to working together with CBA and ASB on our shared objective of meeting the growing financial protection needs of the banks’ 13 million customers in Australia and New Zealand.”

## **Summary of the Proposed Transaction**

The Proposed Acquisition and the Proposed Bancassurance Partnerships represent very attractive opportunities that will deliver a range of strategic and financial benefits to AIA:

- The Proposed Transaction is an excellent fit with AIA’s corporate strengths and strategic priorities of achieving profitable market leadership positions and delivering high-quality growth through developing partnerships with leading financial institutions across AIA’s markets in the Asia-Pacific region.
- The Proposed Bancassurance Partnerships will materially expand AIA’s distribution capabilities and customer reach in Australia and New Zealand. CBA is the largest retail bank in Australia<sup>(9)</sup>, and CBA’s wholly-owned subsidiary, ASB, is the second-largest retail bank in New Zealand<sup>(10)</sup>. Together, they have a combined total of 13 million existing bank customers<sup>(9)</sup> and more than 1,200 branches. The existing customer base represents a significant growth opportunity for AIA over the 20-year strategic partnerships.
- The Proposed Transaction represents a compelling financial investment for AIA and is expected to be accretive to earnings<sup>(7)</sup> in the first year following completion. The acquired life insurance businesses are highly complementary to AIA’s existing Australian and New Zealand businesses, which allow for significant cost synergies with the full benefits retained by AIA. Ongoing cost synergies of at least US\$60 million<sup>(8)</sup> per annum (pre-tax) are expected within three years of completion of the Proposed Transaction.
- AIA believes that the application of AIA’s differentiated product proposition, including AIA Vitality, and industry-leading rehabilitation and claims management experience will result in an enhanced customer experience and increased new business profitability over time.
- As a result of the Proposed Transaction, AIA will become the clear number one ranked provider in Australia’s large and profitable individual life protection market. Australia has the largest life protection market in the Asia-Pacific region ex-Japan<sup>(11)</sup>. It also has relatively low life insurance penetration and a mortality protection gap estimated at US\$1.1 trillion<sup>(12)</sup>.
- The Proposed Transaction will extend AIA Australia’s leading positions in the retail IFA and Group channels and expand our distribution into bancassurance through access to CBA’s market-leading retail distribution networks. The combination of AIA’s and CMLA’s leading positions across retail IFA, Group and bancassurance channels is highly complementary. Prior to the Proposed Transaction, AIA and CMLA are respectively ranked number two and five in the Australian life protection market<sup>(13)</sup>.
- AIA will also become the clear number one ranked provider in the New Zealand life insurance market, both in the retail IFA channel and in bancassurance, building on the strengths of both businesses. Prior to the Proposed Transaction, Sovereign was the number one ranked provider by life new business while AIA was ranked number eight<sup>(14)</sup>.
- AIA has secured binding terms from a number of highly-rated counterparties to reinsure the majority of the acquired in-force businesses of CMLA and Sovereign. The Reinsurance Agreements will enable AIA to focus on growing new business through the Proposed Bancassurance Partnerships and IFA distribution channels. The cash outlay by AIA will be funded through a combination of AIA’s internal cash resources and external debt financing that will retain AIA’s existing strong financial position post the Proposed Transaction.

AIA International Limited will acquire CMLA (and its affiliated companies) and Sovereign from Commonwealth Insurance Holdings Limited (“Commonwealth Insurance”)<sup>(15)</sup>, being a subsidiary of CBA, whose obligations under the respective agreements for the Proposed Acquisition are guaranteed by CBA.

The consideration for the Proposed Transaction was arrived at after arm’s length negotiations on normal commercial terms, and after taking into account the balance sheet and profitability of CMLA and Sovereign and the expected benefits and profitability from the Proposed Bancassurance Partnerships.

The directors of the Company (“Directors”, including the independent non-executive Directors) consider that the terms of the Proposed Transaction are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Overviews of CMLA and Sovereign are set out in Appendix I and Appendix II respectively. Summary operating and financial information for CMLA (and its affiliated companies) and Sovereign on an aggregated basis is set out in Appendix III.

### **Conditions and Timing**

The parties are working towards completion of the Proposed Acquisition during 2018, subject to satisfaction of the necessary conditions mentioned below.

The Proposed Acquisition remains subject to a number of conditions, including securing all necessary approvals from regulatory and governmental authorities in Australia, including the Foreign Investment Review Board, the Australian Competition and Consumer Commission, and Australian Prudential Regulation Authority and in New Zealand, including the Overseas Investment Office, New Zealand Commerce Commission and Reserve Bank of New Zealand, along with other conditions customary to a transaction of this size and complexity, including the transfer of CMLA’s equity interest in BoComm Life Insurance Company Limited (“BoComm Life”) out of CMLA.

The acquisition of Sovereign is further conditional upon the acquisition of CMLA (and its affiliated companies), and the bancassurance distribution agreements with each of CBA and ASB for the Proposed Bancassurance Partnerships in Australia and New Zealand are conditional upon the acquisition of CMLA (and its affiliated companies) and Sovereign respectively.

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Evercore is acting as financial adviser to AIA with respect to the Proposed Transaction. Debevoise & Plimpton, Ashurst and Bell Gully are acting as legal advisers to AIA on the Proposed Transaction.

**Notes:**

- (1) The Proposed Bancassurance Partnerships provide exclusive distribution through CBA's general advice channels (including branches and digital channels) and exclusive distribution through all ASB's channels. They also provide preferred partner access to other distribution channels of CBA.
- (2) The affiliated companies include Colonial Mutual Superannuation Pty Limited and Jacques Martin Pty Limited.
- (3) The insurance business of Sovereign is to be acquired through the purchase of the entire share capital of its intermediate holding company, ASB Group (Life) Limited, which holds Sovereign. Reference to Sovereign throughout this announcement therefore includes ASB Group (Life) Limited.
- (4) The embedded value shown is stated on CMLA (including its affiliated companies) and Sovereign embedded value bases, excluding tax imputation credits not available to AIA.
- (5) Calculated using adjusted aggregated net profit after tax for CMLA (including its affiliated companies) and Sovereign for the year ended 30 June 2017 of AUD325 million (equivalent to US\$260 million). This figure has been adjusted to exclude an exceptional loss recognition of AUD100 million after tax (equivalent to US\$80 million) as a result of adverse claims experience.
- (6) Free surplus represents assets held by CMLA and Sovereign as at 30 June 2017 in excess of minimum regulatory capital requirements and target surplus set by CMLA and Sovereign including other adjustments.
- (7) Earnings are defined as IFRS operating profit after tax on AIA's financial reporting basis. Earnings accretion is estimated by excluding one-off integration and transaction costs. Please note that this statement regarding accretive earnings is not intended to be a profit forecast and should not be interpreted to mean that earnings per share for the current or future financial periods will necessarily be greater than those for the relevant preceding financial periods.
- (8) Cost synergies are shown before tax and before one-off integration and transaction costs.
- (9) Source: CBA.
- (10) Source: ASB. By main bank customer base.
- (11) Source: NMG Consulting as at 30 June 2016.
- (12) Source: Swiss Re, Asia-Pacific 2015, Mortality Protection Gap. Figure stated as at 2014.
- (13) Source: NMG Consulting; market position as at 31 March 2017 based on trailing 12-month in-force premium.
- (14) Source: Financial Services Council of New Zealand; market data as at June 2017.
- (15) Commonwealth Insurance is a subsidiary of CBA and a holding company of the life insurance business of CBA in Australia and life and health insurance businesses of CBA in New Zealand.
- (16) Figures in AUD and NZD have been converted into US\$ at the rate of 0.799 US\$ to 1 AUD and 0.722 US\$ to 1 NZD in this announcement and are stated for indicative purposes only. Such statements should not be construed as a representation that any amount has been, could have been or may be exchanged at this or any other rate.

**Listing Rules Implications**

Since one or more of the applicable percentage ratios under Rule 14.07 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") in respect of the Proposed Acquisition exceed 5 per cent but all of the applicable percentage ratios are below 25 per cent the Proposed Acquisition constitutes a disclosable transaction of the Company and is subject to the reporting and announcement requirements but is exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

**Shareholders and Potential Investors to Exercise Caution**

Shareholders and potential investors of the Company should be aware that the completion of the Proposed Transaction is subject to satisfaction (or if applicable, waiver) of certain conditions as set out in the share sale agreements relating to the Proposed Transaction. Therefore, the Proposed Transaction may or may not proceed. Accordingly, shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

This announcement contains forward-looking statements relating to the Company and/or the targets of the Proposed Transaction that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. When used in this announcement, the words "will", "plan", "should" and similar expressions are intended to identify forward-looking statements.

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.

## **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”).

By Order of the Board  
**Ng Keng Hooi**  
*Executive Director,*  
*Group Chief Executive and President*

Hong Kong, 21 September 2017

As at the date of this announcement, the Board of Directors of the Company 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

*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, Dr. Narongchai Akrasanee and Mr. Cesar Velasquez Purisima

## **APPENDIX I**

### **OVERVIEW OF CMLA**

Established in 1873, CMLA is one of the largest insurance providers in Australia, with a life protection market share of 11 per cent<sup>(1)</sup> in Australia in 2016. CMLA trades under the brand name CommInsure.

CMLA (together with its affiliated companies) offers life insurance products (including term life, critical illness and income protection), savings and retirement products.

CMLA's life insurance products are sold through a number of distribution channels, including CBA branches, digital channels, financial advisers, superannuation funds and to the customers of Colonial First State investment platform (CBA's market-leading investment platform).

CMLA enjoys a leading bancassurance position through its strategic relationship with CBA. This bancassurance partnership enables CMLA to offer insurance products into CBA's home loan, personal loan and credit card portfolios and provides exclusive access to CBA's 1,131 branches across Australia<sup>(2)</sup>.

AIA and CMLA will, upon completion of the Proposed Acquisition, enter into a 20-year bancassurance agreement with CBA for the distribution of their life insurance products in Australia. CBA is the leading Australian bank by number of branches<sup>(2)</sup>. In addition to a large branch presence, CBA has leading digital capabilities having been ranked the number one bank in terms of digital satisfaction for online banking for seven years in a row<sup>(3)</sup>.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Commonwealth Insurance (the entity within the CBA Group which directly owns CMLA and is therefore the selling entity) and CBA and their respective ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company.

CMLA's 37.5 per cent stake in BoComm Life is not included within the Proposed Transaction and will be separated prior to completion.

#### **Notes:**

- (1) Source: Strategic Insight, an independent supplier of information and research on Australian managed funds, retirement and life insurance markets; as at 31 December 2016, by life risk in-force gross premium income.
- (2) Source: APRA Australian points of presence as at 30 June 2016. CBA figures include Bankwest branches.
- (3) Source: Canstar, a leading Australian financial comparison and research site.

## **APPENDIX II**

### **OVERVIEW OF SOVEREIGN**

Sovereign was established in 1989. It is the largest life insurer in New Zealand, with a life protection market share of 27 per cent<sup>(1)</sup>. It offers a suite of products including life and health insurance products.

Sovereign distributes its products through a network of independent financial advisers and through a bancassurance arrangement with ASB.

In 2016, Sovereign was ranked number one in bancassurance in New Zealand, with a bancassurance market share of 33 per cent<sup>(1)</sup>.

AIA and Sovereign will, upon completion of the Proposed Acquisition, enter into a 20-year strategic bancassurance agreement with ASB for the distribution of their life and health insurance products. ASB is a wholly-owned New Zealand subsidiary of CBA. It is one of the oldest and largest financial institutions in New Zealand with 1.4 million customers and a national network of 123 branches<sup>(2)</sup>. In 2016, ASB was awarded “Bank of the Year” by The Banker Magazine for the fourth year in a row and for the 12th time in 15 years<sup>(2)</sup>.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, Commonwealth Insurance (the entity within the CBA Group which directly owns Sovereign and is therefore the selling entity) and CBA and their respective ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company.

#### **Notes:**

(1) Source: Financial Services Council of New Zealand; market data as at June 2017, by life risk in-force premium income.

(2) Source: ASB.



## APPENDIX III

### SUMMARY OPERATING AND FINANCIAL INFORMATION FOR CMLA (AND ITS AFFILIATED COMPANIES) AND SOVEREIGN ON AN AGGREGATED BASIS <sup>(1)</sup>

The table below sets out summary operating and financial information, on an aggregated basis, for CMLA (and its affiliated companies) and Sovereign, the subjects of the Proposed Transaction, as at, or for the full financial year ended 30 June 2017 unless otherwise stated. The figures below are historical and therefore exclude any benefits from the potential synergies arising from the Proposed Transaction.

**Table 1: Summary Operating and Financial Information Aggregated for CMLA (and its affiliated companies) and Sovereign (Gross of Reinsurance)**

	US\$ millions
Gross Earned Premium ("GEP")	1,896
Annualised New Premium ("ANP") <sup>(2)</sup>	142
VONB <sup>(3)</sup>	31
Net Profit After Tax <sup>(4)</sup>	180 <sup>(5),(6)</sup>
Shareholders' Equity <sup>(4)</sup>	1,811
Embedded Value <sup>(7)</sup>	2,821

**Table 2: Summary Embedded Value Aggregated for CMLA (and its affiliated companies) and Sovereign (Net of Reinsurance)<sup>(8)</sup>**

	US\$ millions
Embedded Value	1,268

**Notes:**

- (1) All financials stated in this Appendix III are on CMLA's and Sovereign's accounting and embedded value bases unless otherwise stated and have been prepared by aggregating the respective figures of CMLA and Sovereign for the relevant periods. BoComm Life will be separated from CMLA prior to completion of the Proposed Transaction and has therefore been excluded from the financial information stated.
- (2) Protection business accounted for 97 per cent of ANP.
- (3) Stated on CMLA and Sovereign embedded value bases, excluding estimated tax imputation credits not available to AIA.
- (4) Numbers shown include unaudited figures for CMLA's affiliated companies.
- (5) The aggregated net profit after tax for the year ended 30 June 2017 was AUD225 million (equivalent to US\$180 million). This included an exceptional loss recognition of AUD100 million after tax (equivalent to US\$80 million) as a result of adverse claims experience. Claims assumptions were adjusted to reflect increases to future expected claims costs. The net profit prior to this was AUD325 million (equivalent to US\$260 million).
- (6) The aggregated profit before tax for the year ended 30 June 2017 was US\$266 million (including unaudited figures for CMLA's affiliated companies). For the year ended 30 June 2016, the aggregated net profit after tax was US\$241 million and the aggregated profit before tax was US\$401 million.
- (7) Stated on CMLA and Sovereign embedded value bases, excluding tax imputation credits not available to AIA. The embedded value is shown before deducting the free surplus of US\$165 million within CMLA and Sovereign as at 30 June 2017.
- (8) The number shown in this table represents the unaudited aggregated embedded value for CMLA and Sovereign (adjusted to be consistent with AIA's embedded value basis based on information currently available to management, excluding tax imputation credits not available to AIA) had the Reinsurance Agreements been in place as at 30 June 2017. The embedded value is shown before deducting the free surplus of US\$165 million within CMLA and Sovereign as at 30 June 2017.