



AXA Asia Pacific Holdings Limited

Financial Report

For the year ended 31 December 2002



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Statement of Financial Performance

for the year ended 31 December 2002

| \$ million | Note | Consolidated | | Company | |
|--|------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 |
| Premium, fee and other revenue | 2 | 3,234 | 4,057 | 580 | 2 |
| Investment revenue | 2 | (242) | 1,196 | 233 | 1,007 |
| Revenues from ordinary activities | | 2,992 | 5,253 | 813 | 1,009 |
| Claims expense | 2 | (1,960) | (2,269) | – | – |
| Changes in net policy liabilities and policyowner retained profits | 16 | 419 | (819) | – | – |
| Commission | | (351) | (458) | – | – |
| Other operating expenses | 2 | (764) | (1,209) | (245) | (2) |
| Expenses from ordinary activities | | (2,656) | (4,755) | (245) | (2) |
| Share of net profits/(losses) of associates and joint ventures accounted for using the equity method | 28 | 24 | (13) | – | – |
| Borrowing costs | 2 | (107) | (164) | (102) | (22) |
| Profit from ordinary activities before income tax | | 253 | 321 | 466 | 985 |
| Income tax (expense)/benefit | 3 | 91 | 109 | (8) | (18) |
| Net profit from ordinary activities after income tax | | 344 | 430 | 458 | 967 |
| Outside equity interests | | (14) | (35) | – | – |
| Net profit after tax attributable to shareholders of AXA | | 330 | 395 | 458 | 967 |
| Decrease in foreign currency translation reserve | | (59) | – | – | – |
| Total revenues, expenses and valuation adjustments attributable to members of AXA and recognised directly in equity | | (59) | – | – | – |
| Total changes in equity other than those resulting from transactions with owners as owners | | 271 | 395 | 458 | 967 |
| | | Cents per share | Cents per share | | |
| Basic earnings per ordinary share | 35 | 18.8 | 22.4 | | |
| Diluted earnings per ordinary share | 35 | 18.7 | 22.4 | | |
| Proposed and paid dividends per share | 4 | 9.75 | 12.25 | | |

The accompanying notes form part of this Financial Report.

Statement of Financial Position

as at 31 December 2002

| \$ million | Note | Consolidated | | Company | |
|---|------|----------------------|----------------------|----------------------|----------------------|
| | | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Assets | | | | | |
| Cash at bank and deposits on call | 27 | 1,418 | 1,597 | 6 | 6 |
| Receivables | 5 | 573 | 661 | 69 | 4 |
| Equity securities | 6 | 8,483 | 9,033 | 549 | 36 |
| Debt securities | 6 | 12,307 | 12,345 | 2,981 | 2,709 |
| Property investments | 6 | 2,463 | 2,517 | – | – |
| Other investments | 6 | 272 | 460 | – | – |
| Operating assets | 7 | 104 | 105 | 6 | – |
| Deferred tax assets | 3 | 343 | 27 | 13 | 8 |
| Intangibles | 8 | 13 | 13 | – | – |
| Investments in controlled entities | 6 | – | – | 1,264 | 1,366 |
| Excess of market value over net assets of controlled entities | 9 | 1,705 | 1,490 | – | – |
| Other assets | 10 | 53 | 78 | – | 104 |
| Total assets | | 27,734 | 28,326 | 4,888 | 4,233 |
| Liabilities | | | | | |
| Payables | 11 | 1,113 | 1,470 | 100 | 151 |
| Current tax liabilities | | 75 | – | 23 | – |
| Borrowings | 12 | 1,442 | 1,080 | 1,776 | 1,308 |
| Provisions | 13 | 289 | 300 | 122 | 134 |
| Deferred tax liabilities | | 201 | 197 | – | 7 |
| Other liabilities | 14 | 185 | 274 | 3 | – |
| Subordinated debt | 15 | 1,102 | 1,184 | – | – |
| Life insurance policy liabilities | 16 | 19,927 | 20,432 | – | – |
| Total liabilities | | 24,334 | 24,937 | 2,024 | 1,600 |
| Net assets | | 3,400 | 3,389 | 2,864 | 2,633 |
| Equity attributable to shareholders of the parent entity | | | | | |
| Contributed equity | 17 | 1,130 | 1,186 | 1,130 | 1,186 |
| Asset revaluation reserve | 18 | 15 | 15 | – | – |
| Foreign currency translation reserve | 18 | (59) | – | – | – |
| Shareholders' retained profits | 18 | 1,974 | 1,815 | 1,734 | 1,447 |
| Total equity attributable to shareholders of the parent entity | | 3,060 | 3,016 | 2,864 | 2,633 |
| Outside equity interests in controlled entities | 19 | 340 | 373 | – | – |
| Total equity | | 3,400 | 3,389 | 2,864 | 2,633 |

The accompanying notes form part of this Financial Report.

Statement of Cash Flows

for the year ended 31 December 2002

| \$ million | Note | Consolidated | | Company | |
|--|-----------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 |
| Cash flows from Operating Activities | | | | | |
| Premiums received | | 5,419 | 6,986 | – | – |
| Interest received | | 703 | 1,137 | 23 | 22 |
| Dividends/trust distributions received | | 299 | 451 | 63 | 172 |
| Fees, rents and other cash received | | 330 | 657 | 7 | – |
| Policy payments | | (4,173) | (5,623) | – | – |
| Interest and other finance costs paid | | (107) | (190) | (28) | (22) |
| Income tax paid | | (150) | (272) | (1) | (5) |
| Fees and commissions paid | | (355) | (514) | – | – |
| Payment to suppliers and employees | | (781) | (1,120) | (9) | (5) |
| Net Cash Provided by Operating Activities | 27 | 1,185 | 1,512 | 55 | 162 |
| Cash flows from Investing Activities | | | | | |
| Proceeds from sale of operating assets | | 5 | 38 | – | – |
| Payment for the purchase of operating assets | | (18) | (43) | – | – |
| Proceeds from sale of controlled entities | | 67 | 173 | 57 | – |
| Payments for investment in controlled entities | | (208) | (220) | – | – |
| Payments for issue of shares by a controlled entity | | – | – | (206) | – |
| Proceeds from share buy-back of a controlled entity | | – | – | 80 | – |
| Payments for investment in associated entities | | (5) | (46) | – | (19) |
| Net proceeds from sale of/(investment in) equity securities | | (2,011) | (2,724) | – | – |
| Net proceeds from sale of/(investment in) debt securities | | 657 | 457 | – | – |
| Net proceeds from sale of/(investment in) property investments | | 85 | 280 | – | – |
| Net proceeds from sale of/(investment in) other investments | | (44) | (107) | – | – |
| Other investing items | | – | 256 | – | – |
| Net Cash Provided by/(used in) Investing Activities | | (1,472) | (1,936) | (69) | (19) |
| Cash flows from Financing Activities | | | | | |
| Dividends paid | | (216) | (172) | (216) | (172) |
| Payment for shares bought back | | (56) | – | (56) | – |
| Proceeds from borrowings | | 427 | 2,312 | 286 | – |
| Repayment of borrowings | | – | (2,034) | – | – |
| Net Cash Provided by/(used in) Financing Activities | | 155 | 106 | 14 | (172) |
| Net Decrease in Cash Held | | | | | |
| Cash at beginning of the financial period | | 1,597 | 1,859 | 6 | 35 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies at the beginning of the financial period | | (47) | 56 | – | – |
| Cash at the End of the Financial Period | 27 | 1,418 | 1,597 | 6 | 6 |

The accompanying notes form part of this Financial Report.

Notes

to the Financial Report for the year ended 31 December 2002

1 | Summary of Significant Accounting Policies

Financial reporting framework

The AXA Group comprises AXA Asia Pacific Holdings Limited (AXA APH or the Company) and its controlled entities. This general purpose financial report has been prepared in accordance with applicable Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Consensus Views and the Corporations Act 2001.

This financial report has been prepared in accordance with the market value convention for life insurance and health insurance business and on the historical cost convention for all other businesses, unless otherwise noted.

The preparation of this financial report, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates although it is not anticipated that such differences would be material.

Where necessary, comparative information has been reclassified to be consistent in disclosure with current period amounts and other disclosures.

Unless otherwise indicated, all amounts are shown in \$million and are expressed in Australian currency.

Accounting policies are selected and applied in a manner which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions and other events is reported. The significant accounting policies set out below, which are consistent with those of the previous financial period except as detailed below, have been adopted in the preparation and presentation of this financial report.

Change in balance date in 2001

On 28 May 2001 the Company was granted an Order by the Australian Securities and Investments Commission approving a change in year end to 31 December (formerly 30 September). As a result, this financial report has been prepared for the twelve months ended 31 December 2002, while comparative information is for the fifteen months to 31 December 2001.

Changes in accounting policies and disclosures

AASB 1042 "Discontinuing Operations"

The consolidated entity has applied accounting standard AASB 1042: Discontinuing Operations (issued August 2000) for the first time from 1 January 2002. The new standard requires detailed disclosure where a major component of an entity is being disposed of in its entirety. As such, details of the sale of AXA Health Insurance Pty Limited have been disclosed in Note 34 and details of the sale of Members Equity have been included in Note 29.

Revised AASB 1005 "Segment Reporting"

The consolidated entity has applied revised accounting standard AASB 1005: Segment Reporting (issued August 2000) for the first time from 1 January 2002.

The standard requires more extensive disclosure of an entity's primary format of segment reporting with less detail required by secondary format. The AXA Group's primary format of segment reporting is on a geographic basis and secondary on a business line basis.

Sale of AXA Australia Health Insurance Pty Limited (AXA Health)

On 5 June 2002, the Company announced that it had reached agreement with Macquarie Bank Limited (MBL) to sell AXA Health Insurance Pty Limited for a sale price, underwritten by MBL, of \$595 million, including a pre-completion dividend. In addition, the Company and MBL have agreed to a profit sharing arrangement where, under certain circumstances, AXA APH can participate in profits upon a subsequent sell down of equity and/or sale of the business for a period of up to 18 months.

The transaction was completed on 30 August 2002 with AXA Health Insurance Pty Limited being sold to Macquarie Health Acquisitions Pty Limited (MHA), a controlled entity of MBL. The consideration comprised \$57 million cash received on 30 August 2002 and 513,000,000 \$1 vendor shares in MHA as well as a pre-completion dividend. From 28 February 2003 AXA APH has the right to either convert the vendor shares into ordinary shares of MHA or put the MHA vendor shares back to MBL for \$513,000,000.

At the Company level, a profit on the sale of AXA Health has been recognised.

At the AXA Asia Pacific Holdings Limited consolidated level, the Group interest in MHA (and its investment in AXA Health) has been treated as an associate investment and the results have been equity accounted in accordance with AASB 1016 "Accounting for Investments in Associates" from 30 August 2002. As a result, the profit on sale recorded at the company level has been eliminated on consolidation. At the consolidated level, the profit on sale is expected to be recognised in 2003.

Classification of assets and liabilities

The AXA Group operates predominantly in the financial services industry. As such, the assets and liabilities disclosed in the consolidated Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity.

Accounting for life insurance business

The consolidated entity complies with Accounting Standard, AASB 1038: Life Insurance Business ("AASB 1038"). Under AASB 1038 the financial statements must include all assets, liabilities, revenues, expenses and equity, irrespective of whether they are designated as relating to shareholders or policyowners. Therefore the consolidated entity's financial statements include total (combined) statutory and shareholders' funds of any life insurance subsidiaries.

In addition, AASB 1038 requires the following Accounting Standards to be modified in respect of the group's life insurance business:

AASB 1008 Accounting for Leases

Consistent with the market value basis of accounting, investments in leases are classified as investments and valued at net market values.

AASB 1010 Accounting for the Revaluation of Non-Current Assets and AASB 1041 Revaluation of Non-Current Assets

Consistent with the market value basis of accounting, unrealised gains are recorded in the Statement of Financial Performance rather than credited to an asset revaluation reserve.

Notes

to the Financial Report for the year ended 31 December 2002

1 | Summary of Significant Accounting Policies (continued)

AASB 1012 Foreign Currency Translation

Consistent with the market value basis of accounting, the effect of movements in the exchange rates on the carrying amount of investments is included in their net market values, changes in which are recognised as part of investment revenue in the Statement of Financial Performance as they occur.

AASB 1013 Accounting for Goodwill

Consistent with the market value basis of accounting, goodwill does not arise.

AASB 1016 Accounting for Investments in Associates

Consistent with the market value basis of accounting, investments in associates have been recognised at net market value.

AASB 1020 Accounting for Income Tax (Tax-effect Accounting)

A reconciliation of prima facie tax payable on operating profit before income tax to income tax expense has not been prepared for life insurance businesses. The income tax payable by a Life Insurance Company is not based upon traditional profit concepts and is not comparable to other industries. Accordingly any reconciliation of the income tax expense to the prima facie tax payable on the operating profit would not be meaningful. Note 3 provides an overview of the bases and calculation of the income tax expense for life insurance business.

AASB 1021 Depreciation of Non-Current Assets

Consistent with a market value basis of accounting, property investments are not depreciated.

Principles of consolidation

The consolidated financial report has been prepared so as to reflect the financial position of the AXA Group as a single economic entity. The consolidated financial report comprises the financial statements of AXA as the parent entity and the financial statements of all entities which AXA has the capacity to control. The financial statements of controlled life insurance entities, comprising policyowner funds and shareholder funds, are also included in the consolidated financial report and are consolidated on a line by line basis. The retained earnings and other reserves attributable to policyowners have been disclosed as part of life insurance policy liabilities in the consolidated Statement of Financial Position and profits attributable to policyholders have been disclosed as an operating expense (within "Changes in net policy liabilities and policyowner retained profits") in the consolidated Statement of Financial Performance. This recognises the separate entitlements of policyholders and shareholders in the life funds of controlled life insurance entities under life insurance legislation. Assets held in life funds are subject to the distribution and transfer restrictions and other requirements of the various life insurance regulators.

Life insurance entities carry investments in controlled entities at market value. On consolidation of the life insurance controlled entities in the AXA Group consolidated financial report, the investment in controlled entities is reclassified to reflect those entities' underlying assets and liabilities. Any excess in the valuation of these controlled entities over the recognised net assets is disclosed in the consolidated financial report as an investment entitled "Excess of market value over net assets of controlled entities". The recoverable amount of this asset is assessed regularly. Refer to "Excess of market value over net assets of controlled entities" below.

Where an entity either began or ceased to be controlled during the financial year, the results are included only from the date control commenced or up to the date control ceased.

Where accounting policies adopted by controlled entities differ from those of AXA, the financial reports of those controlled entities have been restated to ensure consistency with the policies adopted by AXA, unless the differences are required to comply with other accounting standards or regulations, or the differences are not considered material.

The balances and financial impact of transactions between controlled entities included in the consolidated financial report have been eliminated.

Outside equity interests in the equity and results of the entities that are controlled by the AXA Group are shown as a separate line item in the consolidated Statement of Financial Position and consolidated Statement of Financial Performance.

Premium revenue and claims expense

Life insurance premium revenue comprises the revenue component of premium receipts from customers. Premium receipts of a deposit nature are recognised as a change in policy liabilities. Premiums for investment account and investment linked business are recognised on a cash basis. Other premiums are recognised as income when due from policyholders, except that unpaid premiums are recognised only during the days of grace or where secured by the surrender value of the policy. Conversions inward are included within premium revenue.

Life insurance claims expense comprises the expense component of claims payments to customers. Claims payments of a deposit withdrawal nature are recognised as a change in policy liabilities. Claims under investment linked business are recognised when policies cease to participate in the earnings of the relevant statutory fund. Claims on non-investment linked business are recognised when the liability to the policyowner under the policy contract has been established. Claims in respect of policies remaining in force at balance date are included in policy liabilities. Conversions outward are included within claims expense.

Policy conversions inward or outward occur when a policy is transferred from one product to another at the request of the client or as a result of specific product conversion campaigns.

Non-life insurance premiums primarily consist of contributions to health insurance. Non-life insurance premiums are recognised on an accrual basis. Non life insurance claims primarily represent health and medical claims. Non life insurance claims are recognised when the liability to the policyholder under the contract has been established.

Investment revenue

Interest, dividends, distributions and rent are taken to income on a due and receivable basis.

Net realised and unrealised gains and losses in respect of the assets of the life insurance businesses and health insurance business are recognised in the Statement of Financial Performance in the period in which they occur. Net realised gains and losses in respect of the assets of other business are recognised in the Statement of Financial Performance in the period in which they occur.

Notes

to the Financial Report for the year ended 31 December 2002

1 | Summary of Significant Accounting Policies (continued)

Income tax

For non-life insurance entities, tax effect accounting principles are adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustments for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the deferred tax asset and liability, as applicable.

For life insurance business, income tax expense is the amount that is expected to be assessed on the life insurer's operations for the year adjusted for permanent differences, calculated on the various taxation bases for the different classes of business conducted in each country. An adjustment is made for under or over provision of previous years' taxation provisions.

The deferred tax liability includes a provision in relation to tax potentially payable should investment assets be realised at the reported amount in the financial statements. The deferred tax liability and asset have been discounted to present values using reasonable assumptions as to current levels of interest rates, average periods for which each asset category of investments is held, the tax rate applicable to the respective classes of business and the tax regime in each country of operation.

Deferred tax assets are not brought to account unless realisation is assured beyond reasonable doubt. Deferred tax assets relating to controlled entities with tax losses are only brought to account when their realisation is virtually certain.

Policyholder tax expense has been included as a separate line item in movement in policy liabilities.

Financial instruments

The AXA Group is a financial institution which uses an extensive range of on and off balance sheet financial instruments. Each class of financial instrument listed below is transacted on a commercial basis to derive an interest yield or cost with terms and conditions having due regard to the nature of the transaction and the risks involved.

Cash at bank and deposits on call

Cash at bank and deposits on call include currency notes, investments in cash management trusts and other short term money market deposits. They are brought to account at the face value of the outstanding balance. Interest is recognised in the Statement of Financial Performance when earned.

Receivables

Receivables include insurance premiums billed but not yet collected and accrued investment income. These assets are recorded at the cash value to be realised when settled, less any provisions for doubtful debts.

Investments

Investments in controlled entities of the Company are recorded at the lower of cost or recoverable amount.

Investments in associated entities held by life insurance entities are recorded at net market value with reference to the life insurance entity's proportionate interest in the market value of each associated entity. Investments in associated entities, other than those owned by life insurance entities, are accounted for using the equity method in accordance with AASB 1016: Accounting for Investments in Associates.

Investments held by non-life and health insurance entities are shown at cost. Any changes in the valuation of investments held by non-life and health insurance entities are recognised in the asset revaluation reserve of the Company in accordance with AASB 1041: Accounting for the Revaluation of Non-Current Assets.

Life insurance and health insurance investment assets are measured at net market value as at the reporting date and changes in their net market values are recognised in the Statement of Financial Performance in the financial period in which the changes occur.

The net market values of investment assets reflect an allowance for estimated selling costs, where applicable. The investments of life insurance and health insurance entities and their subsidiaries have been valued as follows:

Equity securities

Ordinary and preference shares, equity options and futures contracts (included in equities) and investments in unit trusts are recorded at their latest available market value as quoted on stock exchanges or, where the investment is unlisted, at Directors' valuations with reference to the estimated fair value of the net assets of the respective entity, the most recent published unit prices or on the advice of suitably qualified valuers.

Debt securities

Interest bearing securities and convertible notes listed on stock exchanges are shown at quoted prices at balance date. Unlisted fixed interest securities, interest rate swaps, forward rate agreements and variable interest securities are recorded at valuations based on pricing formulas using rates of interest equivalent to the yields obtainable on comparable investments. These securities may or may not be backed by some form of security.

Loans to controlled entities, loans to related parties and loans to other parties and the loan advanced by the Company to the Australian Executive Plan (refer Note 33) are recorded at Directors' valuations with reference to principal amounts outstanding less, where applicable, a provision for doubtful debts or any provision for permanent diminution in value of the loan to the Australian Executive Plan. Loans provided are of varying duration and usually interest bearing. These securities may or may not be backed by some form of security.

Leveraged leases are recorded at their market value by adopting the multiple income sinking fund approach to determine the constant investment yield on after tax cash flows earned over the life of the investment. This yield is used to calculate income based on the outstanding balance of the leverage-leased investment.

Property

Freehold and leasehold properties, including owner occupied properties, are carried at market value. Properties have been valued on an annual basis by external valuers in accordance with a regular policy of revaluation.

Other investments

Other investments are recorded at net market value at balance date.

Forward foreign exchange contracts are marked to market based on spot exchange rates adjusted, where applicable, for forward margins.

Notes

to the Financial Report for the year ended 31 December 2002

1 | Summary of Significant Accounting Policies (continued)

Operating assets

Operating assets comprise plant and equipment and capitalised software development costs.

Operating assets are carried at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

- computer equipment 3 years
- furniture and fittings 10 years
- motor vehicles 5 - 6 years
- office equipment 4 years

Software development costs of major projects are capitalised where it is expected that future economic benefit will be derived and are amortised over a period not exceeding three years. Software maintenance costs continue to be expensed as incurred.

Intangibles

Intangible assets consist of goodwill and identifiable intangibles.

Goodwill

Goodwill arises on the consolidation of controlled entities and represents the excess of the purchase price over the fair value of identifiable net assets of the controlled entities. Purchased goodwill is amortised on a straight-line basis over a maximum of 20 years.

Identifiable intangibles

Where an identifiable intangible asset is purchased the asset is initially recognised at cost and is amortised on a straight line basis over the period in which benefits are expected. Identifiable intangibles include incentive payments made to advisers to secure their client base and the purchase of adviser's portfolios. Subsequent to initial recognition, the asset is carried at the lower of amortised cost and recoverable amount. Any revaluation decrements are recognised immediately as an expense.

Excess of market value over net assets of controlled entities

Controlled entities owned by life insurance entities are valued at net market value. For material controlled entities, net market value is determined by a Directors' valuation with reference to the net tangible assets, the anticipated discounted cashflows or a multiple of earnings of the controlled entity. On consolidation of the controlled entities, any excess in the valuation of these controlled entities over the recognised net assets is disclosed in the consolidated financial report as a separate asset entitled "Excess of market value over net assets of controlled entities".

This excess represents:

- Acquired goodwill to the extent it remains at reporting date
- Increments in the value of the acquired goodwill since acquisition date or establishment
- Measurement differences, being the different value being assigned to the assets and liabilities of the subsidiary.

This asset does not require amortisation. Changes in the amount of this asset are included in the consolidated Statement of Financial Performance.

The excess recorded on the transfer of National Mutual International Pty Limited (including its investment in AXA Life Insurance Singapore Pte Ltd), AXA China Region Limited, Detura Limited and NMMT Limited from The National Mutual Life Association of Australasia Limited ("NMLA") to the Company or other non-life insurance subsidiaries on 27 December 2001 constituted a permanent consolidation adjustment, subject to ongoing recoverable value testing.

Payables

Payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. Payables are recorded at the cash values to be incurred when settled.

Borrowings and subordinated debt

The carrying value of borrowings and subordinated debt represents the amount of outstanding principal. Interest is recognised in the Statement of Financial Performance on an accrual basis.

Employee entitlements

Provisions are made for benefits accruing to employees in respect of annual leave and long service leave when it is probable that settlement will be required and benefits are capable of being measured reliably. Provisions made in respect of annual leave and other employee entitlements expected to be settled within 12 months are measured at their nominal value, which is not materially different from the net present value. Provisions made in respect of other employee entitlements which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the economic entity in respect of services provided by employees up to the reporting date.

Contributions to superannuation schemes, which are determined on an actuarial basis or as a otherwise agreed to by the Board of Directors, are charged to the Statement of Financial Performance. The assets or liabilities of the schemes have not been consolidated as the Company does not have direct or indirect control of the schemes.

Life insurance policy liabilities

Life insurance policy liabilities in the Statement of Financial Position and the changes in net policy liabilities in the Statement of Financial Performance have been calculated using the margin on services methodology in accordance with Actuarial Standard 1.03 "Valuation of Policy Liabilities" as issued by the Life Insurance Actuarial Standards Board. Policy liabilities are measured at net present values of estimated future cash flows with the exception of certain product groups, where the liability is calculated as the accumulated benefits available to the policyowner.

Benefits vested in the policyowner (policyholder's bonus) are treated as an expense and any amount payable at the reporting date is included as a component of policy liabilities.

Notes

to the Financial Report for the year ended 31 December 2002

1 | Summary of Significant Accounting Policies (continued)

Policyowner retained profits are amounts that have been allocated to participating policyowners generally but that have not vested in specific policyowner entitlements as at the reporting date. These amounts are included in "Life insurance policy liabilities" in the Statement of Financial Position.

Foreign currency translation

All foreign currency transactions during the year have been brought to account using the exchange rate in effect at the date of the transactions. Foreign currency monetary items at balance date are translated at the exchange rate existing at that date.

In respect of controlled entities of a life insurer, the effects of movements in the exchange rates on the carrying amount of the investment is included in their net market values, changes in which are recognised as part of investment revenue in the Statement of Financial Performance as they occur. Exchange differences for controlled entities of non-life insurance entities are transferred directly to the foreign currency translation reserve.

Contributed Capital

Ordinary share capital is recognised at the fair value of consideration received by the Company.

Earnings per share

Basic earnings per share is determined by dividing operating profit from ordinary activities after tax attributable to shareholders by the weighted average number of shares outstanding during the financial period.

Diluted earnings per share is determined by dividing operating profit from ordinary activities after tax attributable to shareholders adjusted for the weighted average number of ordinary shares and dilutive potential ordinary shares outstanding during the financial period.

Fiduciary activities

Certain of AXA's controlled entities act as trustees or managers for a number of wholesale, superannuation and investment funds, trusts and approved deposit funds. Further details are set out in note 32.

The assets and liabilities of these trusts and funds are not included in the consolidated financial report as AXA does not have direct or indirect control of the trusts and funds. Commissions and fees earned in respect of the activities are included in the consolidated Statement of Financial Performance.

Notes

to the Financial Report for the year ended 31 December 2002

2 | Operating Profit

| \$ million | Consolidated | | Company | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 |
| (a) Included in the operating profit are the following items of revenue and expense: | | | | |
| Revenue | | | | |
| Premium revenue | | | | |
| Life insurance premium revenue received and receivable | 4,800 | 6,065 | – | – |
| Less deposits recognised as an increase in life insurance policy liabilities | (2,473) | (3,354) | – | – |
| Life insurance premiums – recognised as revenue | 2,327 | 2,711 | – | – |
| Non-life insurance premiums | 616 | 1,092 | – | – |
| Total premium revenue | 2,943 | 3,803 | – | – |
| Fee and other revenue | | | | |
| Operating | | | | |
| Management fees | 59 | 79 | – | – |
| Other operating income | 141 | 74 | 10 | 2 |
| Non-operating | | | | |
| Proceeds from sale of investments | – | – | 570 | – |
| Other non-operating revenue | 91 | 101 | – | – |
| Total fee and other revenue | 291 | 254 | 580 | 2 |
| Premium, fee and other revenue | 3,234 | 4,057 | 580 | 2 |
| Investment revenue | | | | |
| Equity securities | | | | |
| Dividends | | | | |
| – Controlled entities | – | – | 63 | 928 |
| – Associated entities | 8 | 6 | – | – |
| – Other parties | 138 | 76 | – | – |
| Net realised and unrealised gains/(losses) | (1,699) | (510) | – | – |
| Unit trust distribution | 100 | 319 | – | – |
| Debt securities | | | | |
| Interest income | | | | |
| – Controlled entities | – | – | 169 | 78 |
| – Other related parties | 62 | 1 | – | – |
| – Other parties | 625 | 1,161 | 1 | 1 |
| Net realised and unrealised gains/(losses) | 397 | 204 | – | – |
| Unit trust distribution | 2 | 11 | – | – |
| Property investments | | | | |
| Net property rental | | | | |
| – Other parties | 113 | 163 | – | – |
| Net realised and unrealised gains/(losses) | (41) | 127 | – | – |
| Unit trust distribution | 51 | 28 | – | – |
| Other investments | | | | |
| Net exchange gain/(loss) on foreign currency transactions | (102) | (308) | – | – |
| Net realised and unrealised gains/(losses) on currency swaps | 104 | (82) | – | – |
| Investment revenue | (242) | 1,196 | 233 | 1,007 |
| Revenue from ordinary activities | 2,992 | 5,253 | 813 | 1,009 |

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2 | Operating Profit (continued)

| \$ million | Consolidated | | Company | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 |
| Expenses | | | | |
| Claims expense | | | | |
| Life insurance claims expenses paid and payable | 3,669 | 4,810 | - | - |
| Outwards reinsurance expense | 32 | 33 | - | - |
| | 3,701 | 4,843 | - | - |
| Less withdrawals recognised as a reduction in life insurance policy liabilities | (2,246) | (3,406) | - | - |
| Life insurance claims – recognised as expense | 1,455 | 1,437 | - | - |
| Non-life insurance claims | 505 | 832 | - | - |
| Claims expense | 1,960 | 2,269 | - | - |
| Other operating expenses | | | | |
| Salaries and other employee costs | 377 | 429 | - | - |
| Consultancy and legal | 56 | 127 | - | - |
| IT and telecommunications costs | 37 | 107 | - | - |
| Other expenses | 294 | 546 | 9 | 2 |
| Net cost of sale of investments | - | - | 236 | - |
| Other operating expenses | 764 | 1,209 | 245 | 2 |
| Borrowing costs | | | | |
| Interest | | | | |
| – Other related parties | 83 | 98 | 96 | - |
| – Other parties | 24 | 66 | 6 | 22 |
| Borrowing costs | 107 | 164 | 102 | 22 |

(b) Significant items

The following individually significant items have been recognised in the Statement of Financial Performance for the period, net of tax:

| | | | | |
|--|-----------|----------|------------|------------|
| Additional superannuation contributions (refer note 22) | (12) | - | - | - |
| Tax benefit arising on internal finance restructure | 14 | - | - | - |
| Tax benefit on the liquidation of Australian Casualty & Life Limited | 12 | - | 12 | - |
| Profit on sale of AXA Australia Health Insurance Pty Limited | - | - | 322 | - |
| Sale of Property Management business | - | 50 | - | - |
| Tax benefit arising from foreign exchange crystallisation on repayment of debt | - | 30 | - | - |
| Tax benefit arising on liquidation of subsidiaries | - | 23 | - | - |
| Sale of National Mutual Health Insurance (NZ) Limited | - | 7 | - | - |
| Restatement of Members Equity Mortgage Servicing Rights | - | (6) | - | - |
| Writedown in the value of AXA Taiwan as a result of sale | - | (34) | - | - |
| Investment Bond provision | - | (24) | - | - |
| Restructuring provision | - | (18) | - | - |
| Losses on Enron Portfolio | - | (24) | - | - |
| Receipt of special dividend from NMLA | - | - | - | 708 |
| Total | 14 | 4 | 334 | 708 |

(c) Specific expense disclosures

Included within expenses above are the following specific items:

| | | | | |
|--|----|-----|---|---|
| Depreciation, amortisation or diminution in value of | | | | |
| – Operating assets | 30 | 27 | - | - |
| – Leased assets | - | 5 | - | - |
| – Goodwill | 1 | 2 | - | - |
| Transfers to provisions | | | | |
| – Employee entitlements | 6 | 7 | - | - |
| – Other provisions | 24 | 76 | - | - |
| Operating lease rental expense | 43 | 49 | - | - |
| Contribution to superannuation plans | 35 | 13 | - | - |
| Charge for bad debts and doubtful debts | | | | |
| – Other related parties | - | (9) | - | - |
| – Other parties | - | (1) | - | - |

Notes

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3 | Income Tax

| \$ million | Consolidated | | Company | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 |
| (a) Income Tax Expense | | | | |
| Operating profit before income tax | 253 | 321 | 466 | 985 |
| Less: Operating profit attributable to life insurance entities | (242) | (18) | – | – |
| Operating profit attributable to non-life insurance entities | 11 | 303 | 466 | 985 |
| Prima facie tax thereon at 30% (2001:30%) | (3) | (91) | (140) | (296) |
| Tax effect of permanent differences | | | | |
| Reduction in tax payable from: | | | | |
| – Tax benefit arising on liquidation of Australian Casualty & Life Limited | 12 | – | 12 | – |
| – Tax losses transferred from a wholly owned subsidiary | – | – | 12 | – |
| – Rebatable/Exempt Dividends | – | – | 20 | 287 |
| – Amounts under/(over) provided in prior years | – | (1) | – | (2) |
| – Other | 7 | – | – | – |
| Increase in tax payable from: | | | | |
| – Other non-deductible items | – | (1) | – | (7) |
| – Other | – | (12) | – | – |
| Sale of AXA Australia Health Insurance Pty Limited | – | – | 88 | – |
| Total income tax (expense)/benefit attributable to non-life insurance operating profit | 16 | (105) | (8) | (18) |
| Income tax benefit attributable to life insurance entities ⁽¹⁾ | 75 | 214 | – | – |
| Total income tax (expense)/benefit attributable to operating profit | 91 | 109 | (8) | (18) |

(1) The significant tax benefit arising in relation to life insurance activities is a result of:

- the discounted tax rate and various tax concessions offered to life insurance operations in Hong Kong
- the transitional provisions applying to life companies until July 2005 mean that one third of NMLA's income (referable to pre 30 June 2000 policies) is not subject to tax
- receipt of exempt dividends
- certain one-off tax benefit items detailed in note 2(b).

Life Insurance Entities

The income tax expense of the Economic Entity's life insurance businesses was based on specific requirements for determining taxable income in each country in which life insurance business is conducted. Such bases differ from the basis used to determine accounting profit. The rates of taxation applicable to the taxable income of significant classes of business by country are as follows:

| | 2002 % | 2001 % |
|--|-----------|-----------|
| Australia | | |
| Superannuation Business (via establishment of a virtual PST) | 15% | 15% |
| Immediate Annuity and Current Pension Business (via segregation as Segregated Exempt Assets) | 0% | 0% |
| Ordinary Business (including Shareholders' Fund) | 30% | 30% |
| New Zealand | 33% | 33% |
| Taiwan | 25% | 25% |
| Hong Kong | 16% | 16% |
| Singapore | 26% | 26% |

| \$ million | Consolidated | | Company | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 |
| (b) Deferred Tax Assets | | | | |
| Future income tax benefit | | | | |
| Future income tax benefit comprises the estimated future benefit at the applicable rate on the following items: | | | | |
| Tax losses carried forward | 85 | 6 | – | 2 |
| Timing differences | 258 | 21 | 13 | 6 |
| | 343 | 27 | 13 | 8 |

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4 | Dividends Provided for or Paid

| \$ million | Company | |
|--|--------------------------------|--------------------------------|
| | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 |
| Dividends provided or paid by the Company are as follows: | | |
| Interim dividend of 4.75 cents (2001 – 4.75 cents) paid on 1 October 2002 as follows: | | |
| Franked to 60% at 30% (2001 – unfranked) | 84 | 84 |
| A final dividend of 5 cents per share has been declared (2001 – 7.5 cents) to be paid on 4 April 2003. | | |
| Franked to 60% at 30% (2001 – fully franked at 30%) | 87 | 132 |
| Total dividends provided for or paid | 171 | 216 |

Dividend Franking Account

| | | |
|---|----|---|
| Franking credits available for subsequent financial years | 14 | 1 |
|---|----|---|

The balance of the franking account is adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date
- (d) franking credits that may be prevented from being distributed in subsequent financial years.

5 | Receivables

| \$ million | Consolidated | | Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Sundry receivables | 174 | 296 | 22 | 2 |
| Outstanding premiums | 157 | 169 | – | – |
| Investment income accrued and receivable | | | | |
| – Controlled entities | – | – | – | 1 |
| – Other parties | 165 | 164 | 4 | – |
| Reinsurance claims receivable | 15 | 8 | – | – |
| Amounts due from | | | | |
| – Controlled entities | – | – | 43 | – |
| – Other related parties | – | 1 | – | – |
| – Other parties | 56 | 17 | – | – |
| Goods and Services Tax recoverable | 6 | 6 | – | 1 |
| Total Receivables | 573 | 661 | 69 | 4 |

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6 | Investment Assets

| \$ million | Consolidated | | Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Equity securities, at valuation | | | | |
| Equities held directly | 5,974 | 6,769 | - | - |
| Equities in | | | | |
| – Associated entities | 378 | 175 | 549 | 36 |
| Held via unit trusts | 2,131 | 2,089 | - | - |
| | 8,483 | 9,033 | 549 | 36 |
| Debt securities, at valuation | | | | |
| Interest bearing securities | | | | |
| – National government | 2,372 | 2,384 | - | - |
| – Other public sector | 962 | 742 | - | - |
| – Private sector (unsecured) | 7,705 | 7,490 | - | - |
| – Private sector (secured) | 31 | 34 | - | - |
| – Other | - | 223 | - | - |
| Loans to | | | | |
| – Controlled entities (unsecured) | - | - | 2,912 | 2,662 |
| – Other related parties (unsecured) | 82 | 56 | 69 | 47 |
| – Other parties (unsecured) | 20 | 270 | - | - |
| – Other parties (secured) | 986 | 1,067 | - | - |
| Held via unit trusts | 149 | 79 | - | - |
| | 12,307 | 12,345 | 2,981 | 2,709 |
| Property investments, at valuation | | | | |
| Freehold and leasehold properties | 1,754 | 1,915 | - | - |
| Held via unit trusts | 709 | 602 | - | - |
| | 2,463 | 2,517 | - | - |
| Other investments, at valuation | | | | |
| Other investments | 272 | 460 | - | - |
| | 272 | 460 | - | - |
| Investments in controlled entities, at cost/recoverable amount | | | | |
| Australian Casualty & Life Limited (at recoverable amount) ⁽¹⁾ | - | - | - | 94 |
| National Mutual Funds Management (Global) Limited | - | - | 25 | 25 |
| National Mutual Funds Management (International) Limited | - | - | 30 | 30 |
| National Mutual Funds Management Limited ⁽²⁾ | - | - | - | 41 |
| AXA Asia Pacific Finance Limited | - | - | 21 | 21 |
| National Mutual Health Insurance Limited | - | - | - | 144 |
| National Mutual International Pty Ltd | - | - | 183 | 183 |
| The National Mutual Life Association of Australasia Limited ⁽³⁾ | - | - | 1,005 | 828 |
| | - | - | 1,264 | 1,366 |
| Total Investment Assets | 23,525 | 24,355 | 4,794 | 4,111 |

(1) The business of Australian Casualty & Life Limited (AC&L) was transferred to The National Mutual Life Association of Australasia Limited (NMLA) during the year. AC&L was subsequently liquidated (refer Note 25).

(2) National Mutual Funds Management Limited returned capital to AXA Asia Pacific Holdings Limited during the year.

(3) The increase in the carrying value of NMLA is a result of the transfer of AC&L, a capital injection to fund the purchase of ipac Securities Limited (ipac) through NMLA and a share buy-back.

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to the Financial Report as at 31 December 2002

7 | Operating Assets

| \$ million | Consolidated | | Company | |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Plant and equipment – at cost | 215 | 199 | 6 | – |
| Accumulated depreciation | (111) | (94) | – | – |
| Total Operating Assets | 104 | 105 | 6 | – |

8 | Intangibles

| \$ million | Consolidated | | Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Identifiable intangible assets ⁽²⁾ | 17 | – | – | – |
| Accumulated amortisation – other ⁽²⁾ | (4) | – | – | – |
| Goodwill – at cost ⁽¹⁾ | – | 22 | – | – |
| Accumulated amortisation – Goodwill ⁽¹⁾ | – | (9) | – | – |
| Total Intangibles | 13 | 13 | – | – |

(1) Goodwill in the prior period related to AXA Health, which was sold in the current year.

(2) Other intangibles comprise those held by ipac and Sterling Grace.

9 | Excess of Market Value Over Net Assets of Controlled Entities

| \$ million | Consolidated | | Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| AXA China Region Limited ⁽¹⁾ | 1,140 | 1,140 | – | – |
| AXA Life Insurance Singapore Pte Ltd ⁽¹⁾ | 71 | 71 | – | – |
| S G Holdings Ltd ⁽³⁾ | 191 | 184 | – | – |
| S G Australia Holdings Ltd ⁽³⁾ | 55 | 49 | – | – |
| ipac Securities Ltd ⁽²⁾ | 202 | – | – | – |
| NMMT Limited ⁽¹⁾ | 37 | 37 | – | – |
| Other Controlled Entities | 9 | 9 | – | – |
| Excess of Market Value over Net Assets of Controlled Entities | 1,705 | 1,490 | – | – |

(1) In the prior period, The National Mutual Life Association of Australasia Limited transferred its interests in National Mutual International Limited (incorporating AXA Life Singapore), AXA China Region Limited and NMMT Limited to the company or other non-life insurance subsidiaries. Prior to transfer, the excess of the market values of the investments in the transferred entities over the net assets of those entities ("excess") was recorded in the consolidated Statement of Financial Position as a separate asset in accordance with AASB 1038 "Life Insurance Business". In accordance with the requirements of AASB 1024 "Consolidated Accounts", to eliminate the financial impact of transactions within the economic entity, the excess at the time of transfer continues to be recorded in the consolidated Statement of Financial Position. This excess constitutes a permanent consolidation adjustment, subject to impairment testing.

(2) This excess was created on acquisition of ipac Securities Limited on 30 August 2002

(3) The increase in excess comprises deferred consideration, foreign exchange movements and the recognition of intangible assets.

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10 | Other Assets

| \$ million | Consolidated | | Company | |
|---------------------------|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Prepayments | 18 | 22 | – | – |
| Inventories | 7 | 3 | – | – |
| Hedge receivable | – | – | – | 102 |
| Other assets | 28 | 53 | – | 2 |
| Total Other Assets | 53 | 78 | – | 104 |

11 | Payables

| \$ million | Consolidated | | Company | |
|---|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Sundry payables | 345 | 511 | 12 | 2 |
| Operational debt of controlled funds | 188 | 256 | – | – |
| Outstanding claims – life insurance | 280 | 249 | – | – |
| Outstanding claims – non-life insurance | – | 134 | – | – |
| Hedge payable | 88 | 149 | 88 | 149 |
| Investor deposits | 212 | 171 | – | – |
| Total Payables | 1,113 | 1,470 | 100 | 151 |

12 | Borrowings

| \$ million | Consolidated | | Company | |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Unsecured | | | | |
| Deposits | 40 | 42 | 40 | 42 |
| Loans from | | | | |
| – Controlled entities | – | – | 1,736 | 1,266 |
| – Controlling entity | 1,402 | 1,038 | – | – |
| Total Borrowings | 1,442 | 1,080 | 1,776 | 1,308 |

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to the Financial Report as at 31 December 2002

13 | Provisions

| \$ million | Consolidated | | Company | |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Dividends | 87 | 132 | 87 | 132 |
| Employee entitlements | 72 | 66 | – | – |
| Other provisions | 130 | 102 | 35 | 2 |
| Total Provisions | 289 | 300 | 122 | 134 |

Employee entitlements

The aggregate employee entitlement liability recognised and included in the financial report is as follows:

Provision for employee entitlements

| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
|--|----------------------|----------------------|----------------------|----------------------|
| Current – includes annual leave and long service leave | 63 | 55 | – | – |
| Non-current – includes long service leave | 9 | 11 | – | – |
| Total Employee Entitlements | 72 | 66 | – | – |
| Number of employees at end of financial year | 3,810 | 3,944 | – | – |

14 | Other Liabilities

| \$ million | Consolidated | | Company | |
|---|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Premiums in advance ⁽¹⁾ | – | 102 | – | – |
| Unearned premium reserve ⁽¹⁾ | – | 13 | – | – |
| Accrued management expenses | 22 | 18 | – | – |
| Commissions payable | 53 | 59 | – | – |
| Other liabilities | 110 | 82 | 3 | – |
| Total Other Liabilities | 185 | 274 | 3 | – |

(1) The prior period balances related to AXA Health, which was sold during the current year.

15 | Subordinated Debt

| \$ million | Consolidated | | Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Subordinated debt ⁽¹⁾ | 280 | 280 | – | – |
| Non-convertible Redeemable Perpetual Preference Share ⁽²⁾ | 822 | 904 | – | – |
| Total Subordinated Debt | 1,102 | 1,184 | – | – |

(1) Subordinated debt provided by AXA SA.

(2) Non-convertible Redeemable Perpetual Preference Shares issued by AXA China Region Limited on 14 August 2001 and held by AXA SA and its related entities for USD462,660,155.

Notes

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16 | Policy Liability and Life Insurance Business

| \$ million | Consolidated | | Company | |
|---|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| (a) Life Insurance Policy Liabilities | | | | |
| <u>Movements in policy liabilities</u> | | | | |
| Gross policy liabilities and policyowner retained profits | 20,012 | 20,455 | - | - |
| Reinsured policy liabilities | | | | |
| – Gross policy liabilities ceded | (85) | (23) | - | - |
| Net policy liabilities and policyowner retained profits at end of year | 19,927 | 20,432 | - | - |
| Net policy liabilities and policyowner retained profits at the end of the previous period | 20,432 | 19,624 | - | - |
| Net change in policy liabilities | (505) | 808 | - | - |
| Net change in policy liabilities as above | 505 | (808) | - | - |
| Premiums recognised as an increase in policy liabilities | 2,473 | 3,354 | - | - |
| Claims recognised as a decrease in policy liabilities | (2,246) | (3,406) | - | - |
| Terminal bonus paid in the current year | (131) | (193) | - | - |
| Policyholder tax expense | 29 | (95) | - | - |
| Exchange adjustment | (211) | 329 | - | - |
| Change in net policy liabilities and policyowner retained profits | 419 | (819) | - | - |
| <u>Components of Policy Liabilities</u> | | | | |
| Value of policy liabilities – projection method ⁽¹⁾ | | | | |
| Best Estimate Liability | | | | |
| – Value of future policy benefits ⁽²⁾ | 30,062 | 29,753 | - | - |
| – Value of future expenses | 2,898 | 2,941 | - | - |
| – Value of future premiums | (20,127) | (20,809) | - | - |
| Total best estimate liability | 12,833 | 11,885 | - | - |
| Value of future profits ⁽¹⁾ | | | | |
| – Policyowner bonuses ⁽³⁾ | 3,426 | 4,309 | - | - |
| – Shareholder profit margins | 2,662 | 2,411 | - | - |
| Total value of future profits | 6,088 | 6,720 | - | - |
| Value of policy liabilities – accumulation method | | | | |
| Best Estimate Liability | | | | |
| – Value of future policy benefits ⁽²⁾ | 404 | 1,196 | - | - |
| – Value of future charges for acquisition expenses | 2 | (1) | - | - |
| Total best estimate liability | 406 | 1,195 | - | - |
| Policyowner retained profit | 431 | 423 | - | - |
| Total value of declared bonus ⁽⁴⁾ | 169 | 209 | - | - |
| Net policy liabilities and policyowner retained profits | 19,927 | 20,432 | - | - |
| Policy liabilities subject to capital guarantees | 10,618 | 9,347 | - | - |

(1) For businesses valued by the projection method, the value of future charges for the acquisition expenses is not an identified component of the policy liability.

(2) Future policy benefits include bonuses credited to policyowners in prior periods but exclude current year bonuses.

(3) Future bonuses exclude current year bonuses.

(4) Current year declared bonuses valued in accordance with the actuarial standard.

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to the Financial Report as at 31 December 2002

16 | Policy Liability and Life Insurance Business (continued)

(b) Actuarial Methods and Assumptions

Policy liabilities

The effective date of the actuarial report on policy liabilities and solvency reserves is 31 December 2002. The actuarial report was prepared by Mr Kent Griffin, FIAA. The actuarial report indicates that Mr Griffin is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

Policy liabilities are valued in accordance with Actuarial Standard AS1.03 "Valuation Standard" issued by the Life Insurance Actuarial Standards Board under the Life Act. The Actuarial Standard requires the policy liabilities to be calculated in a way, which allows for the systematic release of planned margins as services are provided to policyholders and premiums are received.

The methods and profit carriers used for particular policy types in order to achieve the systematic release of planned margins are:

| Policy Type | Method | Profit Carrier |
|---------------------------------|---|---------------------------------|
| Individual | | |
| Traditional participating | Projection (Australia, NZ, Hong Kong) | Bonuses |
| Traditional non-participating | Projection (Australia, NZ, Hong Kong) | Claim payments |
| Investment-linked | Projection (Australia, NZ) | Investment earnings |
| | Projection (Hong Kong – unit-linked) | Asset charges |
| | Accumulation (Hong Kong – other) | Not applicable |
| Lump sum and income stream risk | Projection (Australia, NZ, Hong Kong) | Claim payments |
| Life annuities | Projection (Australia, NZ) | Annuity payments |
| Term certain annuities | Projection (Australia, NZ) | Investment earnings |
| Group | | |
| Investment account | Projection (small plans – Australia, NZ) | Investment earnings |
| | Accumulation (large plans – Australia, NZ) | Not applicable |
| Investment-linked | Projection (small plans – Australia, NZ, Hong Kong) | Servicing charges |
| | Accumulation (large plans – Australia, NZ, Hong Kong) | Not applicable |
| Capital guaranteed (DA/MPF) | Projection (Hong Kong) | Interest credited/Asset charges |
| Lump sum and income stream risk | Accumulation (Australia, NZ) | Not applicable |
| | Unearned premium (Hong Kong) | Not applicable |

Actuarial assumptions

The following sets out the key assumptions used in the calculation of policy liabilities and any material changes over the year. These relate to Australia, New Zealand and Hong Kong. Consistent principles and assumptions are used in Taiwan and Singapore.

| Assumption | Basis of assumption | Significant changes |
|-----------------|--|--------------------------|
| Discount rates | Where assets are closely matched to policy liabilities and are largely held in fixed-interest securities, the rate assumed is the expected rate of return on the existing assets over the future term of the liabilities. Otherwise, the rate assumed is the expected long-term rate of return based on the relevant asset pool. | Year 2001 values were: |
| | Ordinary business: 4.8% - 10.0% (before tax, Australia) | 4.8% - 11.0% |
| | 6.0% - 10.5% (before tax, NZ) | 5.5% - 11.0% |
| | Superannuation: 4.0% - 9.0% (after tax, Australia) | 4.0% - 9.7% |
| | Long-term Fund: 7.0% - 8.2% (before tax, Hong Kong) | 7.0% - 8.2% |
| | Retirement Fund: 6.3% - 7.7% (before tax, Hong Kong) | 6.3% - 8.1% |
| Unit prices | For investment-linked business, the assumed future rates of growth of unit prices are the discount rates less appropriate management fees. | No change in methodology |
| Inflation | Allowance for future inflation is assumed at the levels consistent with long-term expectations (2.5% Australia and NZ, 3% Hong Kong). | No change |
| Future expenses | Future maintenance expenses are based on expense levels experienced in the current year, excluding "one-off" expenses, with allowance for future inflation. | No change |
| | Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies. | |
| Taxation | Rates of taxation in the future have been assumed to remain at current levels, except where future changes to tax rates have been legislated. | No change |

Notes

to the Financial Report as at 31 December 2002

16 | Policy Liability and Life Insurance Business (continued)

| Assumption | Basis of assumption | Significant changes |
|---|---|---|
| Mortality – individual insurance products | Rates vary by sex, age, product type and smoker status. Rates are typically expressed as a proportion of standard mortality tables adjusted for recent company experience. The tables in Hong Kong are derived from the company's recent experience. Australia: 80% - 90% of IA90-92 NZ: 80% - 105% of IA90-92 Hong Kong: 75% - 100% of SMK99/NSMK99 (smart term and linked) 75% - 100% of ACR97 (other products) | No change for Australia and NZ, some changes for Hong Kong The year 2001 values were: 90% - 100% 90% - 100% |
| Mortality – annuitants | Rates are adjusted for mortality improvement prior to and after the valuation date. Australia: 80% of IM/IF80 NZ: 90% of PMA80, 100% of PFA80 Hong Kong: Not applicable | No change |
| Disability lump sum | Australia and NZ: Claim rates are expressed as a proportion of pricing assumptions, based on the company's recent experience (65% Australia; 75% NZ). Hong Kong: Loss ratio of claims to premium income, currently 37%. | Australia and New Zealand: No change Hong Kong: Loss ratio increased from 40% to 37% |
| Morbidity – trauma lump sum | Australia and NZ: Claim rates are expressed as a proportion of pricing assumptions, based on the company's recent experience (55% - 90% Australia; 90% - 130% NZ). Hong Kong: Claim incidence rates based on a reinsurer's table and company's recent experience, currently 75%. | No change |
| Morbidity – disability income | Australia and NZ: The assumed rates of claim incidence and termination are based on company's recent experience and are expressed as proportions of IAD89-93. Multiplicative loadings based on age, occupation, waiting period, benefit amount, claim duration and policy commencement year are applied to the base table. The rates, in aggregate, are: Australia: 76% - 135% (incidence), 88% - 115% (termination) NZ: 85% (incidence), 72% - 100% (termination) Hong Kong: 20% (loss ratio) | In general, incidence rates have been strengthened and termination rates weakened. Year 2001 incidence/termination 61% - 107% / 55% - 100% 70% / 72% - 100% 12% |
| Surrender values | Surrender values are based on the provisions specified in policy contracts and include a recovery of policy establishment and maintenance costs. Surrender values assumed are those current at the reporting date. | No change |
| Discontinuance | Discontinuance rates are based on recent company's experience and vary by country, product and duration in force. Allowance is made for cash withdrawals, paid-ups and non-payment of contractual premiums. Future rates of discontinuance for major classes of business are: | No significant changes. |
| | | |
| | Australia NZ Hong Kong | |
| | Term life insurance 9% 8% 15% | |
| | Disability income insurance 14% 12% 15% | |
| | Regular premium investment 7% 13% 10% | |
| | Single premium investment 16% 20% 5% | |
| | Conventional business 6% 5% 7% | |

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16 | Policy Liability and Life Insurance Business (continued)

(c) Details of the solvency position of each life insurer in the AXA Asia Pacific Holdings Group

| \$ million | NMLA | AXA China Region | AXA Life Singapore |
|---|------------|------------------|--------------------|
| At 31 December 2002 | | | |
| Solvency Reserve | 1,268 | 1,400 | 44 |
| Assets available for solvency | 2,003 | 3,300 | 63 |
| Coverage of solvency reserve (times) | 1.6 | 2.4 | 1.4 |
| At 31 December 2001 | | | |
| Solvency Reserve | 1,137 | 1,481 | 38 |
| Assets available for solvency | 1,859 | 2,896 | 65 |
| Coverage of solvency reserve (times) | 1.6 | 2.0 | 1.7 |

Australian life insurers

Under the Life Insurance Act 1995, life insurers are required to hold reserves in excess of the amount of policy liabilities. These additional reserves are necessary to support the life insurer's capital requirements under its business plan to provide a cushion against adverse experience in managing long-term risks.

The Life Insurance Actuarial Standards Board has issued Actuarial Standard 2.03 'Solvency Standard' for determining the level of solvency reserves. This prescribes a minimum capital requirement for each statutory fund and the minimum level of assets required to be held in each statutory fund. It has also issued Actuarial Standard 6.02 'Management Capital Standard' which prescribes a minimum capital requirement for the shareholder's fund. For detailed solvency information on a statutory basis, users should refer to the financial report prepared by each life insurer.

Non-Australian life insurers

Each of the non-Australian life insurers shown above are required to hold reserves in excess of the amount of policy liabilities. The summarised information provided above has been prepared by each life insurer in accordance with local solvency requirements, as prescribed by local Acts and prevailing prudential rules. For detailed solvency information on a statutory basis, users should refer to the financial report prepared by each life insurer.

(d) Disaggregated information – Australasian Life Insurance Businesses

AXA's Australasian life insurance operations are conducted through NMLA and AC&L.

In accordance with the Australian Life Insurance Act 1995, the life insurance business is conducted within one or more separate statutory funds which are distinguished from each other and from the shareholders' fund. The financial reports of NMLA are prepared in accordance with AASB 1038 and provide details of the major components of the financial report disaggregated between the statutory funds and the shareholders' fund.

(e) Retained Profits

Retained profits comprise the life funds' undistributed profits reserve and retained profits. Transfers from the life funds' undistributed profits reserves to the retained profits account of the life subsidiaries are subject to meeting the capital adequacy requirements of the Life Insurance Act (1995) in Australia and corresponding legislation in Hong Kong and Singapore. Such transfers are made upon the advice of the appointed actuary of the relevant life insurance company.

17 | Contributed Equity

| \$ million | Consolidated | | Company | |
|---|-------------------|-------------------|-------------------|-------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Issued share capital | | | | |
| 1,740,222,836 ordinary shares (2001: 1,762,433,891) | 1,130 | 1,186 | 1,130 | 1,186 |
| Total Contributed Equity | 1,130 | 1,186 | 1,130 | 1,186 |

Ordinary shares have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle the holder to one vote, either in person or by proxy, at a meeting of the company.

Movements during the year

| | |
|--------------------------------------|---------------|
| Balance at the beginning of the year | 1,762,433,891 |
| Shares bought back | 22,211,055 |
| Balance at the end of the year | 1,740,222,836 |

Share buyback

22,211,055 fully paid ordinary shares were bought back and cancelled during the financial year by the parent entity. An additional 353,945 fully paid ordinary shares were bought back during the financial year by the parent entity and cancelled on the 7 January 2003. The share buy-back occurred on-market for consideration of \$55,744,868. This buy-back was conducted in relation to the acquisition of ipac Securities Limited. Refer to notes 21, 27 and 28 for further details.

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18 | Reserves and Shareholders' Retained Profits

| \$ million | Consolidated | | Company | |
|---|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Asset Revaluation Reserve | | | | |
| Balance at beginning of the period | 15 | 15 | - | - |
| Increase/(decrease) on revaluation of investments | - | - | - | - |
| Balance at end of the period | 15 | 15 | - | - |
| Foreign Currency Translation Reserve ⁽¹⁾ | | | | |
| Balance at beginning of the period | - | - | - | - |
| Exchange difference on net investments in foreign operations and related hedges | (59) | - | - | - |
| Balance at end of the period | (59) | - | - | - |
| Shareholders' Retained Profits | | | | |
| Balance at beginning of the period | 1,815 | 1,636 | 1,447 | 696 |
| Profit for the period | 330 | 395 | 458 | 967 |
| Dividends provided or paid | (171) | (216) | (171) | (216) |
| Balance at end of the period | 1,974 | 1,815 | 1,734 | 1,447 |

(1) This represents the translation of the Group's investment in AXA China Region (AXA CR) and AXA Life Singapore (AXA LS) which has been partially offset by the foreign currency gains on financial instruments held to hedge the Group's net investment in AXA CR. This is a different treatment to the prior period when AXA CR, AXA LS and associated hedges were held by NMLA and were subject to Life Insurance accounting.

19 | Outside Equity Interests in Controlled Entities

| \$ million | Consolidated | |
|---------------------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Share capital | 329 | 342 |
| Retained profits | 11 | 31 |
| Outside Equity Interests | 340 | 373 |

| | 2002 OEI % | 2001 OEI % |
|---|------------|------------|
| Outside Equity Interests are comprised of the following: | | |
| Cameron Chote Investment Services Limited | 25 | 25 |
| National Mutual New Zealand Leaders Trust | 1 | 1 |
| Wholesale Global Fixed Income Fund | 4 | 20 |
| Deutsche Wholesale Property Fund | 26 | 21 |
| Wholesale International Equity Fund | 3 | - |
| National Payroll Systems Pty Limited | - | 11 |

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20 | Commitments

| \$ million | Consolidated | | Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| (a) Lease Expenditure Commitments | | | | |
| Operating leases | | | | |
| No later than one year | 38 | 33 | - | - |
| Later than one year and not later than five years | 79 | 89 | - | - |
| Later than five years | 1 | 3 | - | - |
| Future Lease Payments | 118 | 125 | - | - |
| Operating leases are predominantly comprised of leases of properties. | | | | |
| A provision of \$5m (2001: \$8m) has been raised for surplus leased space. Property leases have been disclosed at current market values, however, they are subject to periodic review. | | | | |
| The total future minimum lease payments expected to be received for non-cancellable sub-leases is \$13m (2001: \$18m) | | | | |
| Economic entity's share of associates' operating lease commitments: | | | | |
| No later than one year | 7 | 2 | - | - |
| Later than one year and not later than five years | 13 | 5 | - | - |
| Later than five years | - | - | - | - |
| | 20 | 7 | - | - |
| (b) Capital Expenditure Commitments | | | | |
| Estimated aggregate amount of contracts for capital expenditure not provided for: | | | | |
| Computer and data facilities | | | | |
| No later than one year | 1 | 1 | - | - |
| Freehold and leasehold properties | | | | |
| No later than one year | - | 3 | - | - |
| Other | | | | |
| No later than one year | 6 | - | - | - |
| Later than one year and not later than five years | 52 | - | - | - |
| Later than five years | 9 | - | - | - |
| Total Capital Expenditure Commitments | 68 | 4 | - | - |
| Economic entity's share of associates' capital expenditure commitments: | | | | |
| No later than one year | 3 | 20 | - | - |
| Later than one year and not later than five years | - | 7 | - | - |
| | 3 | 27 | - | - |
| (c) Other Commitments | | | | |
| No later than one year | 3 | 92 | - | - |
| Total Other Commitments | 3 | 92 | - | - |
| Comprises: | | | | |
| Investment ventures | - | 3 | - | - |
| Futures contracts | 3 | 73 | - | - |
| Undrawn loan commitments | - | 16 | - | - |
| | 3 | 92 | - | - |
| Economic entity's share of associates' other expenditure commitments: | | | | |
| No later than one year | 2 | - | - | - |
| Later than one year and not later than five years | 2 | - | - | - |
| Later than five years | - | - | - | - |
| | 4 | - | - | - |

Notes

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21 | Contingent Liabilities

| \$ million | Consolidated | | Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Contingent liabilities for which no specific provision was made in the Financial Report at balance date are estimated to be: | | | | |
| Uncalled capital and other obligations in respect of shareholdings in controlled entities | 2 | 2 | – | – |
| Litigation ⁽¹⁾ | 17 | 11 | – | – |
| Guarantees ⁽²⁾ | 1,400 | 1,753 | 7 | 8 |
| Other ⁽³⁾ | 25 | 20 | 904 | 904 |
| Economic entity's share of associates' contingent liabilities ⁽⁴⁾ | 300 | – | – | – |
| Total Contingent Liabilities | 1,744 | 1,786 | 911 | 912 |

(1) There are no individually significant items of litigation.

(2) National Mutual Funds Management Limited has provided guarantees in respect of certain units issued by the National Mutual Australian Income Fund and the National Mutual Cash Management Trust (unit trusts managed by National Mutual Funds Management Limited) to the value of \$1,188m (2001: \$1,547m). Sufficient assets exist within these unit trusts to satisfy these guarantees and the Directors are satisfied that no loss will be incurred by the economic entity.

(2) National Mutual Assets Management (New Zealand) Limited has provided guarantees in respect of certain units issued by the Mortgage Income Trust Fund, Cash Management Fund and the Mortgage Backed Fund (unit trusts managed by National Mutual Assets Management (New Zealand) Limited) to the value of \$192m (2001: \$192m). Sufficient assets exist within these unit trusts to satisfy these guarantees and the Directors are satisfied that no loss will be incurred by the economic entity. In addition there are other guarantees in the Company's subsidiaries of \$20m however none of these are individually significant.

(3) As a result of a recent examination of prior year income tax returns of National Mutual Life Association ("NMLA"), the Australian Tax Office (ATO) has issued amended assessments seeking to recover additional primary tax of approximately \$20m. The company has taken legal advice in relation to these matters and based on that advice no liability has been brought to account. Were the ATO to be successful, additional interest and penalties could apply. In addition there are other contingencies in NMLA's subsidiaries of \$5m however none of these are individually significant.

(3) The Company has a contingent liability to the ultimate parent entity, AXA SA, in relation to a subordinated put option provided to AXA SA by the Company. The put option is a condition of sale of 574,804,516 Non-Convertible Redeemable Preference Shares ("NCRPS"), in AXA CR, by NMLA, which allows AXA SA to put the NCRPS to the Company for the exercise price of US\$0.8049 per share (US\$463 million in total) plus accrued dividends on any date after 14 August 2011. The Company's liability under the put option is limited, under the terms of Issue, to the exercise price, subordinated to the extent that the payment does not cause the Company to be insolvent. This contingent liability eliminates on consolidation due to the full amount of the NCRPS liability being included in the consolidated balance sheet.

(4) In relation to the sale of AXA Health Insurance Pty Limited (refer note 1 for detailed transaction description) a subsidiary of the associate entity Macquarie Health Acquisitions Pty Limited has issued a guarantee to a related entity of Macquarie Bank Limited. The guarantee relates to an undrawn \$300,000,000 funding facility in relation to the sale of AXA Australia Health Insurance Pty Limited.

As part of the acquisition of ipac Securities Limited the Company has a potential commitment to issue 22,564,025 AXA APH shares to the founders and certain senior staff of ipac Securities Limited. The shares would be issued between 2003 and 2007, dependent on the achievement of specified performance targets and continued employment of the ipac founders and senior staff.

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22 | Superannuation Commitments

The economic entity contributes to a number of in-house defined benefit superannuation plans which exist to provide benefits for employees and their dependents. Contributions as specified in the rules of the respective funds are made by entities of the economic entity and its employees. Actuarial investigations of the funds are undertaken no less frequently than every three years.

An actuarial valuation has been conducted for the AXA Australia Superannuation Plan as at 30 June 2002 (previous valuation was as at 30 June 1999). Provisional results are now available for this review and the final actuarial review report will be completed by 30 June 2003. An actuarial valuation was conducted for the AXA New Zealand Superannuation Scheme as at 30 September 2001 rolled forward to 31 December 2001 (previous valuation was as at 1 October 1998).

Details of the major funds with assets in excess of \$20 million are:

| Name of Fund | Principal Type of Benefit | Date of last Actuarial Assessment | Accrued benefits at last valuation A\$m | Net Market Value of Assets A\$m | Vested Benefits A\$m |
|---|---|-----------------------------------|---|---------------------------------|----------------------|
| AXA Australia Staff Superannuation Plan | Defined Benefit Lump Sum/Pension Scheme, providing benefits on resignation, retirement, disability, death or other termination. | 30/06/2002* | 272.7 | 250.1 | 283.2 |
| AXA New Zealand Superannuation Scheme | As above | 31/12/2001** | 63.9 | 80.1 | 70.2 |

* The accrued benefits, vested benefits and net market value of plan assets are based on the provisional results of the actuarial valuation undertaken as at 30 June 2002. The results exclude benefits and assets relating to former employees of AXA Health as the benefits for these employees were transferred out of this fund on a fully funded basis on the sale of AXA Health on 30 August 2002. The Company has provided for an additional payment into the new fund as part of the AXA Health sale.

** Net market value of assets and vested benefits for the AXA New Zealand Superannuation Scheme are as at 30 September 2002, the last reporting date for which financial statements are currently available. Accrued benefits were determined in accordance with the actuarial review as at 30 September 2001 rolled forward to 31 December 2001. These amounts have been converted to AUD using the exchange rate existing at 31 December 2002.

Accrued Benefits, Vested Benefits and Net Market Value of Plan Assets:

The difference between the accrued benefits and net market value of plan assets has not been recognised in the financial report of the economic entity.

During the recent actuarial review for the AXA Australia Superannuation Plan ("the Plan") it was noted that, as at 30 June 2002, the vested benefits of the Plan exceeded net assets by \$33.1m. A revised contribution program, aimed at restoring 100% coverage of vested benefits has been developed by the Plan Trustee, the employer and the Actuary. Under this program, the employer will contribute an additional \$17m contributions for the year ended 31 December 2002 and then \$5m per year thereafter subject to annual reassessment. The initial \$17m has been fully provided in the financial results of the economic entity for the year ended 31 December 2002.

Other Superannuation commitments in the Group are:

AXA China Region Limited

The AXA China Region Limited Group (AXA CR Group) operates defined contribution retirement benefit schemes for all eligible employees and agents. The assets of the schemes are held separately from those of the AXA CR Group in funds under the control of the trustee. Pursuant to the rules of the employees' schemes, employees are required to make contributions to the schemes calculated at 5% of their basic salaries on a monthly basis whilst the AXA CR Group contributions vary with the number of years service of the employees, from 5% to 15% of the basic monthly salary. The employees are entitled to 100% of the AXA CR Group's mandatory contributions (being 5% of the basic salary) and the accrued interest thereon. They are also entitled to 100% of the AXA CR Group's voluntary contributions (any contributions in excess of the 5% of the basic salary) and the accrued interest thereon after 10 complete years of service, or at increasing scale of between 30% to 90% after completion of 3 to 9 years service. The agents' scheme has similar rules for benefits but AXA CR Group contributions are at 5% of agents' income regardless of years of service.

Where there are employees and agents who leave the schemes prior to vesting fully in the contributions, in accordance with the rules of the scheme, any unvested AXA CR Group contributions shall be used to reduce the future contributions of the AXA CR Group due under the schemes or increase the benefits for the employees and agents.

The AXA CR Group's total retirement cost charged to the profit and loss account for 12 months ended 31 December 2002 amounted to HK\$30,875,000 (15 months to 31 December 2001: HK\$36,391,000), net of forfeited contributions of HK\$2,576,000 (15 months to 31 December 2001: HK\$ 6,480,000). At the balance sheet date, the total amount of forfeited unvested contributions which were available to reduce contributions payable in future years or improve benefits was HK\$14,904,000 (as at 31 December 2001: HK\$16,117,000).

Notes

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23 | Remuneration of Directors

| \$'000 | Consolidated | | | Company | | |
|--|--------------------------------|--------------------------------|---------------------------------|--------------------------------|--------------------------------|---------------------------------|
| | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 30 Sept 2001 | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 30 Sept 2001 |
| (a) Directors of AXA Asia Pacific Holdings Limited who have held office during the twelve months were: | | | | | | |
| R H Allert | J Y Le Berre ⁽³⁾ | M J Slatter ⁽⁵⁾ | | | | |
| P A Cooper | P H Masfen | M K Ward | | | | |
| K Corbet ⁽¹⁾ | A L Owen | G E Heeley ⁽²⁾ | | | | |
| T B Finn | M Pinault | J V Robins ⁽⁴⁾ | | | | |
| (1) Resigned 17/10/2002 | | | | | | |
| (2) Resigned 18/04/2002 | | | | | | |
| (3) J Y Le Berre is an alternate director | | | | | | |
| (4) Resigned 18/04/2002 | | | | | | |
| (5) Resigned 25/07/2002 | | | | | | |
| (b) The aggregate of income paid or payable or otherwise made available (including termination payments) in respect of the financial year, to all Directors of the Company directly or indirectly by the Company or from any related party. | | | | | | |
| Base pay | | | | 2,743 | 3,803 | 3,070 |
| Incentive payments | | | | 1,649 | 2,687 | 1,309 |
| Eligible termination payments | | | | 260 | 561 | 561 |
| Total Remuneration | | | | 4,652 | 7,051 | 4,940 |
| The aggregate of income paid or payable or otherwise made available (including termination payments) in respect of the financial year, to all Directors of each entity in the economic entity, directly or indirectly, by the entities in which they are Directors or from any related party. | | | | | | |
| Base pay | 10,503 | 22,369 | 18,296 | | | |
| Incentive payments | 3,135 | 5,495 | 3,632 | | | |
| Eligible termination payments | 716 | 2,503 | 2,503 | | | |
| Total Remuneration | 14,354 | 30,367 | 24,431 | | | |
| (c) The number of Directors of the Company whose total income falls within each successive \$10,000 band of income: | | | | | | |
| Number | | | | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 30 Sept 2001 |
| \$ | | | | | | |
| 0 - 9,999 | | | | 4 | 4 | 4 |
| 60,000 - 69,999 | | | | - | 1 | 1 |
| 90,000 - 99,999 | | | | 2 | - | 2 |
| 100,000 - 109,999 | | | | 1 | - | 2 |
| 110,000 - 119,999 | | | | - | 1 | - |
| 120,000 - 129,999 | | | | - | 2 | - |
| 130,000 - 139,999 | | | | - | 1 | 1 |
| 150,000 - 159,999 | | | | 1 | 1 | - |
| 190,000 - 199,999 | | | | - | 1 | 1 |
| 200,000 - 209,999 | | | | - | 1 | 1 |
| 250,000 - 259,999 | | | | - | - | 1 |
| 260,000 - 269,999 | | | | 1 | - | - |
| 290,000 - 299,999 | | | | 1 | - | - |
| 320,000 - 329,999 | | | | - | 1 | - |
| 410,000 - 419,999 | | | | - | 1 | 1 |
| 630,000 - 639,999 | | | | 1 | - | - |
| 820,000 - 829,999 | | | | - | - | 1 |
| 2,340,000 - 2,349,999 | | | | - | 1 | - |
| 2,450,000 - 2,459,999 | | | | - | - | 1 |
| 2,850,000 - 2,859,999 | | | | - | 1 | - |
| 3,010,000 - 3,019,999 | | | | 1 | - | - |
| | | | | 12 | 16 | 16 |

In accordance with accounting standard AASB 1017, any person required to be a director of AXA Asia Pacific Holdings Ltd in order to discharge his or her duties as an executive officer of the parent company (excluding executive directors) is excluded from the determination of the directors' remuneration.

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24 | Remuneration of Executive Officers

| \$'000 | Executive Officers of Entities in the Economic Entity | | | Executive Officers of the Company | | |
|--------|---|--------------------------------|---------------------------------|-----------------------------------|--------------------------------|---------------------------------|
| | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 30 Sept 2001 | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 30 Sept 2001 |

(a) Aggregate remuneration of executive officers of the Company working mainly in Australia and receiving \$100,000 or more from the Company or from any related party.

| | | | | | | |
|-------------------------------|--|--|--|---------------|---------------|---------------|
| Base pay | | | | 9,744 | 12,932 | 10,319 |
| Incentive payments* | | | | 4,395 | 4,517 | 3,139 |
| Eligible termination payments | | | | 1,513 | 1,568 | 1,568 |
| Total Remuneration | | | | 15,652 | 19,017 | 15,026 |

Aggregate remuneration of executive officers of each entity in the economic entity working mainly in Australia and receiving \$100,000 or more from the entity for which they are executive officers or from any related party.

| | | | | | | |
|-------------------------------|---------------|---------------|---------------|--|--|--|
| Base pay | 9,744 | 12,932 | 10,319 | | | |
| Incentive payments* | 4,395 | 4,517 | 3,139 | | | |
| Eligible termination payments | 1,513 | 1,568 | 1,568 | | | |
| Total Remuneration | 15,652 | 19,017 | 15,026 | | | |

*Represents bonuses paid with respect to performance for the prior period performance.

| Number | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 30 Sept 2001 | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 30 Sept 2001 |
|--------|--------------------------------|--------------------------------|---------------------------------|--------------------------------|--------------------------------|---------------------------------|
|--------|--------------------------------|--------------------------------|---------------------------------|--------------------------------|--------------------------------|---------------------------------|

(b) The number of executive officers (including executive directors) whose income falls within each successive \$10,000 band of income (commencing at \$100,000).

| | | | | | | |
|-------------------|---|---|---|---|---|---|
| \$ | | | | | | |
| 110,000 - 119,999 | 1 | - | - | 1 | - | - |
| 120,000 - 129,999 | 1 | - | - | 1 | - | - |
| 130,000 - 139,999 | - | - | 1 | - | - | 1 |
| 150,000 - 159,999 | 2 | - | - | 2 | - | - |
| 160,000 - 169,999 | - | - | 1 | - | - | 1 |
| 170,000 - 179,999 | 2 | - | 2 | 2 | - | 2 |
| 180,000 - 189,999 | 1 | - | 2 | 1 | - | 2 |
| 190,000 - 199,999 | - | 1 | 1 | - | 1 | 1 |
| 200,000 - 209,999 | - | 1 | - | - | 1 | - |
| 210,000 - 219,999 | 2 | 1 | 1 | 2 | 1 | 1 |
| 220,000 - 229,999 | 1 | - | 2 | 1 | - | 2 |
| 230,000 - 239,999 | 1 | 4 | 1 | 1 | 4 | 1 |
| 240,000 - 249,999 | - | - | 1 | - | - | 1 |
| 250,000 - 259,999 | - | - | 2 | - | - | 2 |
| 260,000 - 269,999 | 1 | 3 | 2 | 1 | 3 | 2 |
| 280,000 - 289,999 | 1 | 1 | 1 | 1 | 1 | 1 |
| 290,000 - 299,999 | 2 | 1 | - | 2 | 1 | - |
| 300,000 - 309,999 | - | 1 | 1 | - | 1 | 1 |
| 310,000 - 319,999 | 2 | 1 | 2 | 2 | 1 | 2 |
| 320,000 - 329,999 | 3 | 1 | - | 3 | 1 | - |
| 330,000 - 339,999 | - | 2 | - | - | 2 | - |
| 350,000 - 359,999 | 1 | - | - | 1 | - | - |
| 360,000 - 369,999 | 1 | - | 1 | 1 | - | 1 |
| 370,000 - 379,999 | 1 | 3 | 3 | 1 | 3 | 3 |
| 380,000 - 389,999 | - | - | 1 | - | - | 1 |
| 400,000 - 409,999 | 2 | - | 1 | 2 | - | 1 |
| 410,000 - 419,999 | 1 | - | 2 | 1 | - | 2 |
| 420,000 - 429,999 | - | - | 1 | - | - | 1 |
| 430,000 - 439,999 | 1 | - | 1 | 1 | - | 1 |
| 440,000 - 449,999 | - | 2 | - | - | 2 | - |
| 450,000 - 459,999 | 1 | 3 | - | 1 | 3 | - |
| 470,000 - 479,999 | 1 | - | - | 1 | - | - |
| 480,000 - 489,999 | - | - | 1 | - | - | 1 |
| 490,000 - 499,999 | 1 | 1 | - | 1 | 1 | - |

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24 | Remuneration of Executive Officers (continued)

| Number | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 30 Sept 2001 | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 | 12 months ended 30 Sept 2001 |
|---|--------------------------------|--------------------------------|---------------------------------|--------------------------------|--------------------------------|---------------------------------|
| 500,000 - 509,999 | - | 1 | - | - | 1 | - |
| 510,000 - 519,999 | - | 3 | - | - | 3 | - |
| 520,000 - 529,999 | 1 | - | 1 | 1 | - | 1 |
| 570,000 - 579,999 | 1 | - | - | 1 | - | - |
| 580,000 - 589,999 | - | 1 | - | - | 1 | - |
| 600,000 - 609,999 | 1 | - | - | 1 | - | - |
| 610,000 - 619,999 | - | 1 | - | - | 1 | - |
| 630,000 - 639,999 | 2 | - | - | 2 | - | - |
| 680,000 - 689,999 | - | 1 | 1 | - | 1 | 1 |
| 720,000 - 729,999 | 1 | - | - | 1 | - | - |
| 820,000 - 829,999 | - | - | 1 | - | - | 1 |
| 1,470,000 - 1,479,999 | - | 1 | 1 | - | 1 | 1 |
| 2,340,000 - 2,349,999 | - | 1 | - | - | 1 | - |
| 2,450,000 - 2,459,999 | - | - | 1 | - | - | 1 |
| 2,850,000 - 2,859,999 | - | 1 | - | - | 1 | - |
| 3,010,000 - 3,019,999 | 1 | - | - | 1 | - | - |
| Total Number of Executive Officers | 37 | 36 | 36 | 37 | 36 | 36 |

An executive officer includes persons who work in or mainly in Australia, receiving gross remuneration in excess of \$100,000 who are responsible for the strategic direction and management of major business units.

(i) Income and benefits of executives includes:

- Base pay consists of salary package, company superannuation contributions and fringe benefits tax;
- Other benefits include travel, housing and tax advisory benefits. These benefits are only payable in relation to executives working outside their country of normal residence
- Short-term incentive plan payments relating to actual performance for the Group and the executive for the previous period; and
- Retirement/redundancy/termination payments.

(ii) The Short Term Incentive Plan (STI) is an annual plan open to all senior managers and executives. The incentive opportunity is typically between 0% and 60% of base pay (excluding other benefits). The plan is based on performance against set targets for corporate, functional unit and individual measures. The measures include financial, customer service and individual measures.

The Australian Executive Plan commenced in 1997 and provides for selected senior managers and executives, who contribute significantly to the Company's future long term profitability, to be invited to participate in an equity based Long Term Incentive Plan (LTI). This is regarded as an important element of AXA APH's remuneration policy. The Board believes that the executive share plan encourages the attraction and retention of talented senior managers and executives by rewarding participants for enhancing shareholder value. Offers under the Australian Executive Plan are made to senior managers and executives at the discretion of the Board, usually on an annual basis. For offers made in 2002, the typical incentive opportunity estimated to be equivalent to between 10% and 35% of base pay, calculated by reference to the Black-Scholes methodology.

All shares acquired for the purpose of these plans are acquired on the Australian Stock Exchange (ASX) or New Zealand Stock Exchange (NZSE) and there is no dilution of shareholders' ownership of AXA APH. Participants are required to pay a set amount to acquire shares pursuant to the plans, and the exercise of the rights to acquire shares pursuant to the executive share plan (known as "allocation rights") require that certain performance criteria be achieved by AXA APH. These criteria along with further details of the Australian Executive Plan are set out in the Directors' Report and in note 33.

A remuneration value is not attributed to the allocation rights.

Notes

to the Financial Report for the year ended 31 December 2002

25 | Related Party Disclosures

| \$'000 | Consolidated | | Company | |
|---|--------------------|-------|----------------|----------------|
| | 2002 | 2001 | 2002 | 2001 |
| (a) Directors | | | | |
| Loans – Total Amount** | | | | |
| Aggregate of loans outstanding at balance date made to the Directors of the entities in the AXA Asia Pacific Holdings Group (AXA APH Group) and their Director-related entities from: | | | | |
| The Company | – | – | – | – |
| AXA APH Group | 1,970 | 5,093 | – | – |
| Loans Advanced to Directors During the Year** | | | | |
| Aggregate of loans advanced during the year to the Directors of the entities in the AXA Asia Pacific Holdings Group and their Director-related entities by: | | | | |
| The Company | – | – | – | – |
| AXA APH Group | 654 | 2,307 | – | – |
| Loan Repayments Received from Directors During the Year** | | | | |
| Aggregate of loans repaid during the year by Directors of the National Mutual Holdings Group and their Director-related entities to: | | | | |
| The Company | – | – | – | – |
| AXA APH Group | 1,612 | 1,132 | – | – |
| ** Loans made under normal commercial terms, or on terms consistent with those applicable to management. | | | | |
| The following Directors of each entity in the economic entity received loans and/or made loan repayments during the year: | | | | |
| # B Birchall | * # M Knight | | | |
| # M G Birrell | * K Le Plastringer | | | |
| * # R M Camm | * # R M McEwan | | | |
| # H Coleman | * # A R Penn | | | |
| # G Cumbrae - Stewart | * # R M Switkowski | | | |
| # M Hession | | | | |
| * Loans Advanced to Directors | | | | |
| # Loans Repaid by Directors | | | | |
| Interest Revenue | | | | |
| Interest revenue on loans provided by AXA Asia Pacific Holdings or controlled entities in the AXA APH Group to Directors and Director-Related Entities of: | | | | |
| The Company | – | – | – | – |
| AXA Asia Pacific Holdings Group Companies | 151 | 338 | – | – |
| | Issuing Entity | Class | Number 2002 | Number 2001 |

Share transactions with Directors and Director-related entities

The aggregate number of shares held by Directors of the Company and their Director-related entities as at reporting date ⁽¹⁾⁽²⁾

| | | | |
|-----------------------------------|----------|-----------|---------|
| AXA Asia Pacific Holdings Limited | Ordinary | 1,928,842 | 950,414 |
|-----------------------------------|----------|-----------|---------|

Acquisitions

The aggregate number of shares acquired by Directors of the Company and their Director-related entities during the financial year and held as at reporting date ⁽³⁾

| | | | |
|-----------------------------------|----------|-----------|---------|
| AXA Asia Pacific Holdings Limited | Ordinary | 1,097,894 | 596,635 |
|-----------------------------------|----------|-----------|---------|

Disposals

The aggregate number of shares disposed by Directors of the Company and their Director-related entities during the financial year

| | | | |
|-----------------------------------|----------|---|--------|
| AXA Asia Pacific Holdings Limited | Ordinary | – | 50,000 |
|-----------------------------------|----------|---|--------|

(1) Included in the number of shares held by directors at 31 December 2001 were 119,466 shares held by directors who resigned during the fifteen months ended 31 December 2001.

(2) Included in the number of shares held by directors at 31 December 2002 were 1,616,775 shares held by directors who resigned during 2002.

(3) The number of shares acquired during 2002 include 1,023,394 shares acquired by directors who resigned during 2002.

Notes

to the Financial Report for the year ended 31 December 2002

25 | Related Party Disclosures (continued)

| \$'000 | Consolidated | | Company | |
|---|--------------------|-------------------|---------|------|
| | 2002 | 2001 | 2002 | 2001 |
| (b) Other transactions with Directors and their Director-related entities | | | | |
| (i) No services were provided during the year to controlled entities within the AXA APH Group by Directors or Director-related entities. The information on such transactions for the prior year is provided below: | | | | |
| | Service: | Directors: | | |
| | Legal Services: | J Liebmann | – | 194 |
| | Contract Services: | K Gilligan | – | 200 |
| | | | – | – |

These services were provided under normal commercial terms and conditions on an arm's length basis.

(ii) Transactions entered into during the period by Directors and their Director-related entities which were on the same terms and conditions available to other employees and customers and are trivial or domestic in nature and include:

- Purchase of insurance products available to other employees and policyholders:
 - life insurance
 - health insurance
 - general insurance
- Purchase of superannuation products available to other employees and policyholders
- Placement of funds on deposit
- Acquisition and disposal of units in controlled unit trusts and receipt of trust distributions
- Acquisition of parent entity shares via employee share scheme or option scheme.

(iii) A number of the Directors of the AXA APH Group are also Directors of other public companies which have transactions with the economic entity. The Directors do not believe that they have the capacity to control or significantly influence the financial or operating policies of either company in their dealings with each other. Those companies are therefore not considered to be director-related entities.

(c) Transactions within the wholly-owned group

Details of the dividend revenue derived by the Company from wholly-owned controlled entities are disclosed in Note 2 of the financial report. Amounts receivable from and payable to wholly-owned controlled entities are disclosed in the respective notes to the financial report.

Transactions that occurred during the financial year between entities in the wholly-owned group were:

- Provision of Administrative Services to wholly-owned controlled entities based on cost and/or agreed charges. Services include accounting, secretarial, payroll, taxation, disbursements, group management, legal and internal audit
- Reinsurance
- Data processing services and supply of computer equipment by operational lease are provided by NM Computer Services Pty Ltd
- Cash depository services on normal commercial terms and conditions
- Provision of office accommodation on normal terms and conditions
- Reimbursement of expenses and disbursements made on behalf of wholly-owned controlled entities
- Provision of investment management services on normal terms and conditions
- Granting of loan facilities at nil interest and at market rates
- Receipt of insurance premiums on normal terms and conditions
- Receipt of superannuation contributions on normal terms and conditions
- Receipt and payment of agency fees and commissions on normal terms and conditions.

In September 2000, AC&L entered into a reinsurance treaty with NMLA for 88% of its Policy Liabilities to meet the capital adequacy and solvency requirements under the Life Insurance Act 1995. On 29 November 2002, approval was given by the Federal Court to transfer the business of AC&L Statutory No 1 and 6 Fund to NMLA Statutory No 1 and 4 Fund respectively. The reinsurance treaty between AC&L and NMLA was dissolved upon transfer of the AC&L business. The transfer occurred with an effective date of 1 December 2002. Deregistration and liquidation subsequently occurred on 12 December 2002.

Notes

to the Financial Report for the year ended 31 December 2002

25 | Related Party Disclosures (continued)

| \$'000 | Consolidated | | Company | |
|---|--------------|--------|---------|------|
| | 2002 | 2001 | 2002 | 2001 |
| (d) Transactions with partly-owned controlled entities | | | | |
| Any Interest received or paid is disclosed in Note 2 | | | | |
| Any dividend received is disclosed in Note 2 | | | | |
| Other transactions with partly-owned entities: | | | | |
| Management fees paid | 345 | 360 | - | - |
| Distributions received from partly-owned trusts | 83,167 | 83,418 | - | - |
| Other Expenses Paid | 447 | 144 | - | - |
| Aggregate loans receivable | 1,613 | 692 | - | - |
| Aggregate loans payable | - | 3 | - | - |
| (e) Transactions with associated entities | | | | |
| Any Interest received or paid is disclosed in Note 2 | | | | |
| Any dividend received is disclosed in Note 2 | | | | |
| Management Fees paid to associate | 5,963 | 5,047 | - | - |
| Aggregate Payable | 61 | 92 | - | - |
| Operational Charges paid to associates | 25,241 | 21,131 | - | - |
| Superannuation contributions received | 291 | 951 | - | - |
| Aggregate loans receivable | 8,879 | 9,768 | - | - |
| Fees charged to associates | 7,618 | - | - | - |

On 30 August 2002, AXA APH sold its investment in AXA Australia Health Insurance Pty Limited (AXA Health) to a subsidiary of Macquarie Health Acquisitions Pty Limited (MHA). MHA, including its investment in AXA Health, has been treated as an associate from 30 August 2002. Further details of this transaction are disclosed in Note 1. Under a service level agreement between The National Mutual Life Association of Australasia Limited (NMLA) and AXA Health, NMLA has provided various business support services, including information technology, finance, human resources and property facilities. Fees charged under this agreement since 30 August 2002 total \$7,619,055.

During the period Alliance US provided services to the company for the management of the equity portfolio.

Fees charged for these services totalled \$2,339,000 (2001: \$2,902,000).

(f) Transactions with other related parties

AXA SA and the Company have agreed to provide each other with personnel, property and other services in order to assist each other in carrying on and developing their respective businesses. The provider of services in terms of these agreements, will be reimbursed for the costs and expenses (direct and indirect) for the provision of such services, provided that the costs and expenses reimbursed may not exceed the charges which would be incurred in acquiring equivalent services from an unrelated third party. Services from AXA GIE (in Paris) to the Company include:

| | | |
|----------------------------|--------------------------|----------------------------|
| Corporate Financial Advice | Staff Training | Information Systems |
| Human Resources | Accounting and Reporting | Group Strategic Purchasing |

The fees for these services totalled \$8,069,744 (2001: \$5,000,000 for the 15 month period which was for AXA Management Fees only excluding the Global Information Technology Organisation)

During the period AXA Tech US provided services to the company for the migration of mainframe operations from Australia to the US. Fees charged for these services totalled \$3,000,000 (2001: nil).

Dividends paid by the Company to AXA and other AXA Group entities \$110,108,057 (2001: \$87,637,025).

During the period AXA Business Services in Bangalore provided services to the company for processing, maintenance, alterations and new business for selected Life Insurance and Investment Product contracts. Fees charged for these services totalled approximately \$783,000.

(g) Controlling entities

The parent entity in the economic entity and the ultimate Australian parent entity is AXA APH Limited. The ultimate parent entity is AXA SA.

Notes

to the Financial Report as at 31 December 2002

26 | Auditors' Remuneration

| \$'000 | Consolidated | | Company | |
|---|--------------|--------------|------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| (a) Total of the remuneration received or due and receivable directly or indirectly from any entity in the AXA APH Group or any related entity in connection with auditing the financial report | | | | |
| – by the auditor of the parent entity | 1,103 | 1,345 | 116 | 161 |
| – by other member firms of Deloitte Touche Tohmatsu | 444 | 509 | – | – |
| | 1,547 | 1,854 | 116 | 161 |
| (b) Total of the remuneration received or due and receivable directly or indirectly from any entity in the AXA APH Group or any related entity in connection with other services provided to any entity in the AXA Group* | | | | |
| – by the auditor of the parent entity | 1,555 | 4,483 | 57 | 44 |
| – by other member firms of Deloitte Touche Tohmatsu | 946 | 2,622 | – | – |
| – by other auditors | – | 3 | – | – |
| | 2,501 | 7,108 | 57 | 44 |
| TOTAL | 4,048 | 8,962 | 173 | 205 |

*Other services to companies within the group include:

| | | | | |
|--|--------------|--------------|-----------|-----------|
| Regulatory services (e.g. APRA and dealers' licence returns) | 557 | 508 | – | – |
| U.S. & French-GAAP reporting requirements | 462 | 390 | 57 | 44 |
| Tax compliance | 145 | 243 | – | – |
| Due diligence | 549 | 2,622 | – | – |
| Change in balance date project | – | 634 | – | – |
| Development of systems | – | 1,019 | – | – |
| Review of health strategy | – | 728 | – | – |
| Systems and software enhancement project | – | 440 | – | – |
| Project management services | 100 | 282 | – | – |
| Accounting advice on new accounting standards | 34 | – | – | – |
| Review of risk product strategy | 320 | – | – | – |
| Other services | 334 | 239 | – | – |
| Other auditors | – | 3 | – | – |
| | 2,501 | 7,108 | 57 | 44 |

Notes

to the Financial Report for the year ended 31 December 2002

27 | Notes to the Statement of Cash Flows

| \$ million | Consolidated | | Company | |
|---|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Reconciliation of Cash | | | | |
| For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows: | | | | |
| Cash at bank and deposits on call | 1,418 | 1,597 | 6 | 6 |
| Bank overdrafts | – | – | – | – |
| Cash at the end of the financial year | 1,418 | 1,597 | 6 | 6 |

| \$ million | Consolidated | |
|--|-----------------------------------|-----------------------------------|
| | 12 months ended 31 Dec 2002 | 15 months ended 31 Dec 2001 |
| Disposals of controlled entities | | |
| <u>Controlled by AXA Asia Pacific Holdings Limited</u> | | |
| AXA Australia Health Insurance Pty Limited. Refer to Note 1 for further details of the sale transaction. | | |
| <u>Controlled by National Mutual Life Shareholders' Funds</u> | | |
| National Payroll Systems Pty Limited. The Group has no interest remaining at balance date in respect of this entity. | | |
| In addition the sale of the business of NMLA Statutory Fund 3 (Taiwan) was completed during the year. | | |
| Proceeds | | |
| Cash ⁽¹⁾ | 80 | 213 |
| Total proceeds | 80 | 213 |

| | | |
|--------------------------------------|------------|------------|
| Book value of net assets disposed | | |
| Cash | 13 | 40 |
| Receivables | 52 | 12 |
| Investments | 255 | – |
| Other assets | 7 | 127 |
| Operating assets | 5 | 124 |
| Payables | (3) | (11) |
| Borrowings | – | (112) |
| Provisions | (107) | (21) |
| Other liabilities | (116) | (63) |
| Net assets disposed | 106 | 96 |
| Cash movement on disposal | | |
| Cash consideration | 80 | 213 |
| Cash balances disposed | (13) | (40) |
| Net cash movement on disposal | 67 | 173 |

(1) Cash proceeds from disposals of controlled entities consists of:

| | \$m |
|--------------------------------------|-------------------|
| AXA Health Insurance Pty Limited | 57 ⁽²⁾ |
| National Payroll Systems Pty Limited | 4 |
| NMLA Statutory Fund No 3 (Taiwan) | 19 |
| | 80 |

(2) In addition to cash consideration of \$57 million, on the sale of AXA Health Insurance Pty Ltd, Vendor Shares to the value of \$513 million have also been received by the Company (refer detailed transaction description in Note 1). In the AXA APH Group consolidated accounts the application of AASB 1016 "Accounting for Investments in Associates" has resulted in the elimination of any unrealised profit on sale (refer Note 2).

Notes

to the Financial Report for the year ended 31 December 2002

27 | Notes to the Statement of Cash Flows (continued)

Acquisitions of controlled entities

| | Date of acquisition | Proportion of shares acquired | Consideration \$ million |
|--|------------------------|-------------------------------|--------------------------|
| Name of Entity acquired by National Mutual Life Shareholders' Fund | | | |
| ipac Securities Limited | 30 Aug 2002 | 100.00% | 208 |
| The operating results of the acquired entity have been included in the consolidated Statement of Financial Performance from the date AXA Asia Pacific Holdings Limited obtained control of the entity. | | | |
| | Consolidated | | |
| | 12 months ended | 15 months ended | |
| \$ million | 31 Dec 2002 | 31 Dec 2001 | |
| Consideration | | | |
| Cash | 208 | 220 | |
| Total businesses acquired | 208 | 220 | |
| Fair value of net assets of entities acquired | | | |
| Receivables | 16 | – | |
| Investments | 35 | – | |
| Property, Plant & Equipment | 6 | – | |
| Deferred Tax Assets | 3 | – | |
| Intangibles | 5 | – | |
| Other Assets | 2 | 142 | |
| Payables | (15) | – | |
| Borrowings | – | (129) | |
| Interest Bearing Liabilities | (18) | – | |
| Restructuring Provision | (18) | – | |
| Other Provisions | (10) | (19) | |
| Other Liabilities | – | (9) | |
| Net assets acquired | 6 | (15) | |
| Outflow of cash to acquire controlled entities, net of cash acquired | | | |
| Cash consideration | 208 | 220 | |
| Net cash movement on acquisition | 208 | 220 | |

Notes

to the Financial Report for the year ended 31 December 2002

27 | Notes to the Statement of Cash Flows (continued)

| \$ million | Consolidated | | Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Financing facilities | | | | |
| The total facilities available at balance date were as follows: | | | | |
| Bank overdraft and bill facilities | 5 | 5 | - | - |
| Loan facilities and subordinated debt (denominated in United States Dollars) | 1,523 | 1,669 | - | - |
| Loan facilities and subordinated debt (denominated in Australian Dollars) | 1,260 | 833 | - | - |
| Bank standby facilities | 100 | - | - | - |
| Total financing facilities | 2,888 | 2,507 | - | - |
| Used at balance date: | | | | |
| Bank overdraft and bill facilities | - | - | - | - |
| Loan facilities and subordinated debt (denominated in United States Dollars) | 1,523 | 1,669 | - | - |
| Loan facilities and subordinated debt (denominated in Australian Dollars) | 980 | 553 | - | - |
| Bank standby facilities | - | - | - | - |
| Total financing facilities used | 2,503 | 2,222 | - | - |
| Unused at balance date: | | | | |
| Bank overdraft and bill facilities | 5 | 5 | - | - |
| Loan facilities and subordinated debt (denominated in United States Dollars) | - | - | - | - |
| Loan facilities and subordinated debt (denominated in Australian Dollars) | 280 | 280 | - | - |
| Bank standby facilities | 100 | - | - | - |
| Total financing facilities unused | 385 | 285 | - | - |

Senior debt

During the year, the AXA APH Group entered into a bridging loan facility of AUD600 million to finance the acquisition of ipac Securities Limited and refinance some existing debt. AUD500 million is currently drawn under this facility which matures in March 2003. The AXA APH Group also has a three-year debt facility of AUD300 million (AUD200 million drawn down), loans of USD395 million (fully drawn) and AUD80 million (undrawn) repayable at various maturities between September 2004 and September 2009.

Subordinated debt

The AXA APH group has a subordinated loan of AUD280 million borrowed in 2001 and maturing in September 2011. In 2001, the group also sold non-convertible redeemable perpetual preference shares of AXA China Region Limited for a value of USD463 million. These securities are held by AXA SA and its related entities.

| \$ million | Consolidated | | Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | As at 31 Dec 2002 | As at 31 Dec 2001 | As at 31 Dec 2002 | As at 31 Dec 2001 |
| Reconciliation of net cash (used in)/provided by operating activities to operating profit from ordinary activities after income tax | | | | |
| Operating profit/(loss) after income tax | 330 | 395 | 458 | 967 |
| Loss/(profit) from sale of other assets | - | - | (334) | - |
| Foreign exchange (gain)/loss | 102 | 308 | (1) | - |
| Depreciation and amortisation of operating assets | 30 | 33 | - | - |
| Net depreciation/(revaluation) of investment assets and intangibles | 1,445 | 281 | - | - |
| (Increase)/decrease in receivables | 27 | (14) | (85) | - |
| (Increase)/decrease in other assets | 24 | (43) | 2 | - |
| (Increase)/decrease in deferred tax asset | (317) | 4 | (18) | (4) |
| Increase/(decrease) in payables | (37) | 23 | 2 | - |
| Increase/(decrease) in provision for income tax | 75 | (53) | 35 | 7 |
| Increase/(decrease) in deferred tax liability | 4 | (231) | (6) | - |
| Increase/(decrease) in other liabilities | 7 | 1 | 2 | (808) |
| Increase/(decrease) in net policy liabilities | (505) | 808 | - | - |
| Net cash (used in)/provided by operating activities | 1,185 | 1,512 | 55 | 162 |

Non-cash transactions

The following non-cash transactions took place during the year:

- the transfer of business from AC&L to NMLA (see Related party note 25)
- the sale of AXA Health was partly non-cash (refer previous page)
- certain loan restructuring within the wholly-owned group

Notes

to the Financial Report as at 31 December 2002

28 | Investment in Controlled Entities and Associates

| Note | Place of incorporation/ operation | Principal activities | Type | 2002 % Holding | 2001 % Holding |
|--|--------------------------------------|--|------|----------------------|----------------------|
| | AUS | Holding Company | | | |
| (a) controlled entities at balance date | | | | | |
| | AUS | Trustee of Executive Share Plan | Ord | 100 | 100 |
| 4 | AUS | Life & Disability Insurer | Ord | – | 100 |
| | AUS | Finance Company | Ord | 100 | 100 |
| | AUS | Finance Company | Ord | 100 | 100 |
| | AUS | Provision of funds mgt group services | Ord | 100 | 100 |
| | AUS | Master Trust Administrator | Ord | 100 | 100 |
| | NZ | Mgt of Investment Portfolios | Ord | 100 | 100 |
| | AUS | Mgt of Investment Portfolios | Ord | 100 | 100 |
| | AUS | Nominee Company | Ord | 100 | 100 |
| 4 | AUS | Dormant | Ord | – | 100 |
| | AUS | Promotion/Mgt of Unit Trusts | Ord | 100 | 100 |
| | AUS | Dormant | Ord | 100 | 100 |
| 4 | AUS | Dormant | Ord | – | 100 |
| | AUS | Holding Company | Ord | 100 | 100 |
| | LUX | Mgt of Investment Portfolios | Ord | 100 | 100 |
| 3 | AUS | Health Insurance | Ord | – | 100 |
| | AUS | Dormant | Ord | – | 100 |
| | AUS | Holding Company | Ord | 100 | 100 |
| 4 | SING | Dormant | Ord | 100 | 100 |
| | SING | Provision of Life Insurance | Ord | 100 | 100 |
| 10 | BVI | Holding Company | Ord | 100 | 100 |
| 1,10 | BER | Provision of Financial Services | Ord | 73 | 73 |
| 1 | BER | Insurance Underwriter | Ord | 100 | 100 |
| 1 | BER | Trustee Services | Ord | 100 | 100 |
| | HK | Property Investment | Ord | 100 | 100 |
| | HK | Property Investment | Ord | 100 | 100 |
| | HK | Insurance Underwriter | Ord | 100 | 100 |
| | HK | Property Manager | Ord | 100 | 100 |
| | HK | Unit Trust Management Services | Ord | 100 | 100 |
| | HK | Nominee Services | Ord | 100 | 100 |
| | HK | Investment Advisor | Ord | 100 | 100 |
| 2 | HK | Trustee Services | Ord | 20 | 20 |
| | IND | Provision of Life Insurance | Ord | 80 | 80 |
| 4 | AUS | Holding Company | Ord | – | 100 |
| | AUS | Provision of Life Insurance | Ord | 100 | 100 |
| Controlled by Shareholders' Fund | | | | | |
| | AUS | Provision of Financial Services | Ord | 100 | 100 |
| | AUS | Dormant | Ord | 100 | 100 |
| | NZ | Trust mgr for Securitisation Program | Ord | 100 | 100 |
| | NZ | Mortgage Lending | Ord | 100 | 100 |
| 12 | NZ | Provision of Financial Services | Ord | 75 | 75 |
| | NZ | Unit Trust Management | Ord | 100 | 100 |
| | NZ | Superannuation Mgt Services | Ord | 100 | 100 |
| | AUS | Trustee Company | Ord | 100 | 100 |
| 11 | AUS | Payroll Bureau | Ord | – | 89 |
| | NZ | Financial Analyst Services | Ord | 100 | 100 |
| | AUS | Holding Company | Ord | 100 | 100 |
| | AUS | Holding Company | Ord | 100 | 100 |
| | AUS | Provision of Financial Services | Ord | 100 | 100 |
| | AUS | Superannuation Trustee | Ord | 100 | 100 |
| | AUS | Investment Services | Ord | 100 | 100 |
| | AUS | Administration Services | Ord | 100 | 100 |
| | NZ | Holding Company | Ord | 100 | 100 |
| | NZ | Holding Company | Ord | 100 | 100 |
| 16 | NZ | Holding Company | Ord | – | 100 |
| | NZ | Provision of Financial Services | Ord | 100 | 100 |
| 16 | NZ | Dormant | Ord | – | 100 |
| 16 | NZ | Dormant | Ord | – | 100 |
| 16 | NZ | Dormant | Ord | – | 100 |
| | NZ | Finance Company | Ord | 100 | 100 |
| 4 | NZ | Dormant | Ord | – | 100 |
| 4 | NZ | Dormant | Ord | – | 100 |
| | NZ | Administration Services | Ord | 100 | 100 |
| | NZ | Mgt of Investment Portfolios | Ord | 100 | 100 |
| | NZ | Mgt of Investment Portfolios | Ord | 100 | 100 |
| 12,13 | AUS | Provision of Financial and Administration Services | Ord | 100 | – |
| 12,13 | AUS | Mgt of Investment Portfolios | Ord | 100 | – |
| 12,13,15 | AUS | Provision of Financial Services | Ord | 85 | – |
| 12,13 | AUS | Dormant | Ord | 100 | – |
| 12,13 | AUS | Provision of Financial Services | Ord | 100 | – |
| 12,13 | AUS | Dormant | Ord | 100 | – |
| 12,13 | AUS | Trustee Company | Ord | 100 | – |
| 12,13 | AUS | Service Company | Ord | 100 | – |
| 12,13 | AUS | Provision of Financial Services | Ord | 100 | – |
| 12,13 | AUS | Provision of Financial Services | Ord | 100 | – |
| 12,13 | AUS | Investment Company | Ord | 100 | – |

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28 | Investment in Controlled Entities and Associates (continued)

| Note | Place of incorporation/ operation | Principal activities | Type | 2002 % Holding | 2001 % Holding |
|--|--------------------------------------|----------------------------------|------|----------------------|----------------------|
| Controlled by Statutory Funds | | | | | |
| | NZ | Property Holding | Ord | 100 | 100 |
| | AUS | Dormant | Ord | 100 | 100 |
| | AUS | Provision of Financial Services | Ord | 100 | 100 |
| | NZ | Nominee Company | Ord | 100 | 100 |
| | AUS | Provision of Financial Services | Ord | 100 | 100 |
| | AUS | Property Investment | Ord | 100 | 100 |
| | AUS | Property Investment | Ord | 100 | 100 |
| | AUS | Property Investment | Ord | 100 | 100 |
| | AUS | Investment Company | Ord | 100 | 100 |
| | NZ | Trustee Company | Ord | 100 | 100 |
| | NZ | Portfolio admin service | Ord | 100 | 100 |
| | NZ | Investment Management | Ord | 100 | 100 |
| | AUS | Dormant | Ord | 100 | 100 |
| | AUS | Provision of Financial Services | Ord | 100 | 100 |
| | NZ | Finance Company | Ord | 100 | 100 |
| | NZ | Leasing Company | Ord | 100 | 100 |
| | AUS | Dormant | Ord | 100 | 100 |
| 4 | AUS | Dormant | Ord | 100 | 100 |
| | AUS | Issue/Acq Income Prod Assets | Ord | 100 | 100 |
| 5 | AUS | Trustee of Superannuation Fund | Ord | 50 | 50 |
| | NZ | Superannuation Management | Ord | 100 | 100 |
| | USA | Property Management | Ord | 100 | 100 |
| | AUS | Provision of Computer Services | Ord | 100 | 100 |
| | NZ | Provider of Finance Mortgages | Ord | 100 | 100 |
| | AUS | Agricultural Activities | Ord | 100 | 100 |
| 4 | AUS | Dormant | Ord | - | 100 |
| | AUS | Trustees of Super/Insur Plans | Ord | 100 | 100 |
| | AUS | Investment Company | Ord | 50 | 50 |
| 6,7 | AUS | Mgt of Income Producing Assets | Ord | 100 | 100 |
| | AUS | Dormant | Ord | 100 | 100 |
| | AUS | Investment Company | Ord | 100 | 100 |
| | NZ | Dormant | Ord | 100 | 100 |
| | AUS | Trustee Company | - | 100 | 100 |
| | AUS | Dormant | Ord | 100 | 100 |
| Name of Controlled Trusts | | | | | |
| Controlled by Statutory Funds | | | | | |
| | AUS | Mortgage Lending | - | 100 | 100 |
| 8 | NZ | Investment in Equity Markets | - | 99 | 99 |
| 9,14 | AUS | Investing in International Bonds | - | 96 | 80 |
| 9 | AUS | Property Trust | - | 64 | 49 |
| 9 | AUS | Property Trust | - | 74 | 79 |
| 9 | AUS | Property Trust | - | 100 | 100 |
| 9 | AUS | Investment in Debt Markets | - | 100 | 100 |
| 9 | AUS | Investment in Equity Markets | - | 83 | 17 |
| 9 | AUS | Investment in Equity Markets | - | 54 | 8 |
| 9 | AUS | Investment in Equity Markets | - | 72 | 12 |
| 9 | AUS | Investment in Equity Markets | - | 79 | 14 |
| 9 | AUS | Investment in Equity Markets | - | 72 | 18 |
| 9 | AUS | Investment in Equity Markets | - | 72 | 80 |
| 9 | AUS | Investment in Equity Markets | - | 90 | 94 |
| 9 | AUS | Investment in Equity Markets | - | 77 | 99 |
| 9 | AUS | Investment in Equity Markets | - | 74 | 86 |
| 9 | AUS | Investment in Equity Markets | - | 97 | 100 |
| 9 | AUS | Investment in Equity Markets | - | 65 | 100 |
| 9 | AUS | Investment in Equity Markets | - | 53 | 58 |
| 9 | AUS | Investment in Equity Markets | - | 65 | 74 |
| 9 | AUS | Investment in Equity Markets | - | 56 | 58 |
| 9 | AUS | Investment in Equity Markets | - | 81 | 81 |
| 9 | AUS | Investment in Equity Markets | - | 52 | 91 |
| The National Mutual Life Association of Australasia Limited | | | | | |
| Controlled Partnerships/Joint Ventures | | | | | |
| Controlled by Statutory Funds | | | | | |
| 6 | AUS | Hotel Operation | - | - | 50 |

All entities are audited by Deloitte Touche Tohmatsu or other member firms, unless otherwise stated.

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28 | Investment in Controlled Entities and Associates (continued)

Notes

1 Place of operation where it differs from place of incorporation

| Entity | Place of operation |
|--|--------------------|
| AXA China Region Limited | Hong Kong |
| AXA China Region Insurance Company (Bermuda) Limited | Hong Kong |
| AXA China Region (Bermuda) Limited | Hong Kong |
| 2 20% owned by AXA China Region Investment Management Limited, 20% AXA Partners Limited 20% AXA China Region Insurance Company (Bermuda) Limited 20% AXA China Region Insurance Company Limited | |
| 3 Sold 30 August 2002 | |
| 4 Currently in voluntary liquidation | |
| 5 An additional 50% held by National Mutual Corporation (No 2) Pty Limited | |
| 6 An additional 50% held by Enalus Pty Limited | |
| 7 The National Mutual Life Association of Australasia Limited also holds 50% of Ordinary B and C shares | |
| 8 Year end 31 March | |
| 9 Year end 30 June | |
| 10 Detura Limited holds 27% of shares in AXA China Region Limited | |
| 11 Sold on 14 June 2002 | |
| 12 Acquired on 30 August 2002 | |
| 13 Not audited by Deloitte Touche Tohmatsu | |
| 14 Formerly NMFIM International Bond Fund | |
| 15 The remaining 15% holding is owned by ipac Asset Management Limited | |
| 16 Amalgamated with another entity during the year. | |

| Name of associate entity | Note | Place of incorporation/ operation | Principal activities | Holding | | Carrying value | | Contribution to profit | |
|---|-------|--------------------------------------|---------------------------------|-----------|-----------|----------------|-------------|------------------------|-------------|
| | | | | 2002 % | 2001 % | 2002 \$m | 2001 \$m | 2002 \$m | 2001 \$m |
| Equity Accounted | | | | | | | | | |
| Macquarie Health Acquisitions Pty Limited | 3,5 | AUS | Investment | 27 | – | 138 | – | 19 | – |
| Alliance Capital Management Limited | | AUS | Mgt of Investment Portfolios | 50 | 50 | 8 | 5 | 3 | – |
| Alliance Capital Management New Zealand Limited | | NZ | Mgt of Investment Portfolios | 50 | 50 | 1 | 1 | – | – |
| Members Equity Pty Limited | 2 | AUS | Provision of Financial Services | 50 | 50 | 33 | 31 | 2 | (13) |
| AXA Life Insurance Corporation (Philippines) | | PHI | Provision of Life Insurance | 50 | 50 | 17 | 17 | – | – |
| Krungthai AXA Life Insurance Company Limited | | THAI | Life insurance operations | 49 | 49 | 16 | 12 | – | – |
| | | | | | | 213 | 66 | 24 | (13) |
| Market Value Accounted⁽⁸⁾ | | | | | | | | | |
| Greenstone Fund Limited | 1,3 | NZ | Development capital investment | 20 | 20 | 4 | 5 | | |
| Ticor Limited | 3 | AUS | Mining | 29 | 29 | 106 | 89 | | |
| AXA-Minmetals Assurance Company Limited | 4 | HK | Life insurance operations | 25 | 25 | 26 | 15 | | |
| IMB Financial Planning Pty Limited | 3,6,7 | AUS | Provision of Financial Services | 50 | – | 1 | – | | |
| Tynan Mackenzie Pty Limited | 3,6,7 | AUS | Provision of Financial Services | 33.3 | – | 28 | – | | |
| | | | | | | 165 | 109 | | |
| | | | | | | 378 | 175 | | |

1 Year end 31 March

2 Year end 30 September

3 Not audited by Deloitte Touche Tohmatsu or other member firms.

4 AXA China Region has a 49% holding in AXA China SA which has a 51% interest in AXA-Minmetals

5 Details of the sale of AXA Australia Health Insurance Pty Limited and subsequent investment in Macquarie Health Acquisitions Pty Limited have been disclosed in Note 1. The Vendor Shares held by the Company in Macquarie Health Acquisitions Pty Limited confer 27% of the voting rights. However, the Company has the ability to convert the Vendor Shares to 100% of the ordinary share capital of Macquarie Health Acquisitions Pty Limited.

6 Acquired as part of the acquisition of ipac Securities Limited during 2002.

7 Year end 30 June

8 Associates held in a market value environment contribute to Group profit their movement in market value. This is included as part of Net realised gains/losses on Equity Securities in Note 2 "Operating Profit".

29 | Subsequent Events

On 8 January 2003 the Company completed the sale of its 50% interest in Members Equity Pty Limited to Industry Funds Services Pty Limited as trustee for the IFBT Trust. As a result, the IFBT Trust now owns 100% of Members Equity Pty Limited. In consideration for the sale, the Company received \$95 million cash. The after tax profit on sale is estimated at \$40 million. This will be included in the financial results of the Company for the year ended 31 December 2003.

On 6 February 2003 the Company issued a notice to Macquarie Bank Limited of its intention to convert its Vendor Shares in Macquarie Health Acquisitions Pty Limited (MHA) to ordinary shares on 28 February 2003.

Other than the matters discussed above, there has not been any matter or circumstance that has arisen since the end of the year that has significantly affected, or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

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to the Financial Report for the year ended 31 December 2002

30 | Segment Information

The revenue, result, assets and liabilities of each segment include items directly attributable to the segment and also those items that can be allocated on a reasonable basis. Unallocated items primarily comprise corporate assets and expenses. Inter-segment pricing is determined on an arm's length basis.

Geographically (primary segment reporting) the Group is organised into three operating divisions as follows:

- Australia and New Zealand: life insurance, funds management, health insurance and borrowing costs
- China Region: life insurance and funds management in Hong Kong
- Other: life insurance and funds management in Singapore

The Group also operates in three business segments (secondary segment reporting) as follows:

- life insurance and funds management: includes life, term, trauma and income protection insurance, retail funds, wealth management and superannuation
- health insurance: represents health and medical insurance cover
- other: comprises non-recurring/significant items

Primary Reporting – Geographical segments

Profit and loss disclosure

| \$ million | Australia and New Zealand | | China Region | | Singapore | | Consolidation adjustments | | Consolidated total | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | 12 mths ended 31 Dec 02 | 15 mths ended 31 Dec 01 | 12 mths ended 31 Dec 02 | 15 mths ended 31 Dec 01 | 12 mths ended 31 Dec 02 | 15 mths ended 31 Dec 01 | 12 mths ended 31 Dec 02 | 15 mths ended 31 Dec 01 | 12 mths ended 31 Dec 02 | 15 mths ended 31 Dec 01 |
| Revenue | | | | | | | | | | |
| External segment revenue | 1,250 | 2,445 | 1,281 | 2,497 | 461 | 311 | – | – | 2,992 | 5,253 |
| Intra-segment revenue | 493 | 930 | – | – | 4 | 10 | (497) | (940) | – | – |
| Share of net profit of equity accounted associates | 24 | (13) | – | – | – | – | – | – | 24 | (13) |
| Total revenue | 1,767 | 3,362 | 1,281 | 2,497 | 465 | 321 | (497) | (940) | 3,016 | 5,240 |

Result

| | | | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|----------|----------|------------|------------|
| Profit from ordinary activities before income tax expense | 17 | 67 | 227 | 219 | (5) | – | – | – | 239 | 286 |
| Income tax (expense)/benefit | 100 | 120 | (11) | (10) | 2 | (1) | – | – | 91 | 109 |
| Profit from ordinary activities after income tax expense | 117 | 187 | 216 | 209 | (3) | (1) | – | – | 330 | 395 |

Balance Sheet disclosure

| \$ million | Australia and New Zealand | | China Region | | Singapore | | Consolidation adjustments | | Consolidated total | |
|------------------------------|---------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------------|--------------------|--------------------|--------------------|
| | As at 31 Dec 02 | As at 31 Dec 01 | As at 31 Dec 02 | As at 31 Dec 01 | As at 31 Dec 02 | As at 31 Dec 01 | As at 31 Dec 02 | As at 31 Dec 01 | As at 31 Dec 02 | As at 31 Dec 01 |
| Segment assets | 20,562 | 21,256 | 7,344 | 7,408 | 1,040 | 1,077 | (1,590) | (1,590) | 27,356 | 28,151 |
| Equity accounted investments | 319 | 131 | 26 | 15 | 33 | 29 | – | – | 378 | 175 |
| Total assets | 20,881 | 21,387 | 7,370 | 7,423 | 1,073 | 1,106 | (1,590) | (1,590) | 27,734 | 28,326 |
| Total liabilities | 17,578 | 18,186 | 4,924 | 4,809 | 1,010 | 1,038 | 822 | 904 | 24,334 | 24,937 |

Secondary reporting – Business segments

| \$ million | Life insurance and funds management | | Health insurance | | Other | | Consolidated total | |
|--|-------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | 12 mths ended 31 Dec 02 | 15 mths ended 31 Dec 01 | 12 mths ended 31 Dec 02 | 15 mths ended 31 Dec 01 | 12 mths ended 31 Dec 02 | 15 mths ended 31 Dec 01 | 12 mths ended 31 Dec 02 | 15 mths ended 31 Dec 01 |
| Segment revenue from external customers | 2,439 | 4,126 | 553 | 1,070 | – | 57 | 2,992 | 5,253 |
| \$ million | Life insurance and funds management | | Health insurance | | Other | | Consolidated total | |
| | As at 31 Dec 02 | As at 31 Dec 01 | As at 31 Dec 02 | As at 31 Dec 01 | As at 31 Dec 02 | As at 31 Dec 01 | As at 31 Dec 02 | As at 31 Dec 01 |
| Segment assets | 27,596 | 28,002 | 138 | 324 | – | – | 27,734 | 28,326 |

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to the Financial Report as at 31 December 2002

31 | Financial Instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the Financial Report. Significant terms and conditions of Policy Liabilities are disclosed in Notes 1 and 16 and of Subordinated Debt are disclosed in Note 15.

(a) Objectives of Derivative Financial Instruments

A derivative instrument is a contract whose value depends on (or derives from) the value of an underlying asset, reference rate or index.

Investment management

The Life Companies included in the Group use derivatives as part of their normal investment management procedures. Derivatives are principally used as an effective alternative to physical assets in order to achieve a desired level of total exposure to various asset classes, and as a means to hedge against market movements. The most commonly used derivatives are futures contracts, options, swaps and foreign exchange contracts.

The table below details the effective exposure and net market value of investment management derivatives for life companies and unit trusts. The effective exposure provides an indication of the economic entity's exposure to various asset classes through the use of derivative instruments. The market value in the table below gives no indication of the ultimate gain or loss that will occur upon settlement of the derivatives, as the ultimate gain or loss will depend on the applicable market price at the time of settlement.

Derivative instruments

| \$ million | Market Value | Net Effective Exposure |
|-----------------------------------|--------------|------------------------|
| 2002 | | |
| Fixed Interest Futures – Domestic | 1 | 45 |
| – International | 3 | 161 |
| Equity Futures – Domestic | (1) | (123) |
| – International | (3) | 231 |
| Foreign Currency | (1) | (371) |
| Interest Rate Swaps | 21 | (407) |
| | 20 | (464) |
| 2001 | | |
| Interest Rate Futures | (4) | (793) |
| Equity Futures | 79 | 514 |
| Foreign Currency | (1) | (692) |
| Interest Rate Swaps | 12 | 600 |
| | 86 | (371) |

Derivatives held by life companies are valued on a mark-to-market basis, which involves the calculation and recognition of unrealised gains and losses on all current positions. Accordingly, the Consolidated Statement of Financial Position reflects all unrealised gains and losses on derivatives held by Life Companies.

Group

The Group also entered into a series of cross currency swaps (HKD to AUD with a notional value of \$554m (2001: AUD \$609m) and HKD to USD with a notional value of \$228m (2001: AUD \$250m) to hedge the Groups' investment in AXA China Region. These swaps are recorded in the Statement of Financial Position at market value, with any movement taken through the foreign currency translation reserve. The market value of these swaps at 31 December 2002 is an unrealised loss of \$88m (2001: unrealised loss of \$139m). The impact of these swaps on the Groups' foreign exchange exposure is disclosed in note (e) Foreign Currency Risk Exposure.

In addition, the Group entered into a series of interest rate swaps in April 2002 (receiving fixed USD and paying floating USD) with a notional value of US\$500m (AUD\$888m). The maturity of these swaps range from April 2004 to April 2007. These swaps have been entered into to hedge the Groups' borrowing costs. These swaps are accounted for in the Statement of Financial Position on an accruals basis and they are not marked to market. The market value of these swaps off balance sheet at 31 December 2002 was an unrealised loss of \$47m. The impact on the Groups' exposure to these interest rate swaps are set out below in note (b) "Interest Rate Risk".

There are four major types of risks inherent in derivatives, these are:

- 1 Market Risk – the risk of loss due to a change in market conditions.
- 2 Liquidity Risk – the risk that a transaction in a particular physical asset or derivative could have a detrimental effect on its price; for example in the extreme, it may not be possible to sell the security.
- 3 Credit Risk – the risk that a loss will be incurred if a counterparty defaults on a contract.
- 4 Operational Risk – is the risk of losses occurring as a result of inadequate systems and control, human error or management failure.

The AXA Group has a Risk Management Statement which describes its controls to manage these risks inherent in derivatives. In accordance with this statement, derivatives cannot be used to leverage exposure to an asset class. Market risk is controlled through a process of setting exposure limits to various asset classes and exposure limits to particular holdings within an asset class.

Liquidity and credit risk are managed by a process of setting limits on transaction levels and aggregate counterparty exposure. These limits, and the criteria upon which they are originally set, are regularly monitored and control processes are independent of portfolio trading activity.

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31 | Financial Instruments (continued)

(b) Interest Rate Risk

| As at 31 December 2002 | Average interest rate % | Floating interest rate % | Average fixed interest maturing in: | | | Non-interest bearing \$ million | Total \$ million |
|---|-------------------------|--------------------------|-------------------------------------|------------------------------|------------------------------|---------------------------------|------------------|
| | | | 1 year or less \$ million | Over 1 to 5 years \$ million | More than 5 years \$ million | | |
| Interest bearing assets | | | | | | | |
| Cash at bank and deposits on call | 3.30 | 1,404 | – | – | – | 14 | 1,418 |
| Debt Securities | | | | | | | |
| Interest bearing securities | | | | | | | |
| – National government | 4.09 | – | 6 | 703 | 1,663 | – | 2,372 |
| – Other public sector | 5.43 | – | 30 | 315 | 617 | – | 962 |
| – Private sector (secured) | 5.79 | 1,178 | 2,300 | 1,630 | 2,591 | 6 | 7,705 |
| – Private sector (unsecured) | 6.25 | – | – | – | 31 | – | 31 |
| Loans to | | | | | | | |
| – Other related parties (unsecured) | – | – | – | – | – | 82 | 82 |
| – Other parties (unsecured) | 5.08 | 18 | 2 | – | – | – | 20 |
| – Other parties (secured) | 7.39 | 388 | 303 | 167 | 133 | (5) | 986 |
| Total interest bearing assets | | 2,988 | 2,641 | 2,815 | 5,035 | 97 | 13,576 |
| Total non-interest bearing assets | | – | – | – | – | 14,158 | 14,158 |
| Total on balance sheet assets | | 2,988 | 2,641 | 2,815 | 5,035 | 14,255 | 27,734 |
| Off balance sheet derivatives | | | | | | | |
| Swaps | | (407) | 80 | 198 | 129 | – | – |
| Futures | | (206) | 206 | – | – | – | – |
| Total off balance sheet derivatives | | (613) | 286 | 198 | 129 | – | – |
| Total | | 2,375 | 2,927 | 3,013 | 5,164 | 14,255 | 27,734 |
| Interest bearing liabilities | | | | | | | |
| Loans from Controlling entity | 3.48 | 1,402 | – | – | – | – | 1,402 |
| Subordinated debt | 3.61 | 1,102 | – | – | – | – | 1,102 |
| Total interest bearing liabilities | | 2,504 | – | – | – | – | 2,504 |
| Total non-interest bearing liabilities | | – | – | – | – | 21,830 | 21,830 |
| Total on balance sheet liabilities | | 2,504 | – | – | – | 21,830 | 24,334 |
| Off balance sheet derivatives | | | | | | | |
| Swaps | | (888) | – | 888 | – | – | – |
| Total off balance sheet derivatives | | (888) | – | 888 | – | – | – |
| Total | | 1,616 | – | 888 | – | 21,830 | 24,334 |
| Net assets on balance sheet | | 484 | 2,641 | 2,815 | 5,035 | (7,575) | 3,400 |
| Net derivatives | | 275 | 286 | (690) | 129 | – | – |
| Net position | | 759 | 2,927 | 2,125 | 5,164 | (7,575) | 3,400 |

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31 | Financial Instruments (continued)

(b) Interest Rate Risk (continued)

| As at 31 December 2001 | Average interest rate % | Floating interest rate % | Average fixed interest maturing in: | | | Non-interest bearing \$ million | Total \$ million |
|--|-------------------------|--------------------------|-------------------------------------|------------------------------|------------------------------|---------------------------------|------------------|
| | | | 1 year or less \$ million | Over 1 to 5 years \$ million | More than 5 years \$ million | | |
| Interest bearing assets | | | | | | | |
| Cash at bank and deposits on call | 2.42 | 1,585 | – | – | – | 12 | 1,597 |
| Debt Securities | | | | | | | |
| Interest bearing securities | | | | | | | |
| – National government | 4.79 | – | 8 | 696 | 1,680 | – | 2,384 |
| – Other public sector | 6.29 | 205 | 14 | 192 | 331 | – | 742 |
| – Private sector (unsecured) | 6.92 | 161 | 3,153 | 1,971 | 2,205 | – | 7,490 |
| – Private sector (secured) | 6.09 | – | – | 4 | 30 | – | 34 |
| – Other | 5.66 | 10 | 45 | 128 | 40 | – | 223 |
| Loans to | | | | | | | |
| – Other related parties (unsecured) | 5.97 | – | 6 | – | – | 50 | 56 |
| – Other parties (unsecured) | 7.28 | 253 | 13 | 4 | – | – | 270 |
| – Other parties (secured) | 5.35 | 474 | 132 | 425 | 36 | – | 1,067 |
| Total interest bearing assets | | 2,688 | 3,371 | 3,420 | 4,322 | 62 | 13,863 |
| Total non-interest bearing assets | | – | – | – | – | 14,463 | 14,463 |
| Total | | 2,688 | 3,371 | 3,420 | 4,322 | 14,525 | 28,326 |
| Interest bearing liabilities | | | | | | | |
| Loans from Controlling entity | 5.50 | – | 1,038 | – | – | – | 1,038 |
| Subordinated debt | 4.35 | – | – | 1,184 | – | – | 1,184 |
| Total interest bearing assets | | – | 1,038 | 1,184 | – | – | 2,222 |
| Total non-interest bearing assets | | – | – | – | – | 22,715 | 22,715 |
| Total | | – | 1,038 | 1,184 | – | 22,715 | 24,937 |
| Net assets | | 2,688 | 2,333 | 2,236 | 4,322 | (8,190) | 3,389 |

Cross currency swaps have not been included.

Notes

to the Financial Report as at 31 December 2002

31 | Financial Instruments (continued)

(c) Credit risk exposures

The maximum credit risk for financial assets recognised on the balance sheet is the carrying amount less, where applicable, any provision for doubtful debts. The recognised financial assets include amounts receivable arising from unrealised gains on derivative instruments.

As at 31 December 2002 there was no significant credit risk exposure to one single entity, other than the normal clearing house exposure associated with dealings through recognised exchanges.

(d) Net fair values (liquidity risk)

The carrying amount of financial assets and financial liabilities recorded in the Financial Statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the Financial Statements, with exception to the Groups Interest Rate Swaps which are recorded on an accruals basis and are not marked to market in the Statement of Financial Position.

(e) Foreign currency risk exposure

The economic entity is exposed to foreign currency risk through its physical holdings in investments denominated in foreign currency and derivative instruments such as forward foreign exchange contracts, currency swaps and options. The following table details the economic entity's international investments in Australian dollar equivalent by currency exposure and the amounts that are effectively hedged using forward foreign currency contracts as at reporting date:

| As at 31 December 2002 AUD\$ million | US Dollars | Japanese Yen | Hong Kong Dollars | British Pounds | European Euro | New Zealand Dollars | Taiwan Dollars | Singapore Dollars | Other | Total |
|--|---------------|-----------------|-------------------------|-------------------|------------------|---------------------------|-------------------|----------------------|------------|--------------|
| Assets denominated in foreign exchange | 5,337 | 335 | 1,926 | 284 | 609 | 2,111 | 91 | 804 | 415 | 11,912 |
| Liabilities denominated in foreign exchange ⁽¹⁾ | (5,023) | - | (1,471) | - | - | (2,088) | (9) | (840) | - | (9,431) |
| Amount effectively hedged | 173 | (88) | (782) | (4) | (177) | - | - | - | (45) | (923) |
| Net exposure to foreign currency | 487 | 247 | (327) | 280 | 432 | 23 | 82 | (36) | 370 | 1,558 |
| As at 31 December 2001 AUD\$ million | US Dollars | Japanese Yen | Hong Kong Dollars | British Pounds | European Euro | New Zealand Dollars | Taiwan Dollars | Singapore Dollars | Other | Total |
| Assets denominated in foreign currency | 6,115 | 305 | 1,657 | 403 | 686 | 1,916 | 87 | 1,010 | 308 | 12,487 |
| Liabilities denominated in foreign currency ⁽¹⁾ | (5,014) | - | (1,435) | - | - | (1,986) | (19) | (902) | - | (9,356) |
| Amount effectively hedged ⁽²⁾ | (48) | (59) | (859) | (74) | (199) | - | - | - | (62) | (1,301) |
| Net exposure to foreign currency | 1,053 | 246 | (637) | 329 | 487 | (70) | 68 | 108 | 246 | 1,830 |

(1) The \$USD denominated liabilities include Group borrowings of USD \$395m (AUD \$701m) from a controlling entity (2001: AUD \$772m) and subordinated debt of USD \$463m (AUD \$821m) (2001: AUD \$904m) which are to hedge the Groups' exposure to AXA China Region.

(2) The Group also entered into a series of cross currency swaps HKD to AUD with a notional value of \$554m and HKD to USD with a notional value of \$228m to hedge the Groups' investment in AXA China Region.

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32 | Disclosure of Asset Restrictions, Managed Assets and Trustee Activities

Managed assets

In addition to the assets owned by the Company or controlled entities, the AXA APH Group also manages and administers separate investment portfolios for entities such as superannuation funds, unit trusts and individuals. Included in the 31 December 2002 Funds Under Management and Administration are funds relating to Alliance Capital Management.

On an aggregated basis these managed assets, together with the assets reflected in the AAPH Group, after eliminating appropriate inter-fund entries, total \$58.1 billion (2001: \$52.5 billion).

| AXA Asia Pacific Group | Area of operation |
|--|---------------------------|
| National Mutual Funds Management Limited | Australia |
| National Mutual Funds Management (International) Limited | Australia |
| The National Mutual Life Association of Australasia Limited (Life Insurance Funds) | Australia and New Zealand |
| ipac Securities Limited (Funds Administration) | Australia |
| SG Holdings Limited (Funds Administration) | New Zealand |
| SG (Aust) Holdings Pty Limited (Funds Administration) | Australia |
| Alliance Capital Management Limited | Australia |
| Alliance Capital Management New Zealand Limited | New Zealand |
| AXA China Region Insurance Company (Bermuda) Ltd (Life Insurance Funds) | Hong Kong |
| AXA Life Singapore (Life Insurance Funds) | Singapore |
| National Mutual Assets Management Limited | Australia |
| National Mutual Assets Management (New Zealand) Limited | New Zealand |
| NMMT Limited | Australia |
| N.M. Superannuation Pty Limited | Australia |
| National Mutual Superannuation Master Trustee Limited | New Zealand |

| \$ million | 2002 | 2001 |
|---|---------------|---------------|
| Assets held within the AXA APH Group | | |
| Australia and New Zealand | 19,277 | 19,941 |
| AXA China Region | 7,378 | 7,408 |
| International | 1,079 | 977 |
| | 27,734 | 28,326 |
| Assets managed and administered by the AXA APH Group | | |
| Australia and New Zealand | 29,239 | 23,054 |
| AXA China Region | 147 | 180 |
| International | 1,009 | 908 |
| | 30,395 | 24,142 |
| Total assets held, managed and administered by the AXA APH Group | | |
| Australia and New Zealand | 48,516 | 42,995 |
| AXA China Region | 7,525 | 7,588 |
| International | 2,088 | 1,885 |
| | 58,129 | 52,468 |

Restrictions on assets

Investments held in the statutory funds can only be used within the restrictions imposed under the Life Insurance Act 1995. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund or as distributions when solvency and capital adequacy requirements are met. Participating policyholders can receive a distribution when the higher level of capital adequacy is met.

Trustee activities

National Mutual Superannuation Master Trustee Limited and N.M. Superannuation Pty Limited act as trustees in relation to superannuation policies issued by The National Mutual Life Association of Australasia. Arrangements are in place to ensure that the activities of National Mutual Superannuation Master Trustee Limited and N.M. Superannuation Pty Limited are managed separately.

Notes

to the Financial Report as at 31 December 2002

33 | Employee Share Purchase Schemes

The Company has two share purchase schemes available for employees in Australia: The Australian General Employee Share Plan – Tax Exempt; and the Australian Share Plan – Tax Deferred.

An offer to employees cannot be made under any of the schemes if an issue pursuant to that offer will result in the aggregate of shares issued exceeding 5% of the issued capital of the Company. The total number of shares issued under employee share plans represent 1.50% of the total share on issue. All shares have been acquired on market and free of brokerage and stamp duty costs to the participant upon acquisition.

The market price of one ordinary share at 31 December 2002 was \$2.40.

Australian General Employee Share Plan – Tax Exempt

All permanent employees who are resident in Australia, who did not participate in the Australian General Employee Share Plan-Tax Deferred are eligible to participate in this plan. Each eligible employee has a \$1,000 contribution limit per year which is deducted from the employee's salary.

As at 31 December 2002, there were 1,337 participants in the Plan and a total of 1,191,759 shares were subject to plan rules.

Australian General Employee Share Plan – Tax Deferred

All permanent employees who are resident in Australia, who did not participate in the Australian General Employee Share Plan-Tax Exempt are eligible to participate in this plan.

During the 12 months ended 31 December 2002, there was one general offer to all staff under the plan rules. In addition, other opportunities were provided to management to sacrifice remuneration in order to acquire shares.

As at 31 December 2002, there were 138 participants in the Plan and a total of 1,358,264 shares were subject to plan rules.

Australian Executive Plan

The Australian Executive Plan started in 1997. Its purpose is to align key executives' rewards with shareholders' interests, and reward performance improvement supporting business plans and corporate strategies.

The Board determines who is invited to participate in the Australian Executive Plan. Allocation rights represent a right to acquire a share in the Company. Generally, allocation rights may only be exercised to acquire shares if performance hurdles are satisfied in the performance period and the exercise price is paid by the executive.

Details of share allocation rights outstanding as at 31 December 2002 are as follows:

| Grant Date | Exercise period | Expiry date | Exercise price | Number of rights |
|----------------------------------|-----------------------------|----------------|----------------|------------------|
| 31 March 1998 ⁽¹⁾ | 31 Mar 2001-31 Mar 2003 | 31 March 2003 | \$3.47 | 350,000 |
| 28 July 1999 ⁽²⁾ | 28 July 2002-28 July 2004 | 28 July 2004 | \$2.37 | 104,000 |
| 5 January 2000 ⁽³⁾ | 5 Jan 2003-5 Jan 2005 | 5 January 2005 | \$2.67 | 2,345,750 |
| 18 May 2000 ⁽⁴⁾ | 19 May 2003-19 May 2005 | 19 May 2005 | \$2.48 | 500,000 |
| 20 September 2000 ⁽⁵⁾ | 19 Sept 2003-19 Sept 2005 | 19 Sept 2005 | \$2.71 | 1,036,000 |
| 23 April 2001 ⁽⁶⁾ | 23 April 2004-23 April 2006 | 23 April 2006 | \$2.80 | 5,764,500 |
| 20 September 2001 ⁽⁷⁾ | 20 Sept 2004-20 Sept 2006 | 20 Sept 2006 | \$2.72 | 100,000 |
| 28 May 2002 ⁽⁸⁾ | 14 May 2004-14 May 2007 | 14 May 2007 | \$3.02 | 8,206,090 |

Exercise Criteria as follows:

- (1) Exercise between 31 March 2001 and 31 March 2003 subject to AXA APH meeting or exceeding the following growth target for Net Asset Value (NAV) per share for the 3 year period ended 30 September 2000: NAV per share of \$2.73 plus 4% per annum compounding growth rate plus adjustment for inflation (measured by the change in the Consumer Price Index over the growth period).
- (2) The hurdle set for this tranche has expired.
- (3) Exercise between 5 January 2003 and 5 January 2005 subject to AXA APH Total Shareholder Return (TSR) outperformance of the All Ordinaries Accumulation Index as measured on 20 consecutive trading days;
 - (a) ending on the third anniversary of the date on which the rights are allocated; or
 - (b) occurring after the third anniversary of the date on which the rights are allocated and prior to the expiration of the rights.
- (4) Exercise between 19 May 2003 and 19 May 2005 subject to AXA APH TSR outperformance of the All Ordinaries Accumulation Index as measured on 20 consecutive trading days;
 - (a) ending on the third anniversary of the date on which the rights are allocated; or
 - (b) occurring after the third anniversary of the date on which the rights are allocated and prior to the expiration of the rights.
- (5) Exercise between 19 September 2003 and 19 September 2005 subject to AXA APH TSR outperformance of the All Ordinaries Accumulation Index as measured on 20 consecutive trading days;
 - (a) ending on the third anniversary of the date on which the rights are allocated; or
 - (b) occurring after the third anniversary of the date on which the rights are allocated and prior to the expiration of the rights.
- (6) Exercise between 23 April 2004 and 23 April 2006 subject to AAPH TSR out performance of the All Ordinaries Accumulation Index as measured on 20 consecutive trading days;
 - (a) ending on the third anniversary of the date on which the rights are allocated; or
 - (b) occurring after the third anniversary of the date on which the rights are allocated and prior to the expiration of the rights.
- (7) Exercise between 20 Sept 2004 and 20 Sept 2006 subject to AAPH TSR outperformance of the All Ordinaries Accumulation index as measured on 20 consecutive trading days;
 - (a) ending on the third anniversary of the date on which the rights are allocated; or
 - (b) occurring after the third anniversary of the date on which the rights are allocated and prior to the expiration of the rights.
- (8) Exercise between 14 May 2004 and 14 May 2007 subject to AAPH TSR outperformance of the All Ordinaries Accumulation Index as measured on 20 consecutive trading days;
 - (a) ending on any of the second, third or fourth anniversary of the date on which the rights are allocated; or
 - (b) occurring after the vesting date and prior to expiration of the rights i.e. 14 May 2007.

Notes

to the Financial Report as at 31 December 2002

33 | Employee Share Purchase Schemes (continued)

Due to executive departures, 375,000 shares of the Company held and allocated within the Plan are not subject to the usual exercise criteria. In addition, 5,105,129 shares of the Company are held within the plan and are unallocated due to lapses and forfeitures.

For the year ended 31 December 2002, movements in the number of allocation rights outstanding are as follows:

| | |
|---|-------------------|
| Allocation rights at beginning of year (1 January 2002) | 14,817,500 |
| Allocation rights granted during the year (a) | 8,816,390 |
| Allocation rights exercised during the year (b) | (1,556,150) |
| Allocation rights lapsed during the year | (3,671,400) |
| Allocation rights held as at the end of the year | 18,406,340 |

| Grant date | Exercise period | Expiry date | Exercise price | No shares issued | Market value at issue date of shares | Total consideration received |
|-------------------------------|---------------------------------|----------------|----------------|------------------|--------------------------------------|------------------------------|
| 28 July 1999 ⁽²⁾ | 28 July 2002 - 28 July 2004 | 28 July 2004 | \$2.37 | 614,500 | \$2.47 - \$3.14 | \$229,737 |
| 5 January 2000 ⁽³⁾ | 5 January 2003 - 5 January 2005 | 5 January 2005 | \$2.67 | 766,250 | \$2.82 - \$3.25 | \$224,099 |
| 23 April 2001 ⁽⁶⁾ | 23 April 2004 - 23 April 2006 | 23 April 2006 | \$2.80 | 175,400 | \$2.86 - \$3.14 | \$37,469 |

All rights exercised during the year were in respect of former employees of the group. The performance hurdles in respect of allocation rights for former employees are waived in certain circumstances.

An executive is not entitled to shares of the Company before the allocation rights are exercised. This means that the executive cannot use rights to vote or receive dividends. If the performance hurdle is satisfied in the performance period, allocation rights may be exercised at any time before the expiry date; otherwise they will lapse. Once the allocation rights are exercised, shares of the Company will be transferred to the executive.

Further terms and conditions associated with this Plan are as per the Plan outline approved by shareholders at the 1997 Annual General Meeting.

The Australian Executive Plan purchases existing AXA Asia Pacific Holdings Limited shares on the Australian Stock Exchange (ASX) or New Zealand Stock Exchange (NZSE) to underpin the allocation rights and there is no dilution of shareholders' ownership of the Company. The Company provides a loan to the Australian Executive Plan to enable it to purchase these shares to underpin the allocation rights. The balance of this loan at 31 December 2002 was \$67,325,053 (31 December 2001: \$47,009,969). Pursuant to a Deed of Agreement dated 9 August 2000 the loan bears an interest rate determined by the Company from time to time. The Company has charged the Plan interest of \$2,097,892 for the year ended 31 December 2002 (\$836,741 for the fifteen months ended 31 December 2001). When exercised, the executive pays for the shares at the exercise price and the loan is repaid to the Company. On the basis that the executives must pay the exercise price of the allocation rights, which repays the loan made by the Company, there is no expense to be included in the Statement of Financial Performance other than the implicit funding cost (net of interest received from the plan). The estimated net funding cost of the Plan included as an expense in the consolidated Statement of Financial Performance in the financial report for the year ended 31 December 2002 is \$1 million.

Notes

to the Financial Report for the year ended 31 December 2002

34 | Discontinuing Operations

On 5 June 2002, the Company announced that it had reached agreement with Macquarie Bank Limited (MBL) to sell AXA Health Insurance Pty Limited for a sale price, underwritten by MBL, of \$595 million, including a pre-completion dividend. In addition, the Company and MBL have agreed to a profit sharing arrangement where, under certain circumstances, AXA APH can participate in profits upon a subsequent sell down of equity and/or sale of the business for a period of up to 18 months.

The transaction was completed on 30 August 2002 with AXA Health Insurance Pty Limited being sold to Macquarie Health Acquisitions Pty Limited (MHA), a controlled entity of MBL. The consideration comprised \$57 million cash received on 30 August 2002 and 513,000,000 \$1 vendor shares in MHA as well as a pre-completion dividend. From 28 February 2003 AXA APH has the right to either convert the vendor shares into ordinary shares of MHA or put the MHA vendor shares back to MBL for \$513,000,000.

The structuring of the transaction has required the AXA APH Group, under AASB 1016 "Accounting for Investments in Associates", to equity account for the results of an MBL controlled entity, Macquarie Health Acquisitions Pty Limited (MHA). MHA, via a subsidiary, controls AXA Health. The equity accounting is expected to be applied to the end of the underwriting period (28 February 2003). The equity accounted profits will reduce the gain on sale realised at the completion of the underwriting period.

The discontinuing operation (AXA Health) is reported in the Australia and New Zealand primary segment and in the Health Insurance secondary segment in Note 30.

| \$ million | Period ended 30 August 2002 | 15 months ended 31 December 2001 |
|---|--------------------------------|-------------------------------------|
| Financial performance | | |
| Revenue from ordinary activities | 553 | 1,070 |
| Expenses from ordinary activities | (511) | (878) |
| Profit from ordinary activities before income tax expense | 42 | 192 |
| Income tax expense relating to ordinary activities | (12) | (57) |
| Net profit | 30 | 135 |
| Cash flows | | |
| Net cash flows from operating activities | 19 | 98 |
| Net cash flows from investing activities | (21) | 111 |
| Net cash flows from financing activities | (16) | (195) |
| Total net cash flows | (18) | 14 |

35 | Earnings per Share

| Number of ordinary shares | 12 months ended 31 December 2002 | 15 months ended 31 December 2001 |
|--|-------------------------------------|-------------------------------------|
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | 1,757,399,937 | 1,762,433,891 |
| Add: weighted average number of potential ordinary shares ⁽¹⁾ | 5,033,954 | – |
| Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share | 1,762,433,891 | 1,762,433,891 |
| \$ million | 12 months ended 31 December 2002 | 15 months ended 31 December 2001 |
| Net profit used in calculating basic and diluted earnings per share | 330 | 395 |

(1) This relates to the acquisition of ipac Securities Limited. Refer to notes 21, 27 and 28.

Directors' Declaration

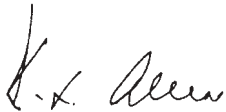
for the year ended 31 December 2002

The Directors declare that:

- (a) the attached financial statements and notes thereto comply with Accounting Standards;
- (b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the consolidated entity;
- (c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- (d) in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



R H Allert A.M.
Chairman

Melbourne, 21 February 2003

Auditor's Report

Independent Audit Report to the Members of AXA Asia Pacific Holdings Limited

Scope

We have audited the financial report of AXA Asia Pacific Holdings Limited for the financial year ended 31 December 2002 as set out on pages 1 to 47. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year. The Company's Directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of AXA Asia Pacific Holdings Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2002 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



DELOITTE TOUCHE TOHMATSU



Peter Caldwell
Partner
Chartered Accountants

Melbourne, 21 February 2003



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