INVESTOR COMPENDIUM

FOR THE 12 MONTHS ENDING 31 DECEMBER 2002

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1 AXA Asia Pacific Holdings

1.1 | Group Strategic Overview

AXA Asia Pacific Holdings (AXA APH) is part of the global AXA Group, which has a diversified geographic presence in over 60 countries, and 50 million customer relationships. The AXA Group vision is to be the world leader in financial protection and wealth management.

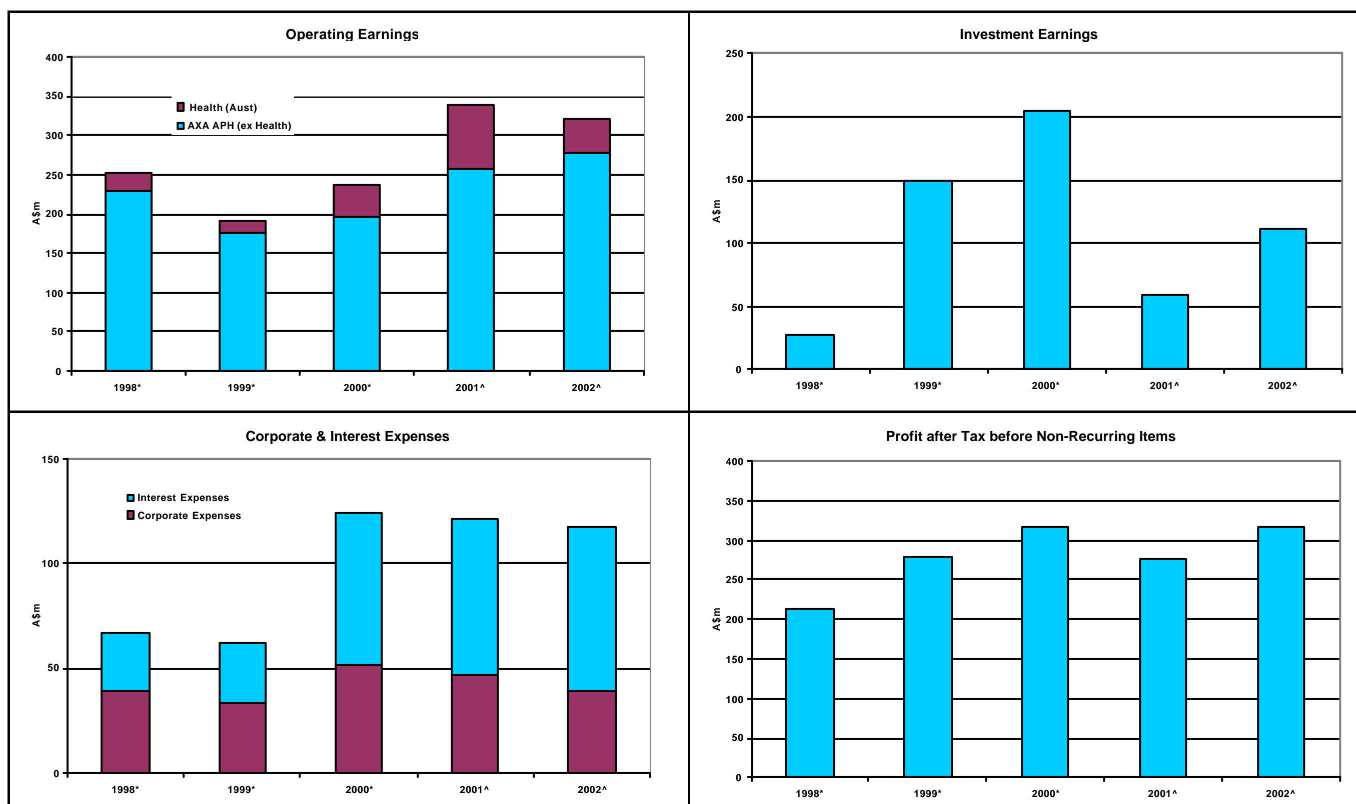
AXA APH shares this vision. In April 2000 we launched a transformation programme to deliver growth and achieve our vision for the business. Our aim is to be the reference company in our business of financial protection and wealth management and to be among the top 20 performing companies (of the largest 100 in Australia and New Zealand) as measured by total returns to shareholders.

The AXA Group is committed to international expansion and sees the Asia Pacific region as offering many opportunities for future growth. We have operations in Australia, New Zealand and Hong Kong where we have a significant presence, and smaller but growing businesses in China, Singapore, Thailand, Indonesia and The Philippines which offer significant potential for long term growth. In all of these markets AXA APH aims to be a leader in wealth management and financial protection through a comprehensive range of investment, superannuation and financial protection products and services, as well as the provision of financial advice.

Over the last three years we have realised over $800 million from the sale of non-core assets and have reinvested over $1.2 billion in our core businesses of wealth management and financial protection through the buyout of the minorities in the Hong Kong operation and our acquisitions of ipac and Sterling Grace.

Current operations rank us as one of the largest wealth management and financial protection providers in the region, with over 3 million clients, gross life insurance premiums of over A$5 billion, gross funds flow of over A$11 billion and total assets under management and administration of almost A$49 billion.

AXA APH Financial Performance 1998 – 2002



** 12 months ended 30 September (audited)*
^ 12 months ended 31 December (restated but not audited for 2001, audited for 2002)

1.2 | Highlights 2002

Financial Performance

- Profit after tax and before non-recurring items up 14% to $316 million (12 months ended December 2001 - $277 million).
- Operating earnings (excluding Health) up 9% to $279 million (2001 - $257 million)
  - Australia and New Zealand (excluding Health) up 50% to $126 million (2001 - $84 million)
  - Hong Kong down 13% to $156 million (2001 - $180 million)
  - Health operating earnings down as expected by 48% to $43 million (2001 - $82 million)
- Investment earnings up 88% to $111 million (2001 - $59 million)
  - Australia and New Zealand down 15% to $44 million (2001 - $52 million)
  - Hong Kong up 857% to $67 million (2001 - $7 million)
- Total Group assets under management and administration up 16% to $48.5 billion
- Total dividends of 9.75 cents per share, franked to 60%

Australia and New Zealand

- Net retail funds flows up 8% to $1,912 million
- Funds under management and administration up 19% to $41 billion on a comparative basis
- Continued improvement in the profitability of our income protection portfolio, with a positive contribution to operating earnings during the year
- Recurring management expenses down 5% to $358 million (2001 - $377 million), with total expenses down 8%
- AXA New Zealand operations successfully integrated with Spicers, our leading financial advisory and planning business in New Zealand
- Strategic move into the advice business in Australia with the acquisition of ipac Securities, one of the most successful financial planning businesses in Australia, lifting funds under advice to $3.3 billion by 31 December 2002
- AXA Health sold for $595 million including a pre-completion dividend
- 50% interest in the Members Equity joint venture sold for $95 million in January 2003

Hong Kong

- Strong growth in new business, up 12% compared with the same period in 2001
- Funds under management up 10% to HK$32 billion (2001 – HK$30 billion)
- Value of new business up 21% to HK$389 million (2001 – HK$322 million) on a comparative basis
- Distribution channels broadened, with the number of AXA employed advisors up 161% to 196
- High level of agent productivity maintained in a challenging environment
- Recurring management expenses down 9% to HK$363 million (2001 – HK$399 million)
- Business retention levels further improved, moving towards our long-term pricing assumptions

China and SE Asia

- Licence to open our second China branch operation in Guangzhou granted
- A new Indonesian bancassurance joint venture announced with Bank Mandiri, Indonesia's largest bank
- Strong growth in new business in The Philippines, Thailand and Indonesia with gross premium income up 90%, 78% and 79% respectively, in large part due to our successful bancassurance partnerships
- Singapore operations restructured and plans prepared for launch of advice business using the ipac business model

1.3 | Financial Summary

A more detailed financial summary of the last three years is provided below. We changed our year-end to 31 December in 2001. The prior year comparative numbers for the 12 months to 31 December 2001 have been restated by management but not audited. The 15 month period to 31 December 2001 has been audited. The comparative period to 30 September 2000 has been audited.

	12 months to/ As at 31 Dec 02	12 months to/ As at 31 Dec 01	% Change	12 months to/ As at 30 Sept 00	15 months to/ As at 31 Dec 01
Financial Performance (A$ million)					
Operating Earnings excluding Health	279	257	9%	197	291
Operating Earnings – Health*	43	82	(48%)	40	106
Operating Earnings	**322**	**339**	**(5%)**	**237**	**397**
Investment Earnings	111	59	88%	204	119
Corporate Expenses	(39)	(47)	17%	(52)	(54)
Interest Expense	(78)	(74)	(5%)	(72)	(97)
Profit after Income Tax before Non-Recurring Items	**316**	**277**	**14%**	**317**	**366**
Non-Recurring Items	14	31	(55%)	57	29
Profit after Income Tax and Non-Recurring Items	**330**	**308**	**7%**	**374**	**395**
Shareholder Returns					
Earnings Per Share (before non-recurring items) (cents)	18.0	15.7	15%	18.0	20.8
Earnings Per Share (after non-recurring items) (cents)	18.8	17.5	7%	21.2	22.4
Dividends Per Share (cents)					
- Interim	4.75	4.75	-	4.50	4.75
- Final	5.00	n/a	-	5.00	7.50
Franked Amount					
- Interim	60%	0%		60%	0%
- Final	60%	n/a		30%	100%
Ordinary Shares on Issue (million)	1,740	1,762		1,762	1,762
Weighted Average Number of Ordinary Shares (million)	1,757	1,762		1,762	1,762
Return on Capital	6.8%	6.5%		8.7%	N/a
Return on Equity	10.4%	9.5%		11.7%	N/a
Financial Position (A$ million)					
Shareholders' Equity (excl. Outside Equity Interests)	3,060	3,016	1%	2,842	3,016
Hybrid Debt	1,102	1,184	(7%)	286	1,184
Corporate Debt	1,442	1,079	34%	1,620	1,079
Capital Resources (excl. Outside Equity Interests)	**5,604**	**5,279**	**6%**	**4,748**	**5,279**
Corporate Debt/Capital Resources	26%	20%		34%	20%
Capital (A$ million)					
Regulatory Capital Held	3,127	3,205	(2%)	2,598	3,205
Excess assets including target surplus	779	583	34%	944	583
Outside Equity Interests	340	373	(9%)	319	373
Net Assets	**4,246**	**4,161**	**(2%)**	**3,861**	**4,161**
Funds Under Management, Administration & Advice (A$ million)					
Funds Under Management & Administration	48,526	41,870	16%	31,300	41,870
Funds Under Advice	3,251	1,554	109%	n/a	n/a

** AXA Health sale was announced in June 2002*

Financial Performance

The AXA Asia Pacific Holdings profit after income tax and before non-recurring items for the 12 months to 31 December 2002 was $316 million, 14% above the (unaudited) result for the 12 months ended December 2001.

Operating earnings (excluding Health) grew 9% despite challenging market conditions. In Australia and New Zealand, operating earnings (excluding Health) grew 50% as a result of growth in the wealth management business, the continued focus on returning the income protection business to profitability and further expense reductions.

In local currency terms, Hong Kong operating earnings in the second half of the year increased by over 12% from the first half, aided by growth in new business, improved discontinuance levels and reduced expenses. The local currency operating earnings of HK$662 million for the year were down 7% on 2001, largely due to the depressed investment markets.

The improved operating performance in the South East Asian operations continued during the year. The prior year includes a loss of $5 million from the Taiwan business, which was sold in 2001.

Total operating earnings for the Group of $322 million are 5% lower than last year due to the anticipated reduction in earnings from the Health business in Australia compared to the significant one-off profits enjoyed in 2001. This business was sold during 2002, with the final proceeds due at the end of February 2003. The profit on the sale of this business will be reported in the 2003 consolidated financial statements.

Analysis of Operating Earnings A$ million	12 months 31 Dec 02	12 months 31 Dec 01	% change Dec to Dec	12 months 30 Sept 00
Australia & New Zealand (excluding Health)	126	84	50%	58
Hong Kong	156	180	(13%)	133
China & South East Asia	(3)	(7)	57%	6
Operating Earnings (excluding Health)	**279**	**257**	**9%**	**197**
Health	43	82	(48%)	40
Total Operating Earnings	**322**	**339**	**(5%)**	**237**

Investment earnings for the Group of $111 million were 88% higher than 2001, with a major contribution in December from the bond portfolio held in Hong Kong as yields fell and corporate spreads narrowed. Negative returns from weak equity markets and low interest rates on cash investments were offset by a $27 million foreign exchange translation gain from assets held in New Zealand.

Analysis of Investment Earnings A$ million	12 months 31 Dec 02	12 months 31 Dec 01	% change Dec to Dec	12 months 30 Sept 00
Australia & New Zealand	44	52	15%	90
Hong Kong	67	7	857%	114
Investment Earnings	**111**	**59**	**88%**	**204**

Corporate expenses of $39 million were 17% lower than 2001 due to operational efficiency gains and a simpler business operating model in Asia.

Interest expense was 5% higher than 2001 reflecting higher average debt levels due mainly to the debt financing of the acquisitions of Sterling Grace and ipac. This was partially offset by lower average interest rates and a strengthening of the Australian dollar. Debt levels will fall in 2003 following receipt of the final proceeds from the sales of AXA Health and Members Equity.

Non-recurring items of $14 million include additional contributions to the staff defined benefit superannuation fund ($12 million) and tax benefits not previously recognised in respect of liquidation of subsidiaries and internal swap losses ($26 million).

2 Australia and New Zealand

2.1 | Strategic Overview & Highlights

Uncertain global financial markets and negative investment returns have resulted in a challenging year for wealth management and financial protection companies. We have not been immune to these factors although our performance has, in the circumstances, been encouraging. The fundamentals of our strategy are unchanged. We have continued to focus on our K5 goals and on repositioning the business through improved operational efficiency, enhanced product and distribution capability and a strategic move into the financial advice business. This focus has enabled us to further strengthen our market position and make continued progress towards the achievement of our K5 targets.

As at December 2002, we were:

In Australia:

- the 8th largest manager of funds, with $36 billion in funds under management and administration;
- the 3rd largest master trust, platforms and wraps provider with $16 billion in funds under administration;
- one of the largest providers of financial advice, with almost $2 billion in funds under advice; and
- the 2nd largest risk manager as measured by inforce annual premiums.

In New Zealand

- the 3rd largest risk manager as measured by inforce annual premiums; and
- one of the largest providers of financial advice, with over $1 billion in funds under advice.

Strategic Repositioning

Consistent with our strategy of focusing on wealth management and financial protection, we divested our investments in health insurance and banking. In June 2002 we announced the sale of our Australian health insurance business to a Macquarie Bank led consortium for $595 million, including a pre-completion dividend. This transaction was completed on 31 August 2002. We have given notice to convert our vendor shares and we expect the remaining proceeds to be received by 28 February 2003.

In December 2002 we announced the sale of our 50% investment in the Members Equity banking joint venture to Industry Funds Services for $95 million. The transaction was completed on 8 January 2003.

K5 Programme

The K5 transformation programme was launched in April 2000 with the aim of repositioning AXA in the wealth management and financial protection markets. Since then we have made, and continue to make, significant progress in the upgrading of existing products and services, the professionalism and capability of our aligned adviser force, the penetration of non-AXA aligned distribution channels, consistent and improved levels of service delivery reductions in our operating expenses and improving profitability of our income protection portfolio.

The focus in the last two and a half years has been on building capability and rebuilding relationships. Having made strong progress in these areas, our focus is now shifting toward delivering strong revenue growth to achieve our aspirational K5 targets. The K5 programme has five key strategic objectives to be achieved by the end of 2003.

K1 To double the value of new business,
K2 To get into the Top 5 in Net Retail Funds Flows,
K3 To reduce our management expense ratio by 50%,
K4 To achieve top quartile as measured by ASSIRT/AC Nielsen Service rankings, and
K5 To get into the top quartile in the AXA Group Scope Survey of employee satisfaction.

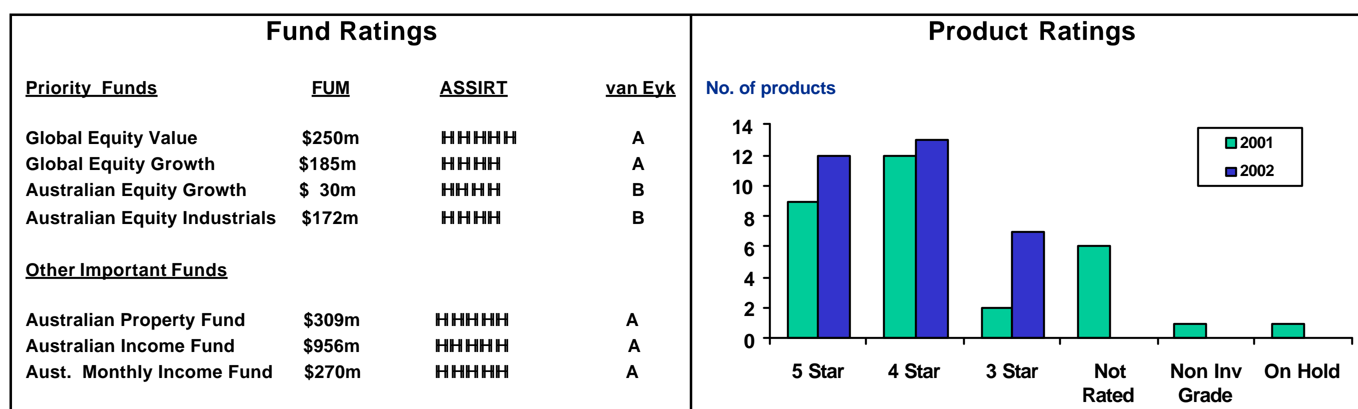
The K5 objectives are supported by seven strategic imperatives.

- To grow our share of retail investments and superannuation,
- To improve retention of funds under management,
- To increase size and productivity of aligned advisers,
- To increase penetration of non-aligned advisers,
- To return our income protection portfolio to profitability,
- To improve operational efficiency and reduce expense ratios, and
- To improve our organisational capability through people

Progress on strategic imperatives

Grow our share of retail investment and superannuation

In 2002 we invested heavily in enhancing the features of our unit trust product range with improved e-commerce capability, increased functionality and enhanced marketing support and communication for advisers. These improvements have been acknowledged in the market, with the key independent research houses van Eyk and ASSIRT now rating these new products investment grade (B and above or 3 star and above, respectively) or above.



Fund Ratings

Priority Funds	FUM	ASSIRT	van Eyk
Global Equity Value	$250m	HHHHH	A
Global Equity Growth	$185m	HHHH	A
Australian Equity Growth	$ 30m	HHHH	B
Australian Equity Industrials	$172m	HHHH	B
Other Important Funds			
Australian Property Fund	$309m	HHHHH	A
Australian Income Fund	$956m	HHHHH	A
Aust. Monthly Income Fund	$270m	HHHHH	A

We also further enhanced our personal superannuation, corporate superannuation and Summit portfolio administration service offers to ensure these products are competitive in both our aligned and non-aligned distribution channels.

Our joint venture with Alliance Capital Management (Alliance) and our development of new unit trust products and systems have provided us with a much-improved capability to capture fund inflows through higher margin equity style products. Despite difficult global investment markets and the subsequent impact on industry funds flows, the joint venture continued to perform well with strong growth in net funds flows against industry trends.

Alliance's "growth" style of equity management was out of favour for most of the year. However, during 2002 we launched our first global equities fund managed by Bernstein, Alliance's value manager. The fund achieved $250 million inflows during its first few months of operation. Including wholesale mandates, Alliance achieved over $1.8 billion inflows to Bernstein value products during the year.

Access to Bernstein's value management capability demonstrates the benefit of having multiple investment styles through the economic cycle. Alliance have recently announced the launch of an Australian equities value capability managed by a separate team under the Bernstein brand, which will further differentiate us in the market.

We continued to develop the AXA brand and align this with our focus on wealth management and financial protection. Our "life happens in a blink of an eye" campaign has maintained AXA's position as the leading financial services company associated with being global, and at the same time increased unprompted brand awareness.

Improve retention of funds under management

Through a customer relationship management (CRM) strategy, we have substantially enhanced our capability to explicitly identify, manage and retain customers that may otherwise have left AXA. Our retention strategy team has achieved this through a targeted and pro-active service offering. In 2002 we retained $190 million in funds, which would otherwise have left, well in excess of internal targets.

In our Retirement Security Plan (RSP), retention programmes have reduced the annual discontinuance rate to 4.7%, better than our target of 5%. Over $360 million funds have switched to new portfolios with a response rate of 12.8%, well above our target. We are increasing our retention activity in 2003 and targeting significantly increased levels of retention.

Increase size and productivity of aligned advisers

In Australia and New Zealand, adviser numbers have increased to 1,586. The overall quality of advisers in dealerships in Australia has also improved, with 366 advisers now qualifying as level 3 advisers, able to offer the broadest range of products and services. This is a 50% improvement over the position as at 31 December 2001. Investment markets and negative investor sentiment over the last year has resulted in advisers spending a greater proportion of their time reassuring existing clients and hence less time producing new inflows. This has meant that the increased capability of the adviser force is yet to come through in terms of an increase in sales. As a result, and consistent with market trends, sales productivity declined slightly during 2002.

Although sales through Summit for aligned advisers were lower for the year due to the poor investment markets, the average monthly number of advisers using Summit increased by 24% to 511. This strong support for Summit is expected to lead to a further significant growth in Summit inflows as investment markets recover.

Acquisition of ipac

A very important element of our strategy to move into the advice business was the acquisition, in July 2002, of ipac Securities Limited. ipac is a highly respected and leading wealth management advisory business in Australia. It manages approximately $5 billion in funds for over 20,000 retail and wholesale clients, with 33 advisers and has strategic relationships with 81 independent advisers.

The ipac acquisition builds on our purchase in 2001 of Sterling Grace – which has similar capabilities, predominantly in New Zealand. The strategy of moving into financial advice will enable us to capture more of the margin in the value chain. These acquisitions give us the platform for further growth in financial advice as well as the ability to enhance the productivity of adviser groups in AXA dealerships through knowledge transfer.

The integration of ipac is proceeding well, with total synergies identified above initial estimates and our wealth management capability significantly enhanced by the ipac executive team. Plans for the roll out of the financial advice model in Singapore and Hong Kong are under development.

Increase penetration of non-aligned advisers

The initiatives we have taken to improve our product range, combined with the Alliance joint venture, are now broadening our access to the non-aligned market. Research house ratings, dealer group approved product lists and master trust investment menus heavily control access to advisers that sell investment products. During 2002 we significantly increased the number of AXA products listed through non-aligned channels, and as at December 2002 external dealer groups included 211 AXA products on 49 lists, up 29% from December 2001, with third party master trusts including 219 AXA products on 38 lists, up 250% from December 2001.

We have 45% penetration of the large and productive dealer group approved product lists with our international equity unit trusts and 20% with our Australian equity unit trusts. This is a significant increase on our 6% penetration at 31 December 2001. Penetration of master trust investment menus is showing similar progress, with international equity unit trusts achieving 52% and Australian equity unit trusts 18%, compared to 10% and 6% respectively at 31 December 2001. As global and local investment markets return to a more stable environment and investor confidence returns, we expect our vastly improved position on product listings to translate into significantly increased sales.

In terms of new business, in 2002 the number of IFA's using Summit has increased 65% to 174, with fund flows up 20% to $190 million. Of these inflows, approximately 20% was placed into AXA investment products. New business in a number of key products increased significantly, including personal super up 23% to $64 million and mezzanine sales up 30% to $222 million.

This has been a pleasing result given the strategic direction of our product range, which focuses on equities and Alliance Capital's "active growth" asset management style, and is a deliberate shift away from lower margin cash, annuity and mortgage style products.

Return our income protection portfolio to profitability

Income protection profitability has continued to improve with open claims, claims incidence and claims duration all tracking well. This is a direct result of a fundamental change implemented over the last two years to our claims handling practices, including active rehabilitation assistance for claimants and an internal panel of specialists assisting our teams to identify non-legitimate claims and resolve claims early.

We continue to place considerable management attention on our income protection portfolio. During 2002, we completed a restructure of our management, underwriting and claims teams and invested in the development and documentation of new and revised processes for claims and underwriting. At the same time we continued to segment our income protection portfolio, returning premium rates to a more commercial basis and aligning benefit features accordingly.

Although these actions have led to some reduction in our market share of new annual premiums they have, more importantly, returned this portfolio to profitability. There are signs that other companies are following our lead and seeking to re-establish sustainable underwriting, product design and pricing in this market segment.

Although current positive trends have been evident for some time now, income protection will remain an area of significant management focus through 2003.

In addition to the above initiatives, we have re-positioned our Term, Trauma, TPD and Income Protection customer propositions under the AXA and AC&L brands to target preferred market segments. These initiatives include new product features, re-shaped premium rates and targeted underwriting tailored for defined client groups. We are hopeful that we can remain a market leader in these segments but on a sustainably profitable basis.

Improve operational efficiency and reduce expense ratios

Further organisational change was undertaken in 2002 helping to deliver a 5% reduction in recurring management expenses to $358 million (2001 - $377 million).

We successfully completed a number of outsourcing arrangements with the global AXA Group to improve service delivery and reduce costs. In June we transitioned selected adviser and customer service new business and administration processes to AXA Business Services in Bangalore, India. Transactions for the processes are being completed remotely from India to specified service levels and cost targets.

In November we relocated our mainframe processing to AXA Technology Services' North American data centre, leveraging scale to reduce ongoing operational costs and improve service levels through standardised and consolidated platforms. We also entered an agreement, via AXA Technology Services, to outsource our IS desktop arrangements to Dell / Getronics. In addition to the outsourcing arrangement with the AXA Group, we outsourced our output management print services to Security Mail and investment management custody and processing will be conducted by State Street commencing in 2003.

These outsourcing arrangements combined with a rigid focus on process improvement and redesign are critical in helping us achieve our aggressive cost targets, and at the same time improving the consistency and quality of the service we provide. In 2002 we adopted a new methodology to support process redesign and improvement. Leveraging the principles of Six Sigma, the methodology ensures a rigorous approach to identifying the root causes of inefficiency within our processes and redesigning them to improve service and the cost of delivery.

Improve our organisational capability through people

We have continued to appoint new management from outside to enhance and extend our management capability and expertise. More than 50% of our management team are new to the company since the launch of our K5 programme in April 2000.

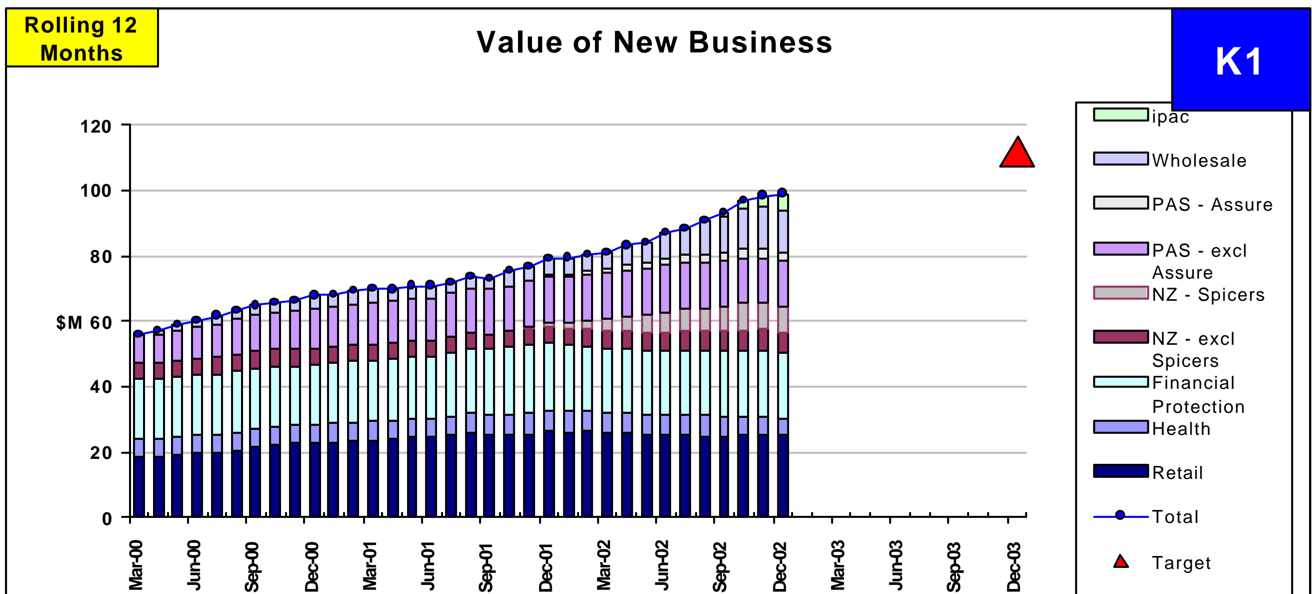
In 2002 we continued to develop and formalise our in-house capability to develop and deploy project management and business analytical skills across the organisation. This internal consulting capability has enabled us to deliver K5 projects to scope, time and cost specifications. We have received a very pleasing "solid" two result rating under the internationally benchmarked Corporate Maturity Model (CMM) which measures organisation wide project management capabilities.

In December 2002 we completed the development of a comprehensive professional development programme for underwriting, claims and other financial protection specialists, with a complete syllabus including core subjects such as medical, financial and legal. It will provide permanent continuous development for our people in those areas of specialisation that are key to delivering underwriting profit.

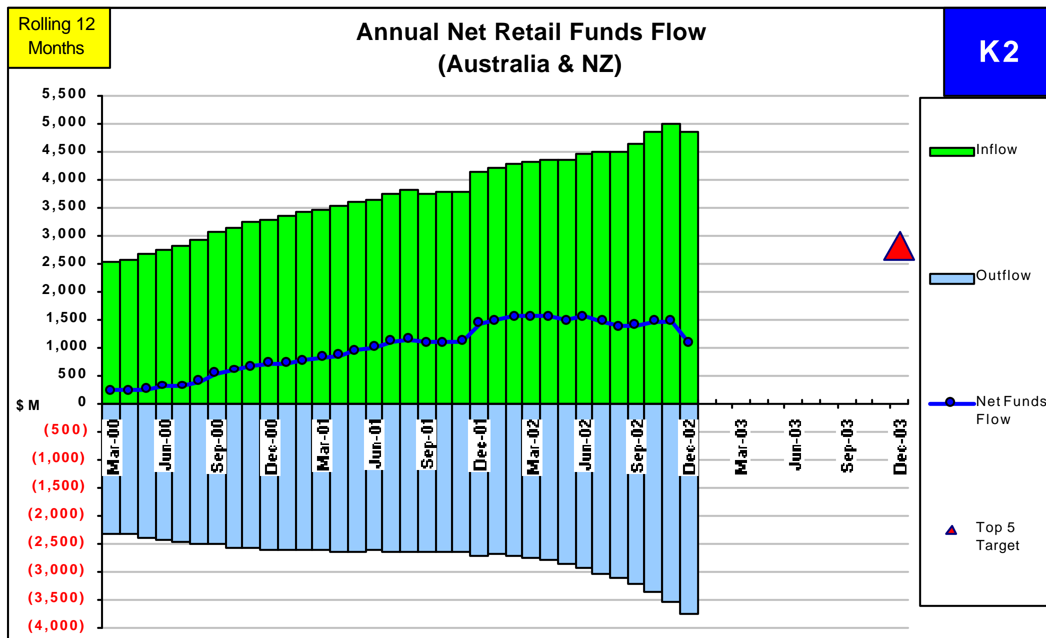
The success of our initiatives to develop and align our people to our organisational goals has been evidenced through our Scope ranking. During 2002, we achieved the highest ranking amongst AXA Group companies around the world through this internal benchmarking survey of employee satisfaction, with an exceptionally high response rate of 94% and improvement over 2001 in all key attributes.

K5 Performance

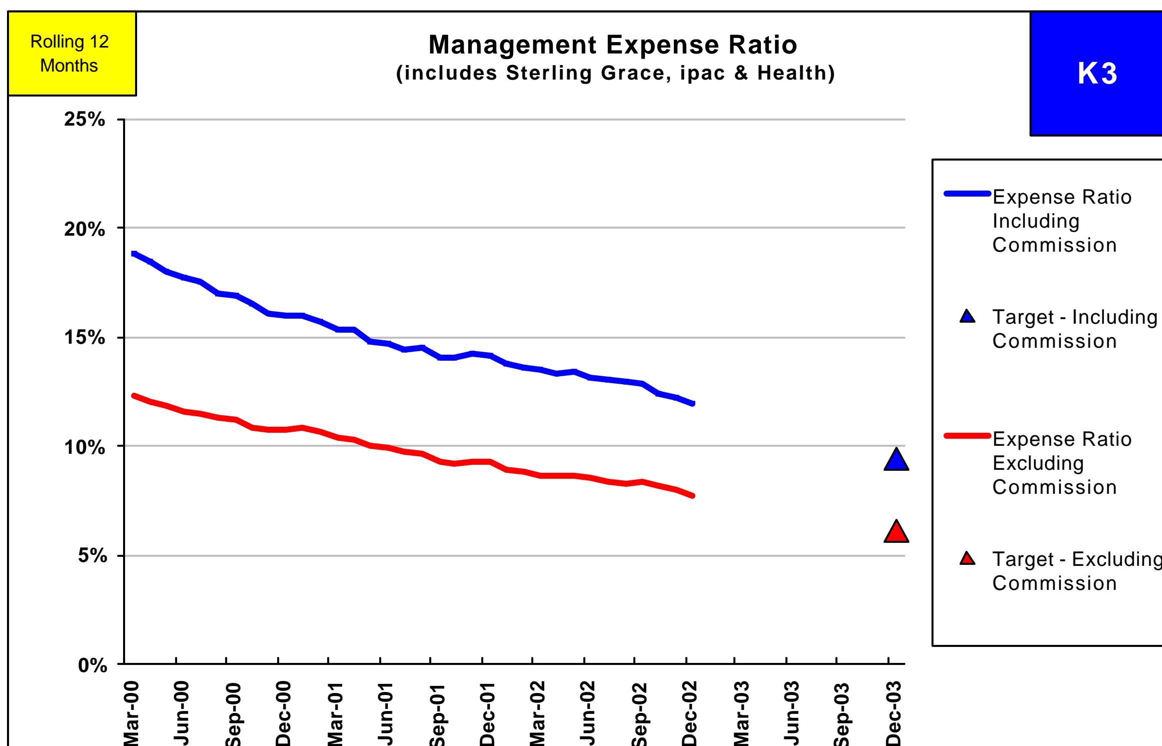
We continued to make solid progress on **K1** in 2002, gaining from a full year's contribution from Sterling Grace which we acquired in late 2001, encouraging financial protection results following the significant restructuring of the income protection business and strong performance from Alliance in the wholesale area. From September 2002 ipac has been included and AXA Health sales have been excluded.



The **K2** result was creditable in what has been a very difficult year for the industry. The result was positively influenced by a full year's contribution from Sterling Grace and the inclusion of ipac from September 2002. However the closure of the PAS Merrill Lynch business negatively impacted 2002 net flows by $285 million. The one-off kick up from December 2001 investment review (which effectively moved $316m from external fund managers and other funds to AXA mezzanine products) moved out of the rolling 12 months number in December 2002, largely accounting for the dip in that month.



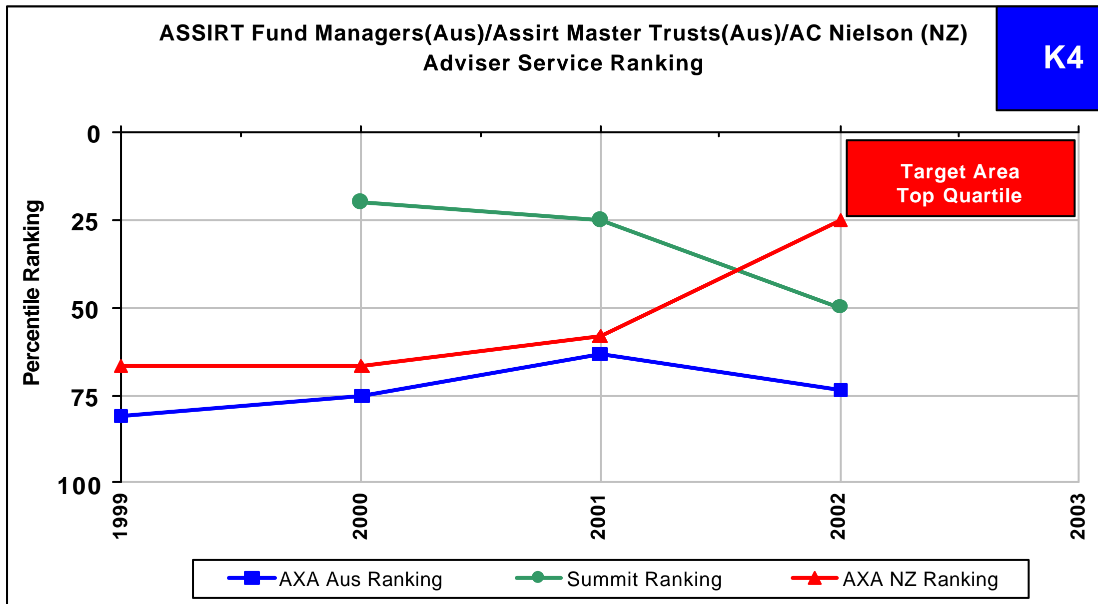
We continue to make good progress in terms of **K3**, with total expenses for the Australia and New Zealand businesses down 8% and recurring management expenses down 5% compared to 2001. However this comparison is distorted by the acquisitions of Sterling Grace in mid November 2001, the acquisition of ipac in August 2002 and the sale of the Health business in August 2002. Removing the impact of these changes to the business, the comparable reduction in total expenses (ex-commissions) on a like-for-like basis was 16%.



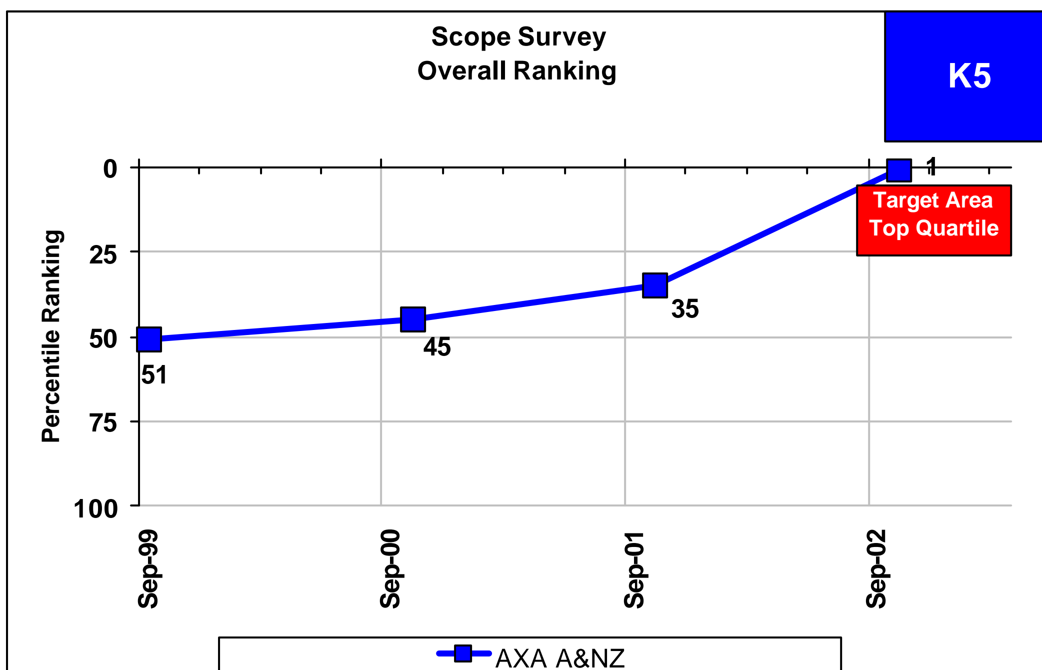
The **K4** result in Australia was disappointing but in New Zealand was excellent. In Australia, our overall ranking fell from 12th to 14th out of the 19 Fund Managers surveyed, heavily influenced by the relative investment performance of our 'growth style' Australian equities portfolios. On a positive note, "Support from Business Development Managers" improved from a ranking of 12th to 2nd in 2002.

In Australia, the management team has developed action plans to improve our position. To address the key areas of weakness of Asset Management, Communication and Overall Opinion, emphasis will be placed on enhancing the marketing and sales support of existing products, especially for funds management and Summit. This will include strengthening tactical marketing and further leveraging of the relationship with Alliance Capital.

By improving from equal sixth place last year to third place this year, AXA New Zealand has reached its K4 result 18 months ahead of target.



The AXA Group Scope employee survey is the measure for our **K5** goal. In Scope 2002, Australia and New Zealand were ranked number one for overall staff satisfaction among AXA Group countries around the world, and thus met the K5 goal of achieving top quartile position. In addition the participation rate for Australia and New Zealand staff was exceptionally high at 94%, and the results showed an improvement in all key survey measures.



2.2 | Financial Summary

Financial Performance A$ million	12 months 31 Dec 02	12 months 31 Dec 01	% change Dec to Dec	12 months 30 Sep 00
Operating Earnings				
Wealth Management	77	60	28%	42
Financial Protection	49	24	104%	16
Operating Earnings (excluding Health)	**126**	**84**	**50%**	**58**
Health	43	82	(48%)	40
Operating Earnings (including Health)	**169**	**166**	**2%**	**98**
Investment Earnings	44	52	(15%)	90
Profit after Income Tax before Non-Recurring Items	**213**	**218**	**(2%)**	**188**
Non-Recurring Items	2	30	(93%)	(46)
Profit after Income Tax and Non-Recurring Items	**215**	**248**	**(13%)**	**142**

Operating earnings (excluding Health) were 50% higher than 2001, despite the difficult investment market conditions during 2002. Operating earnings were impacted by the market contraction in retail investment funds, superannuation products and discretionary trusts following the deterioration in global financial markets. Reduced fund balances from negative equity market returns impacted fee revenue, and investment-backed products sensitive to capital market returns, such as long term risk and retirement income.

Despite these challenges, our focused strategy delivered strong year-on-year growth in earnings, reflecting the return to profitability of the income protection business, successful expense reduction strategies and profits from new acquisitions, Sterling Grace and ipac. Excluding these acquisitions, operating earnings were up 32%.

As expected, Health operating earnings declined following the expiry of the 'claim free' periods in place for new members who joined under the Lifetime Health Cover initiatives. Health operating earnings were $26 million for the six months to 30 June 2002 and declined during the second half. The Health business was sold on August 31 2002 and the results will be equity accounted in the Group result until 28 February 2003.

Investment earnings were 15% lower than last year, reflecting the depressed investment market conditions during 2002. Negative returns from weak equity markets and low interest rates on cash investments have been partially offset by gains from the decrease in bond yields and a $27 million foreign exchange gain on assets held in New Zealand.

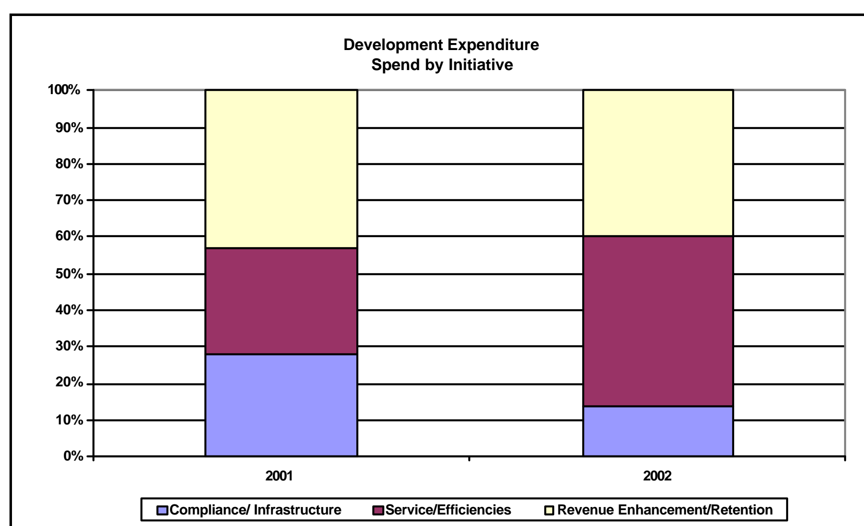
Investment Earnings A$ million	12 months 31 Dec 02	12 month Return %	12 months 31 Dec 01	12 months 30 Sep 00
Equities	(29)	(16)	24	30
Fixed Interest	31	9	2	21
Property	2	5	5	8
Cash	12	5	13	19
Portfolio Assets	**16**	**3**	**44**	**78**
Other Assets	1	N/a	3	7
Foreign Currency Translation of Assets in NZ & Taiwan	27	N/a	5	5
Investment Earnings	**44**	**N/a**	**52**	**90**

2.2 | Financial Summary (ctd)

Management expenses were down 11% for the year and continue to be reduced through increased efficiencies and a simpler business operating model.

Expenses A$ million	12 months 31 Dec 02	12 months 31 Dec 01	% change Dec to Dec	12 months 30 Sep 00
Total Recurring Management Expenses	358	377	5%	441
One-off Expenses	1	32	(97%)	86
Project Expenses	82	88	7%	52
Management Expenses	**441**	**497**	**11%**	**579**
Total Commission and Related Expenses	241	246	2%	225
Total Expenses	**682**	**743**	**8%**	**804**

The improvements in operating efficiency over the last three years have helped us to invest significantly in projects to improve our products, service, distribution and in further efficiencies. The spend is increasingly being directed towards initiatives that are focused on revenue generation and improved service capability. This includes an increased proportion of investment directed to our wealth management and service areas, including our retail investment products and master trust platforms.



2.3 I Wealth Management

The presentation of wealth management results has been enhanced this year. The following analysis splits profits within a life company environment, and therefore reported under Margin on Services (MoS), from those outside of a life company environment.

Financial Performance A$ million	Wealth Management (life company)	Wealth Management (other)	Wealth Management Total
Operating Earnings (12 mths to 31 Dec 2002)	**57**	**20**	**77**
Operating Earnings (12 mths to 31 Dec 2001)	**55**	**5**	**60**

Wealth Management (life company environment)

The table below sets out the results from wealth management products within the life company statutory funds. This shows the planned profit margins released under MoS accounting rules for retirement income, superannuation and ordinary savings products as well as the key elements of experience profit and loss. This clearly highlights the negative impact from investment losses during the year, in particular on retirement income products. This is due largely to investment experience in equity markets.

Wealth Management (life company environment) Financial Performance A$ million	Retirement Income	Super-annuation	Ordinary Savings	Total (life co)
Expected profit margins released	**14**	**45**	**8**	**67**
Experience profit (loss)				
Expenses	0	(2)	0	(2)
Investment return	(10)	1	1	(8)
Other (incl. underwriting & surrenders)	(2)	(2)	2	(2)
Capitalised losses & reversals	0	2	0	2
Operating Earnings (12 months to 31 Dec 2002)	**2**	**44**	**11**	**57**
Operating Earnings (12 months to 31 Dec 2001)	**21**	**25**	**9**	**55**

The **retirement income** result was significantly affected by poor market returns on the equity portion of assets backing the long-term annuity products. The 2001 result included favourable underwriting experience of $2 million.

Improved unit costs on certain **superannuation** products resulted in increased profit margins compared to last year. Surrender experience on business super products was slightly worse than expected, but was partially offset by more favourable claims experience on business super group insurance policies. Most of the investment return (and therefore risk) is borne by the policyholders.

Ordinary Savings includes all traditional style endowment and whole of life savings products. These products have largely been withdrawn from the market for new business. The improvement over 2001 is due to unit cost savings.

Wealth Management (non-life company environment)

The results of the wealth management products sold outside the life company environment have been reported in core product groupings of portfolio administration platform services, advice and investments.

Wealth Management (non-life company) Financial Performance A$ million	Portfolio Admini-stration	Advice	Investments/ Other	Total (non life co)
Gross Fees/Revenues	49	46	26*	121
Operating Earnings (12 months to 31 Dec 2002)	**7**	**12**	**1**	**20**
Operating Earnings (12 months to 31 Dec 2001)	**5**	**0**	**0**	**5**

** NB: Does not include fees earned by Alliance Capital joint venture*

The **Portfolio Administration Service** (PAS) result, which includes the results from Summit and Assure, was up 40% on the result for the year to 31 December 2001. Despite difficult market conditions, fee revenue grew in line with positive net funds flows, reflecting the higher number of both aligned and independent advisers writing Summit business and the acquisition of Assure. PAS funds under administration grew by 5% over the year, despite the Merrill Lynch outflow and weak financial markets.

The **advice** result includes the majority of the profits from Sterling Grace (Spicers), Monitor Money and ipac. Sterling Grace was acquired in November 2001 and was the major contributor to earnings for the 2002 year. As the Spicers business model has a focus on post-retirement, lump sum investments in predominantly equity-backed products, the result was negatively impacted as fund balances reduced in line with equity market losses.

The ipac acquisition was completed on 31 August 2002 and the result for the four months was slightly negatively impacted by market conditions.

Investments/other includes the results from mezzanine and wholesale products, retail unit trusts and investment management fees from other financial protection and wealth management products (reported as investment management), as well as our share of profits from Members Equity and the Alliance joint venture.

Investment management operations suffered a small loss during 2002 as the product range was rationalised and investments were made in the development of new products. The new range of mezzanine and retail products generated positive funds inflows and profits. However this was offset by outflows from traditional life and trust products, with fees reduced by $4 million compared to last year.

Improved results from the Alliance joint venture have been driven by growth in funds under management from Alliance sourced institutional mandates, as well as a reduction in joint venture set up and establishment costs compared to last year.

It is our intention to analyse operating profits on this basis in the future. However we intend to further improve our internal cost and pricing processes and to seek to improve the level and quality of market information.

In the past two years we have invested in developing our wealth management products and capability, as demonstrated by the project/development expense analysis shown in Section 2.2. The operating results include the expense cost of these investments. We have not yet benefited from the positive revenue impacts of this repositioning. As market confidence recovers we would expect strong increases in fund flows with a consequent positive impact on operating earnings.

2.4 | Financial Protection

The table below analyses the results from our financial protection products. All financial protection products are within the life company statutory funds and therefore reported using MoS accounting. The table shows the planned profit margins released for long term risk, individual life, and individual income protection as well as the key elements of experience profit and loss.

Financial Performance A$ million	Long Term Risk	Individual Life	Group Life & Group Income Protection*	Individual Income Protection	Financial Protection Total
Expected profit margins released	**16**	**24**	n/a	**0**	**40**
Experience profit (loss)					
Expenses	0	1	n/a	(3)	(2)
Investment return	(7)	0	n/a	(15)	(22)
Other (incl. underwriting & surrenders)	3	(5)	n/a	20	18
Capitalised losses & reversals	0	0	n/a	15	15
Operating Earnings (12 months to 31 Dec 2002)	**12**	**20**	**0**	**17**	**49**
Operating Earnings (12 months to 31 Dec 2001)	**19**	**33**	**(8)**	**(20)**	**24**

**NB: Group Life & Group Income Protection uses an alternative methodology and is not analysed on this basis.*

Operating earnings from financial protection products were $25 million higher than 2001, mainly due to the turnaround in the income protection result following continued favourable underwriting experience combined with lower management expenses. The negative impact from investment losses during 2002, particularly on long term risk and income protection products, was caused by poor returns from investment markets.

Profit margins on **long term risk** products declined this year largely impacted by investment losses.

The **individual life** result was impacted by adverse trauma and surrender experience, offset by expense reductions. Last year's result included a one-off profit impact of $20 million following a change in investment earning assumptions.

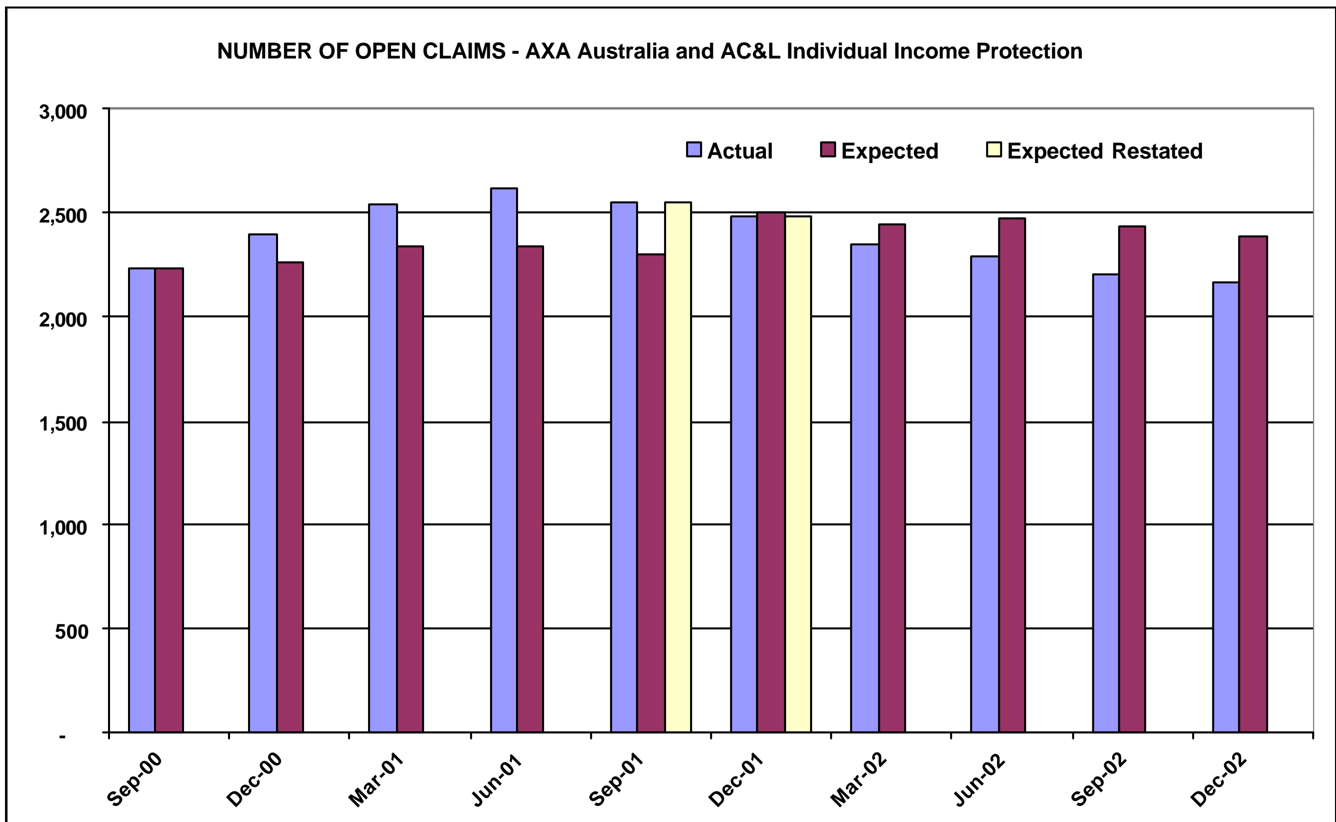
The **group life and group income protection** result was a significant improvement on the loss sustained in 2001. This is a key area for management focus as we apply the knowledge gained from our income protection experience to our group life and income protection portfolios.

The turnaround of **income protection** is the result of fundamental changes to underwriting and claims management, although poor investment returns in 2002 had a significant negative impact on earnings. Management continues to devote significant resource and focus to this product.

Income protection insurance written prior to December 2000 continues to deliver consistent profit improvements across AXA and AC&L portfolios, with numbers of open claims, claims incidence and claims duration collectively tracking well against reserves. This is a direct result of a fundamental change to our claims handling practices, including active rehabilitation assistance for claimants and an internal panel of specialists assisting our teams to identify non-legitimate claims and to resolve claims early. This portfolio will remain an area of significant management focus through 2003.

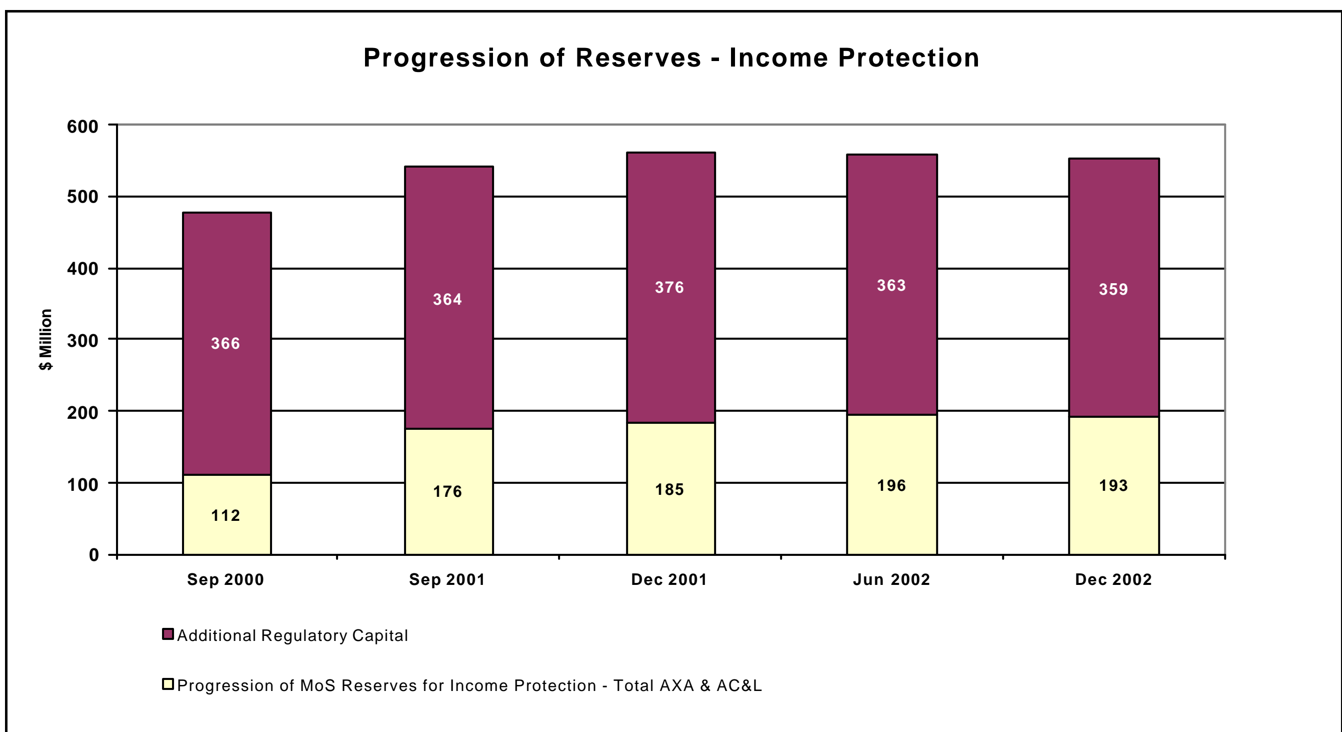
Income protection insurance written since December 2000 has been on revised product terms with carefully targeted underwriting. We are monitoring experience closely and remain cautious in interpreting results as the portfolio is small. However, we now have 24 months experience which continues to be better than our pricing assumptions, increasing our confidence that this new business is profitable.

The chart below shows the progression of open claims over 2001 and 2002. Claims reserves were strengthened in September 2001 to reflect the overall claims experience of 2000 and 2001. This chart demonstrates that whilst claims experience was poor over 2001, experience since has been favourable with claim numbers now well below expected levels. Note that at the start of each new reporting period (1 January) the expected claim numbers over the coming reporting period are revised, based on the reserving basis used.



The chart below shows the progression of reserves for individual income protection business in Australia and New Zealand. The policy liability is the amount shown on the balance sheet. This was significantly strengthened in September 2001. Reserves over 2002 have been stable, consistent with the good performance of this business.

Additional regulatory capital is held in the form of net assets to protect income protection policyholders. The following graph indicates the strength of our capital support for this product line.



Wealth Management

Retail product gross inflows were up 15% on 2001, with net flows down 12%, reflecting the weak market conditions during the year and excluding the outflows following the closure by Merrill Lynch of its badged Summit offer. Including the impact of Merrill Lynch gross inflows were up 18% on 2001, and net flows down 25%.

Retail Product Flows

A$ million	Inflows			Outflows			Net Flows		
	12 mths 31 Dec 02	12 mths 31 Dec 01	% Change	12 mths 31 Dec 02	12 mths 31 Dec 01	% Change	12 mths 31 Dec 02	12 mths 31 Dec 01	% Change
Retirement Income	492	572	(14%)	464	337	38%	28	235	(88%)
Superannuation	1,113	1,108	0%	1,096	1,142	(4%)	17	(34)	n/a
Investments	940	782	20%	588	578	2%	352	204	73%
Investment Review*	-	316	n/a	-	-	n/a	-	316	n/a
PAS^ (excl. Merrill Lynch outflow)	1,349	1,040	30%	566	313	81%	783	727	8%
Ipac (fund of funds)	323	n/a	n/a	221	n/a	n/a	102	n/a	n/a
Subtotal Australia	**4,217**	**3,818**	**11%**	**2,935**	**2,370**	**24%**	**1,282**	**1,448**	**(11%)**
Subtotal New Zealand	**561**	**319**	**76%**	**564**	**319**	**77%**	**(3)**	**(0)**	**n/a**
Total Aust & NZ	4,778	4,137	15%	3,499	2,689	30%	1,279	1,448	(12%)
^ One-off outflow due to closure of Merrill Lynch 3rd party business	98	-	-	285	-	n/a	(187)	-	n/a
Total Aust & NZ (incl Merrill Lynch)	4,876	4,137	18%	3,784	2,689	41%	1,091	1,448	(25%)

** One-off review in 2001*

Retirement Income

Our guaranteed annuity products continued to attract strong sales as capital guaranteed, fixed interest products provided an attractive haven in volatile equity markets. During the year a number of our competitors implemented aggressive pricing strategies aimed at rapidly building market share. Rather than engage in an unprofitable price war, our focus has been on profitability. As a result, short-term annuity inflows are down on 2001 but this is a result of a deliberate policy on our part.

One of the key initiatives for retirement incomes in 2002 was the implementation of a short term annuity maturity programme designed to make it easier for clients to reinvest their maturing annuity business with AXA. This initiative has been well received by advisers and has contributed to increased retention rates (including income payments). However, due to the large volumes of short-term annuities written in 2001, outflows increased.

Long term and lifetime annuities sales were up 16% on last year. AXA's reputation as a secure, long term income stream provider contributed to increased sales in the second half when media scrutiny of smaller competitors financial strength saw greater volumes of long term annuity business directed to the well established, recognised brands.

Equity market volatility and negative investment returns impacted our ability to increase sales of allocated pensions products in 2002. Investors sought capital guaranteed annuity products to manage their retirement savings, or deferred retirement to replace retirement savings depleted by market declines. In line with the broader industry, our allocated pension sales were lower in 2002.

Superannuation

In 2002 our superannuation business has been the focus of a number of sales and retention initiatives. This has led to a reduction in outflows and an improvement in our net flow position. We also launched commission incentives for both aligned and non-aligned advisers.

One of the main areas of focus in the last 18 months has been improving features and reducing outflows in our largest superannuation product, Retirement Security Plan (RSP). In 2002, we launched Phase 2 of the RSP campaign to non-contributing clients aimed at encouraging them to recommence contributions in addition to retaining their funds in RSP. The results of this campaign have been positive leading to a reduction in outflows of 11% over the previous year.

Sales of the Personal Super Directions product were marginally up on 2001, a positive result relative to the market. During 2002 we introduced a number of enhancements to Personal Super Directions, designed to make our product more attractive to the non-aligned market. This included the addition of binding nominations and upfront insurance commission, and the launch of commission incentives for advisers based on the volume of new business and funds under management.

Increased focus on retention and the implementation of a number of sales initiatives have contributed to an improved result from business super this year. Outflows from tailored and simple super were down $60 million on last year, enabling business super to record a positive net flow for the year.

Some of the achievements this year included the launch of a Successor Fund, targeting clients in our tailored and simple super products, and enhancements to SuperOnline enabling employers to download plan data into our administration systems direct from their payroll systems.

In October we introduced a number of enhancements to make Business Super Directions more competitive and flexible in the 2 to 2,000 member plan market. These improvements included Group insurance policy enhancements along with new death and TPD rates, age-based investment strategies, improved marketing materials, and a new tender documentation process. It is expected that these initiatives will generate increased sales over the next 12 months as awareness increases, penetration in the non-aligned segment improves, and some of the leads currently in the pipeline convert.

Investments

Retail and Mezzanine Unit Trusts

Net inflows into retail unit trusts slowed as continued volatility in investment markets has made retail investors cautious about investing in equity markets. The latest market share data from ASSIRT confirms that this experience is consistent with the industry. According to ASSIRT, annual net funds flow for retail products for the year ended 31 December 2002 were down $6.9 billion, or 40% on 2001.

We continue to achieve improvements in mezzanine sales which are up 34% to $480 million (2001 – $357 million), boosted by increased sales of international equity products. Unfortunately we are unable to compare our mezzanine flows against competitors as there is currently no industry data that accurately measures flows into mezzanine products.

During 2002 we increased the attractiveness of the 29 new retail and mezzanine unit trusts products launched in 2001 by adding a range of new features to our retail product range including BPAY, internet access, InvestmentLink access and market leading adviser remuneration features.

During 2001 we conducted a review of external managers on our superannuation product range. One of the outcomes of the review was an increase in the proportion of funds directed to AXA mezzanine products ahead of external managers. This has had a positive impact in 2002 on investment product flows from superannuation products, which are up 87% on last year. In addition to contributing to additional sales, this reallocation has also produced additional fee income for AXA.

Global Equity Value Fund

One of the benefits of our joint venture with Alliance is that it positions us as both a "growth" and "value" international equities manager. This has been an advantage over the last 12 months when the growth style of investment management has been out of favour. The Global Equity Value Fund, managed by Bernstein, has performed well and achieved strong growth. The fund has now secured $250 million in funds under management in only 13 months of operation.

The sales of the Global Equity Value Fund have contributed to improved overall sales of international equity products. Net inflows into retail and mezzanine international equity funds are up 174% on last year. This is significant considering the poor performance of investment markets and the fact that overall industry flows are down considerably on recent years.

The Global Equity Value Fund was nominated as a finalist by InvestorWeb in the 'International Equity Fund of the Year' category. This provides real evidence of the value of our partnership with Alliance.

Improved Product Ratings

Our unit trust range continues to achieve strong ratings from independent research houses van Eyk and ASSIRT. In June van Eyk Research awarded our Global Equity Growth, Global Equity Value, US Equity Fund and two mortgage funds an 'A' rating signifying recommended funds. ASSIRT also completed a ratings review in October resulting in all AXA funds rated by ASSIRT being awarded a rating of investment grade or higher.

Strong product ratings have contributed to increased recommended list approvals. Australian Equity products have increased in penetration from 6% to 20% for dealer groups and 6% to 18% for master trusts. Additional success has been derived from the international products, which increased from 6% to 45% for dealer groups and 10% to 52% for master trusts. Penetration of approved product lists is crucial in enabling us to increase sales from independent channels and therefore grow our market share. This will stand us in good stead when consumer confidence returns.

Repositioned Mortgage Funds

In 2002 we completed a review of our mortgage funds culminating in the launch of a new strategy in September. New objectives, benchmarks and investment allocations were implemented for both the Australian Income Fund and the Australian Monthly Income Fund designed to position the funds against appropriate competitors and reduce flows into 'capital guaranteed' portfolios. Corporate bonds have been introduced to the portfolio to increase diversification and improve liquidity.

Early indications are that these initiatives have been successful with the Australian Monthly Income Fund growing from $99 million at the beginning of 2002 to $270 million as at 31 December. Furthermore, 53% of total mortgage fund sales are now being directed to our non-guaranteed fund (Australian Monthly Income Fund), compared to 22% in 2001.

Portfolio Administration Services

AXA’s funds under administration in the Master Trust / Portfolio Administration Services (PAS) market now total $16 billion, placing AXA 3rd in the ASSIRT rankings. This has been achieved through strong organic growth as well as via the acquisitions of Sterling Grace in late 2001 and ipac in August 2002. Sterling Grace’s Australian platform is Assure.

Summit continues to be a market leader in the platform market, and our strategy is to derive the benefits of scale through consolidation onto the Summit platform. In 2002, Summit users increased from 350 to 420 Independent Financial Advisers (IFAs) and from 700 to 736 aligned advisers, with an average number of users of 511 per month, up 24% on 2001. 2002 inflows of $971 million were 3% lower than 2001 whilst the rest of the market experienced a reduction of approximately 20% in new business flows. Assure 2002 inflows were $476 million.

Like the rest of the industry, outflows during 2002 were higher than expected due to the high levels of consumer debt and reduced investor confidence. In addition, we have been repositioning our 3rd party institutional client business to a more profitable basis. During 2002 the administration contract with Merrill Lynch was not renewed as they have closed their retail products. The exit of Merrill Lynch has led to a one-off decrease in net flows of $187 million.

We are continuing to build 3rd party capability with new infrastructure in online services and client communications to enable us to effectively deliver third party badging and co-branding. We are targeting a number of opportunities in the 3rd party market with institutional and small to medium dealer groups.

During 2002, a number of key PAS developments have been undertaken to increase market usage, including:

- a relaunch of Summit including roadshows to communicate platform developments and strategy and a review of marketing material and offer documents to facilitate easier adviser usage;
- targeted media campaign to get the Summit message to market;
- launch of a new, higher level service to our most profitable adviser users;
- strengthening of senior management team with the appointment of experienced industry executives to develop products, services, adviser/dealer and 3rd party relationships;
- introduction of a fee initiative to reward loyalty and volume;
- further development of online services including new navigation, new "look and feel" adviser productivity tools in Adviser Review Template Tool (ARTT), Quickplan and Web Calculators. ARTT has the ability to improve adviser productivity on client reviews; Quickplan provides advisers the ability to produce a financial plan on-line in 20 minutes; and Web Calculators are sales tools advisers can use with clients;
- a complete review of multi-manager options (Summit Select) and repositioning how advisers can use this feature to increase business in their practice; and
- delivering a number of new enhancements to online facilities to increase adviser office usage and enhance the productivity of Summit service.

Advice

In September we completed the acquisition of ipac Securities Limited. This acquisition has strengthened AXA's position in the master trust/PAS segment (ranked third by ASSIRT total Funds Under Administration) and places AXA in the top five by total retail Funds Under Administration (ASSIRT September 2002).

ipac's funds flows were pleasing in an unsettled investment environment. Redemptions were held to plan, although new funds flow was adversely impacted by market conditions. Nevertheless, ipac managed to grow its FUM base on a net basis. Importantly, ipac's market position as a leader in the provision of advice was independently confirmed by the results of the recently released Australian Consumers Association and ASIC survey on financial planners where ipac was rated with the top financial plan.

The strategic rationale for the acquisitions of ipac and Sterling Grace is for AXA to participate in the advice part of the value chain. In our view, this is an increasingly important part of the value chain, with strong growth in the demand for advice predicated as a result of demographic trends, regulatory complexity and significant inter-generational wealth transfers occurring in the next decade. Moreover, this segment is less susceptible to margin pressure than other parts of the wealth management value chain as this is where the client relationship is strongest.

As part of the post-acquisition integration work, we have identified attractive opportunities for ipac's tools, processes and capabilities in advice to also be rolled out selectively through our aligned channels. These initiatives should help to further improve the key drivers, including productivity, retention and efficiency. Rollouts of various tools are planned for late 2003.

New Zealand

New Zealand flows are represented by both the AXA traditional business in New Zealand and the Spicers business acquired in 2001. The New Zealand wealth management market differs from Australia in two material respects – superannuation savings are not mandated and the Government is using General Revenue reserves to provide for the long-term retirement needs of New Zealanders. Also there are structural and tax disadvantages to pooled equity investments compared to direct property and other assets. Consequently the New Zealand wealth management market has been more severely affected by the falls in equities and the volatility of global investment markets over recent periods.

The focus during 2002 has been on improving the retention rate for ordinary savings products and strengthening/rationalisation of the wealth management product set. In that regard 2002 was a successful year with outflows reduced by 15% for ordinary savings products. Mezzanine unit trusts sales benefited from the launch of Australian Domiciled Units Trust funds.

In the context of the market conditions, and its focus on post retirement equity-backed products, Spicers result of flat net flows is a reasonable result. Our analysis indicates this is better than the market average.

Financial Protection

Excluding the impact of the 'one-off' income protection price increases implemented following the December 2000 repricing ($33 million), new business in financial protection was up 6% and inforce premiums up 3% compared to 2001.

Financial Protection New Business

A$ million	New Business			Discontinuances			Inforce		
Regular Premium	**12 mths 31 Dec 02**	**12 mths 31 Dec 01**	**% Change**	**12 mths 31 Dec 02**	**12 mths 31 Dec 01**	**% Change**	**At 31 Dec 02**	**At 31 Dec 01**	**% Change**
Long Term Risk	2	3	(33%)	8	9	(11%)	66	72	(8%)
Individual Life	31	28	11%	22	21	5%	165	156	6%
Group Life & IP	28	21	33%	43	21	105%	101	116	(13%)
Individual IP* (excl. price impact in 2001)	21	26	(19%)%	35	58	(40%)	187	168	11%
Subtotal Australia	**82**	**78**	**5%**	**108**	**109**	**(1%)**	**519**	**512**	**1%**
Subtotal New Zealand	**17**	**15**	**13%**	**14**	**11**	**27%**	**112**	**102**	**10%**
Total Aust & NZ	**99**	**93**	**6%**	**122**	**120**	**2%**	**631**	**614**	**3%**
Single Premium	25	21	19%						
*One-off impact from repricing of Individual IP	-	33	n/a				-	33	n/a

Long Term Risk

New business growth in 2001 was inflated as the market believed that this product would be closed due to anticipated 2002 tax law changes. These changes have since been delayed. Therefore, despite the decline in new business in 2002, we were pleased with the overall result. Improved retention further strengthened the portfolio, with discontinuance rates at only 88% of 2001 levels.

Individual Income Protection

Sales for 2002 were particularly pleasing in light of the inevitable adverse adviser reaction in 2001 to the premium increases. Improved retention assisted in lifting inforce premiums with discontinuances of 60% of 2001's lapse rates.

Individual Life

During 2002 we repositioned our business to use our two brands (AXA and AC&L) to target specific market segments with differentiated offers. This new strategy was launched in a national roadshow in August. Early signs are that we have succeeded in positioning our two brands as 'first or second choice' offers for clients of key advisers in our target market segments.

Individual life insurance sales were up on 2001, with a steady improvement through the second half of the year. AC&L new sales showed strong month-on-month improvement post our repositioning mid year. This is a strong sign that we have regained the confidence of non-aligned advisers who produce most of our AC&L sales and that we can grow our market share on a sustainably profitable basis.

Group Life & Income Protection

Sales of group insurance in 2002 were well ahead of 2001. Performance in the latter half of 2002 reflected the success of our targeting strategy with improved sales in the more valuable sectors and the avoidance of high risk low value sectors.

Group insurance is a key area of management focus as we apply the knowledge and learning gained from our income protection experience to managing this portfolio. We completed our experience segmentation of this portfolio mid year and identified profitable sectors and under-performing sectors. As a direct result of this, we have worked to strengthen alliances with intermediaries in the most attractive sectors and have withdrawn from unprofitable market sectors, e.g. stand-alone group salary continuance insurance.

This work led to a process of actively repricing the entire AC&L group insurance portfolio, which had been making losses, and to move to new plans in the AXA portfolio. As a result of other companies being prepared to price more aggressively, a large number of plans terminated and moved to other insurers, significantly increasing the 2002 discontinuance rates. As there can be a delay in AXA being notified of a plan's decision to stay with AXA, some additional inflows of new premium from late notifications may be seen in the 2003 sales figures. However this is entirely consistent with our focus on profitability rather than market share for its own sake.

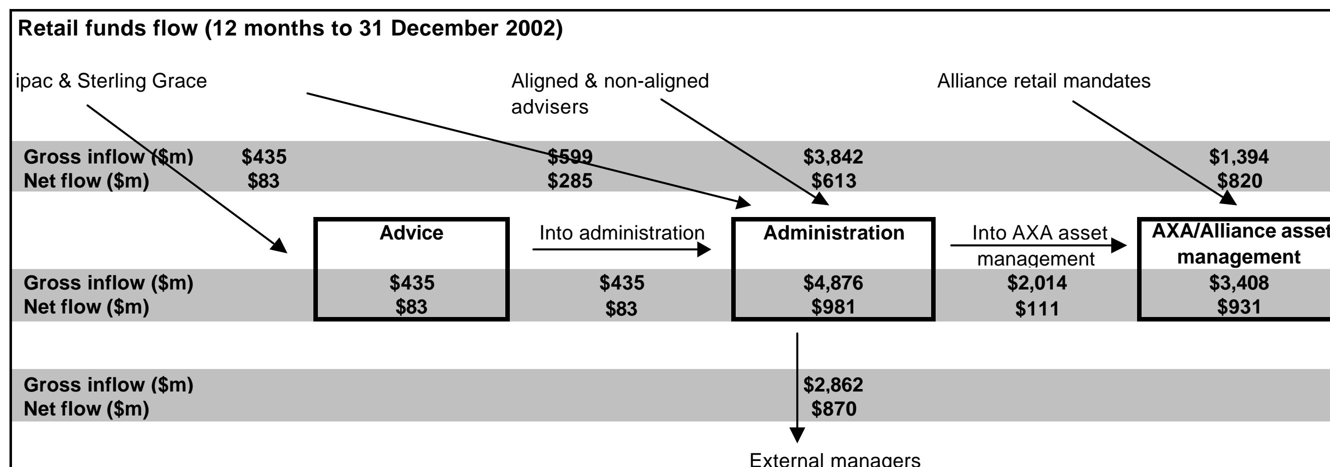
New Zealand

We continue to be the third largest risk provider overall in the New Zealand market. 2002 saw a 13% increase in new business and a 10% increase in the inforce portfolio. The December 2002 re-launch of our risk protection plan, which focuses on the risk broker market, is expected to lift individual risk sales through 2003, further consolidating our position.

2.6 | Funds Under Management, Administration & Advice

We have continued to build our wealth management capability, moving closer to the end consumer with the acquisition of advice businesses (Sterling Grace and ipac) in the past 15 months. We are now able to collect more of the margin available from retail funds as we build scale at all points along the chain.

Market statistics on funds flows are, in our view, incomplete and, in some cases, misleading. We set out below an analysis of AXA funds flows to help understanding of how we are tracking our K2 performance.



Reconciliation of funds flows into management, administration and advice

12 months to 31 December 2002	Funds Flow	
A$ million	**Gross**	**Net**
ipac & Sterling Grace		
- advice flows	435	83
- administration flows	599	285
Aligned and non-aligned advisers		
- administration flows	1,828	613
- administration to investment management flows	2,014	111
Retail funds flow (K2 measure excluding Alliance retail flows)	**4,876**	**1,092**
Alliance retail mandates		
- investment management	1,394	820
Retail funds flow (K2 measure including Alliance retail flows)	**6,270**	**1,912**
Advice to administration flows	4,876	83
Total funds flow	**6,705**	**1,995**

From a practical standpoint, we collect an advice and administration fee on 100% of funds flowing into our advisory network (ie. $435 million gross inflow). We collect and administration fee on 100% of the flows into our administration platform. In addition, we collect an asset management fee on approximately 40% of the $4,876 million funds flowing into our administration platforms (ie. $2,014 million gross inflow). Our goal is to lift volume and percentage of flows across the chain, thereby increasing the margin captured at each point – advice, administration and investment management.

Funds under advice

Funds under advice grew significantly with the acquisition of ipac during the year. However, the net new business represents only four months of ownership by AXA APH.

The Sterling Grace (Spicers, New Zealand) result reflects the focus of that business on post-retirement, equity-backed products and the impact of negative equity markets during the period which led to increased outflows.

	Funds under advice			Net funds flow		
A$ million	**At 31 Dec 02**	**At 31 Dec 01**	**% Change**	**12 months 31 Dec 02**	**12 months 31 Dec 01**	**% Change**
ipac	1,800	N/a	N/a	80	N/a	N/a
Sterling Grace	1,451	1,554	(7%)	3	29	(90%)
Total	**3,251**	**1,554**	**109%**	**83**	**29**	**186%**

Funds under management & administration

Funds under management and administration grew 19%, up 5% excluding the impact of the acquisition of ipac. Importantly, net funds flow increased 30% (27% excluding ipac flows).

Funds under administration are all funds that we administer, irrespective of whether the fund is managed by AXA (through Alliance) or other fund managers selected by the client or by AXA. "Other fund managers" are fund managers, other than Alliance, selected by AXA as part of its offering to retail superannuation clients.

In counting funds under administration and management at a point in time, some funds are counted twice to reflect that we receive a separate revenue stream for each service. To get a picture of the actual dollar amount of funds we hold, we back out the double count. However when measuring flows, these funds are counted only once. Hence for net flow purposes, we add back a component to the funds flow number.

	Funds under management & administration			Net funds flows		
A$ million	**At 31 Dec 02**	**At 31 Dec 01**	**% Change**	**12 months 31 Dec 02**	**12 months 31 Dec 01**	**% Change**
AXA managed	1,650	1,661	(1%)	(133)	50	(371%)
Alliance joint venture	26,736	24,775	8%	2,554	1,544	65%
Deutsche	2,096	1,927	9%	5	6	(17%)
PAS (Summit + Assure)	4,559	4,345	5%	596	727	(18%)
ipac (fund of funds)	5,049	n/a	n/a	79	n/a	n/a
Other fund managers	956	876	9%	126	161	(21%)
Sterling Grace (NZ only)	1,329	1,424	(7%)	8	21	(62%)
Gross FUM	**42,375**	**35,008**	**21%**	**3,235**	**2,509**	**29%**
Internal double count	(1,374)	(589)	n/a	172	112	n/a
Total	**41,001**	**34,419**	**19%**	**3,407**	**2,621**	**30%**

Whilst wholesale funds under administration grew 11% for the year, key retail funds under administration grew 23%. In what were difficult market conditions and where net industry flows contracted significantly, we managed to maintain the level of net retail funds flow.

Source of Funds	Funds under management & administration			Net funds flows		
A$ million	**At 31 Dec 02**	**At 31 Dec 01**	**% Change**	**12 months 31 Dec 02**	**12 months 31 Dec 01**	**% Change**
Retail funds	22,598	18,412	23%	1,092	1,132	(4%)
Retail mandates	2,251	1,469	53%	820	330	148%
Retail investment review- one-off	n/a	n/a	n/a	n/a	316	n/a
Wholesale funds	16,152	14,538	11%	1,495	843	77%
Total	**41,001**	**34,419**	**19%**	**3,407**	**2,621**	**30%**

Note the above excludes $7.7 billion administered by the Members Equity joint venture ($5.7 billion at 31 December 2001), our 50% interest in which was divested in January 2003.

Funds under management

Funds under management continued to grow quite strongly, with net funds flow up 52% despite the difficult market conditions. Funds under management includes commercial loans managed by AXA, property funds managed by Deutsche and the Alliance joint venture (included at 100% of funds).

Source of Funds	Funds under management			Net funds flow		
A$ million	**At 31 Dec 02**	**At 31 Dec 01**	**% Change**	**12 months 31 Dec 02**	**12 months 31 Dec 01**	**% Change**
AXA managed	1,650	1,661	(1%)	(133)	50	(37%)
Alliance joint venture	26,736	24,775	8%	2,554	1,544	65%
Deutsche	2,096	1,927	9%	5	6	(17%)
Total	**30,482**	**28,363**	**7%**	**2,426**	**1,600**	**52%**

Alliance grew net wholesale flows by 77% with net retail mandates growing 149%. $1.8 billion of inflows were to the Bernstein value fund, with major wholesale mandate wins coming from MLC and TAC. Other major retail mandate wins by Alliance included Colonial/CBA (First Choice Master Trust) and MLC/NAAM (retail product). A retail mandate is a “fund of fund” mandate sourced from retail customers (ie. not a corporate or industry superannuation fund or a transfer from another fund manager).

There was a one-off impact in 2001 resulting from an investment review which transferred $316 million to AXA’s mezzanine range from external managers and other funds.

Source of Funds	Funds under management			Net funds flows		
A$ million	**At 31 Dec 02**	**At 31 Dec 01**	**% Change**	**12 months 31 Dec 02**	**12 months 31 Dec 01**	**% Change**
Retail Funds	12,079	12,356	(2%)	111	111	0%
Retail Mandates	2,251	1,469	53%	820	330	148%
Retail investment review- one-off	n/a	n/a		-	316	n/a
Wholesale Funds	16,152	14,538	11%	1,495	844	77%
Total	**30,482**	**28,363**	**7%**	**2,426**	**1,600**	**52%**

2.7 | Advisers & Agents

	31 Dec 02	31 Dec 01	% Change
Australia			
- Dealerships	1,121	1,097	2%
- Advisers	59	25	136%
New Zealand			
- Dealerships	344	367	(6%)
- Advisers	62	63	(2%)
Total	**1,586**	**1,552**	**2%**

Adviser numbers increased over the period to 1,586, aided in Australia by the acquisition of ipac.

3 Hong Kong

3.1 | Strategic Overview & Highlights

The Hong Kong life insurance market continues to experience strong growth. This growth has been fuelled by the aggressive entry of the major banks into the market with their internal distribution - the banks are now capturing more than 20% of new business. The significant policy twisting and agent poaching experienced in 2000 and early 2001 now appears to have abated.

Significant opportunities in retail investment funds and pensions are beginning to emerge. This growing opportunity has been driven by the introduction of the Mandatory Provident Fund and the increasing acceptance and popularity of unit linked investment. Increasing consumer awareness and confidence in market linked investment products combined with high individual savings will drive future growth in wealth management and financial protection products.

The Hong Kong market is evolving towards financial planning. This is being driven by investor need for advice in order to establish alternative wealth creation strategies following the property market downturn and low interest rate environment. Not withstanding this Hong Kong has similarly been impacted by weak investment markets.

Our Hong Kong business enjoys a strong position and is firmly established as a leading participant in the life insurance market. To build on this, we have embarked on a transformation programme – from being a leading life insurance company in Hong Kong to being "recognised as a leader and recommended as the best provider of financial protection and wealth creation".

We have been voted by Capital Magazine “Best Insurance Company in Hong Kong” for the third consecutive year, an award that reflects the company’s reputation and customer satisfaction. Across all the award categories, we are the only three time winner.

M6 Programme

As in Australia and New Zealand, we have invested significantly in a transformation programme. Launched in late 2000, M6 is focused on transforming our business from a leading life insurance company distributing traditional insurance products solely through a traditional agency channel, to a leading financial protection and wealth management business using a range of distribution channels and a multi-product approach. M6 is focused on enhancing our distribution capability and product offer, and improving efficiency.

M6 is integral to our strategy and AXA remains committed to its goal of being ‘recognised as a leader and recommended as the best provider of financial protection and wealth management products’.

The M6 programme has six key objectives to be achieved by the end of 2004:

M1 Enterprise value of HK$23 billion
M2 Gross premium income of HK$10 billion
M3 Assets under management of HK$42 billion
M4 Become the provider of choice
M5 Employee satisfaction of greater than 30 in AXA Scope survey
M6 Value of new business of HK$753 million

The M6 objectives are supported by eight strategic imperatives:

- Increase the number and productivity of agents
- Build profitable new distribution channels
- Build preferred brand of choice
- Deliver investment margins
- Bring persistency back to target levels
- Deliver operational excellence
- Improved organisational capability through our people
- Prepare for growth of savings and investment markets

Increase the number and productivity of aligned advisers

We have introduced alternative distribution management models, which are aimed at leading the market to a more modern and diversified distribution system. In particular, we have segmented our traditional agency force and employed AXA staff to manage commissioned agents. The new agency channel, AXA Phoenix, now has 702 agents. This significantly aids agent retention by establishing a direct relationship between the agents and the company, thereby reducing our vulnerability to agency leader defections.

These initiatives, combined with recruitment initiatives and an adviser and leader retention scheme, have enabled us to maintain our adviser numbers in an extremely competitive environment without entering into unsustainable and unprofitable poaching initiatives. Agent numbers have increased by 1% over the year and productivity has improved by 3% despite the difficult environment. All our advisers now meet the minimum agency qualifications.

Build profitable new aligned and broker /IFA channels

Over the last twelve months we have successfully broadened our distribution capability. We have established a new salaried sales force – AXA Advisers. There are now 196 AXA Advisers (up from 75 at 31 December 2001) with productivity levels around twice that of commissioned advisers. This new channel accounted for 9% of our new individual life sales in 2002.

AXA Advisers has helped us target a higher socio-economic customer group and is also significant in capitalising on alliance opportunities and servicing our large client bank. There is further scope to expand this channel whilst maintaining productivity levels through strong leads from external alliances and from our orphan client base. We have also continued to develop our broker channel strategy and capability.

Our corporate business has historically been distributed through independent brokers and a direct sales team. We enjoy an excellent reputation as a provider of service to the broker market. During the past year, extensive research was undertaken to leverage this reputation into the individual broker market. As a result, individual business was received from 57 broker firms, with new premiums totalling HK$8 million, a 285% increase over 2001. Expansion is expected to continue in 2003.

Build preferred brand of choice

With approximately 1 million clients and significant competitive pressure from new entrants, brand awareness is extremely important in attracting new clients and retaining existing clients.

AXA continues to be among the top 3 preferred brands in the Hong Kong market with brand awareness of 75%, already achieving our target under the M6 programme. We have been voted best insurer in Hong Kong by Capital Magazine for the third consecutive year. The award is decided by a combination of a judging panel, editorial staff and the voting public, and it is pleasing to stand alongside other category winners such as Merrill Lynch, IBM and Microsoft. Across all the award categories we are the only 3 time winner.

AXA Hong Kong has also been awarded the Caring Company Community award which reflects our commitment to the community.

Deliver investment margins

Delivering the targeted 1% investment margin on non-linked assets over the long term is a critical component in achieving our goal of increasing enterprise value by 55%. The fall in equity markets combined with realised losses in our bond portfolio, primarily as a result of our holdings of Worldcom bonds, have been the main cause of negative investment margins over the last twelve months. We have reviewed our strategic asset allocation and retained the asset mix as it is appropriate given our capital position, targeted return and long term liabilities. However we have taken the opportunity to further improve the risk profile or our bond portfolio by divesting and reallocating a number of investment mandates between Alliance Capital, AXA Investment Managers and AXA Rosenberg to further diversify our portfolio and reduce the volatility of our returns. We have maintained our overall bond portfolio credit rating at A.

Policyholder dividends on our inforce portfolio were reduced in December 2001 (by 1% on average). Additional action has been taken by further reducing policyholder dividends by approximately 0.75% effective January 2003. This has not negatively affected our position in the market, as competitors have followed suit. Again we are confident that competitors will follow suit. We have also closed our high guarantee inforce portfolios to new business and are focused on further increasing our sales of unit-linked business and MPF business. Unit linked products represented 19% of 2002 sales despite adverse investment markets.

Improved actuarial analysis and tools including asset share methodology and more sophisticated asset liability management have been developed. We intend to manage our business to deliver at least a 1% margin to the shareholder in the long term with additional short term margins to offset past investment shortfalls.

The following table summarises the current position on margins for the main product groupings based on current best estimate assumptions:

	Investment Guarantee to Policyholder	Investment Strategy (Bond/ Equity)	Prospective Long term Investment Return	Current Policyholder return (Gtees+ Cash div+bonus)
"NL"-$17.5bn closed Life fund	4.25%*	70/30 (Global)	7%	5%*
"Smart" - $0.6bn open Life fund	1%	50/50 (Global)	8%	4% + TB
"DA" - $4.2bn Retirement fund closed to new schemes	5%	80/20 (HK)	6.75%	5.0%
"MPF" - $0.4bn Guarantee Fund	0%	80/20 (HK)	6.75%	1.0%

* before offsetting effect of expense/mortality profits

The significant assumptions underlying the prospective long term investment returns are US treasuries, US corporate bonds and global equities of 5.5%, 6.2% and 10% respectively.

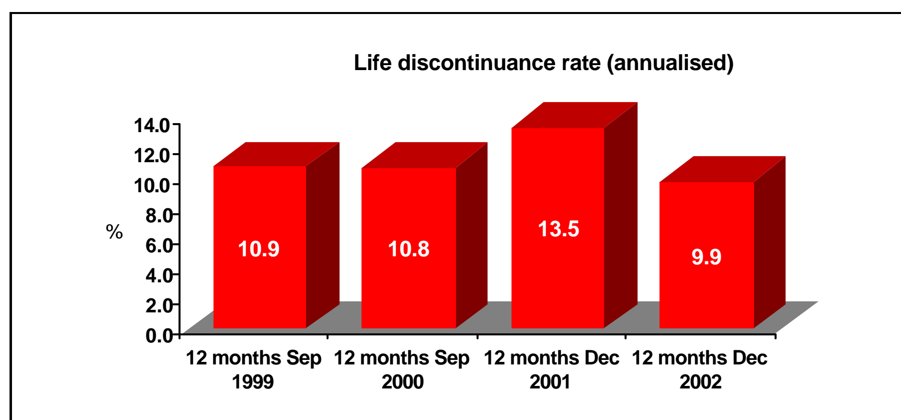
Bring persistency back to target levels

The level of agent poaching activity has reduced markedly since early 2001. For 2002, the average agent numbers were 2,065 compared with 2,016 for 2001.

It is clear to us that the tactics used by some of our competitors in offering significant up-front payments to agency leaders to move and take large numbers of agents, have not been successful. The activity of competitors has abated as they digest the increase in their acquisition expense ratios and the failure to induce large numbers of agents to move. Our strategy has been to concentrate on improving the quality of the agency force and the attractiveness of the company as an employer for productive agents.

At the same time we have engaged in legal action to prosecute and discourage client twisting by defecting agents. We believe the precedent this has set vindicates our positioning of not pursuing aggressive and unsustainable agent poaching.

Due to the reduction of agency poaching activities, annualised persistency has continued to improve towards the levels assumed in long-term projections. At December 2002, the aggregate discontinuance rate for individual life policies was 9.9%, well down on prior periods.



We have also invested in a number of initiatives to retain clients. Our dedicated conservation team has continued to be effective contributing to a net retention of approximately HK$40 million inforce annualised premium. A new unit, Customer Care Centre, is focused on reducing policy surrenders and pursuing cross sell opportunities to our orphan clients. These clients have been returned to AXA from defecting or leaving agents and provide a strong source of leads to AXA Advisers and AXA Phoenix. Our Customer Care Centre is now servicing over 106,000 clients. Discontinuance rates on these clients have improved and repeat sales campaigns have given us over 1,400 new cases for HK$7 million new business value.

Deliver operational excellence

Reflecting our continued focus on operational excellence, the value of new business increased by 21% to HK$389 million (HK$443 million including increases on inforce), compared to new business volume growth of 12%, reflecting ongoing focus on product profitability, in particular the re-pricing of our Smart series and non linked products.

AXA Hong Kong is already one of the most efficient life insurance companies in Hong Kong and within the AXA Group. However, we continue to identify areas of efficiency improvement, and over the last twelve months have reduced recurring management expenses by 9% and reduced staff numbers.

We have established the Asian Regional Life Centre, which will provide a platform for further efficiency improvements and consistency between regional entities through the sharing of capabilities and process in areas such as financial control and asset/liability management, IS, agency training and product design and development. At the same time we are evaluating opportunities to leverage the low cost environment of Mainland China for service and IS delivery.

Improved organisational capability through our people

Over the last twelve months we have significantly reinforced our management and people capabilities and strengthened the operational structure in Hong Kong. We have appointed a number of senior managers from both within the AXA Group and externally. We have improved our people processes through competency assessment and training and aligned remuneration incentives to the M6 objectives. We have also strengthened internal capabilities for project management and delivery of benefits with our programme office structure.

Over the last twelve months there has been a marked improvement in our Scope (staff satisfaction) result of 42, compared to 30 in 2001. This has already exceeded our M6 programme target score of 30.

Prepare for growth of savings and investment markets

There is enormous potential for growth in savings and investments in Hong Kong although the market is still in the early stages. Over the past twelve months we have launched a number of new products into the market as well as building on our other recent product innovations.

Mandatory Provident Fund

The Mandatory Provident Fund (MPF) regime commenced on 1 December 2000. By 31 December 2002 we had approximately 100,000 members in our retirement business (MPF and ORSO). This represents a market share of around 5% in MPF and we are one of the small number of participants to have achieved critical mass.

A full strategic review was completed of our retirement business during 2002. We now have a strategy in place to grow the MPF business organically as well as actively seeking to purchase third party portfolios as the inevitable consolidation of the sector occurs.

Life Products

The Hong Kong market is still dominated by traditional products, which remain attractive under current investment market conditions.

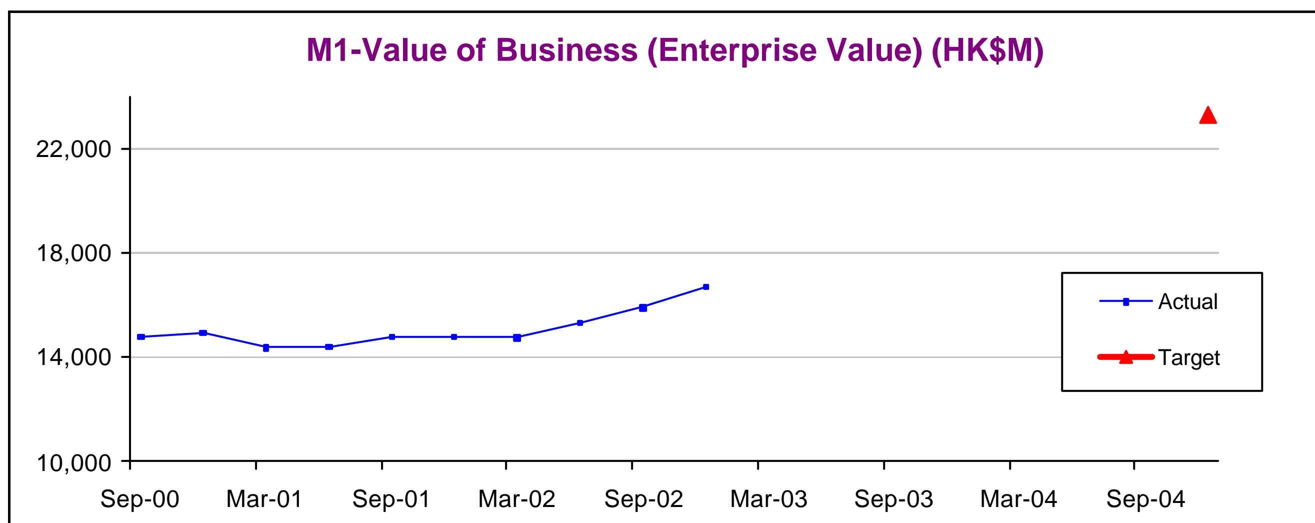
In 2001, we broadened our product range with the successful introduction of a unit-linked series, “HONEY”. In 2002, we have continued to see strong results from our Honey product range, which delivered 19% of total sales despite volatile investment markets. The HONEY launch was an important component of the M6 transformation programme. We lead the market in unit linked products and will continue to develop these offers to strengthen our position in the wealth management sector.

In December 2001, we successfully launched a closed end capital guaranteed fund, Vitamin. Following the success of Vitamin, we launched our second and third capital guaranteed funds, Vitamin C and Global Express, in May and October 2002. Despite the current economic downturn in Hong Kong, these two capital guaranteed funds achieved combined sales of HK$234 million.

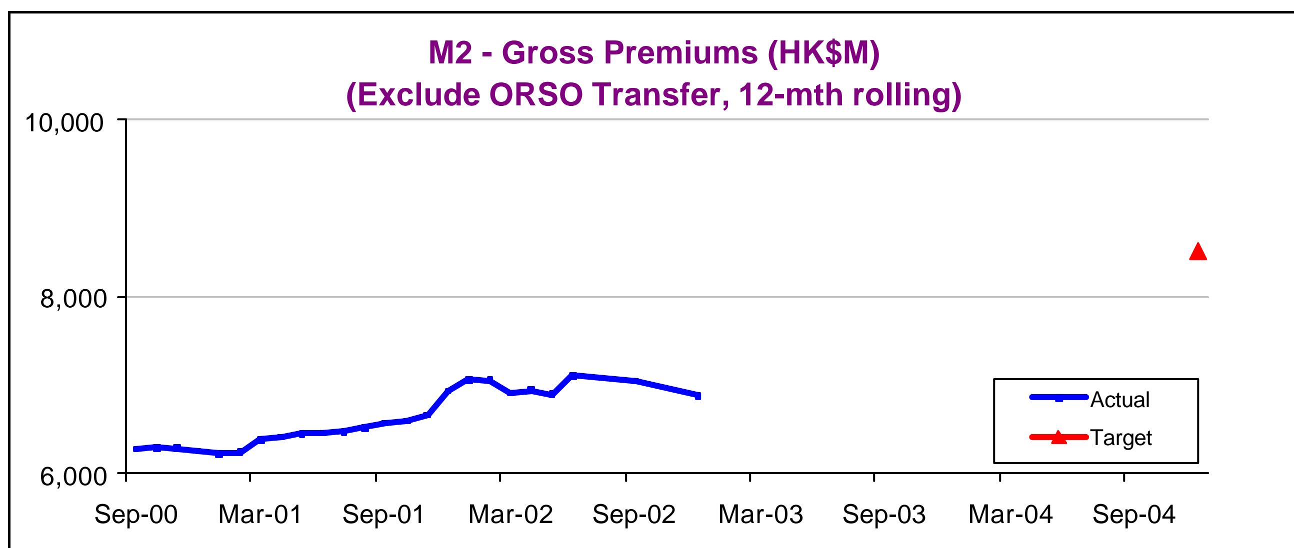
In March 2002 we re-launched the award winning "Smart Lady" living insurance product. In August we launched "Smart Jumbo Saver", a regular premium non-linked endowment product with a 5 year payment option, achieving HK$132 million sales in just four months.

M6 Performance

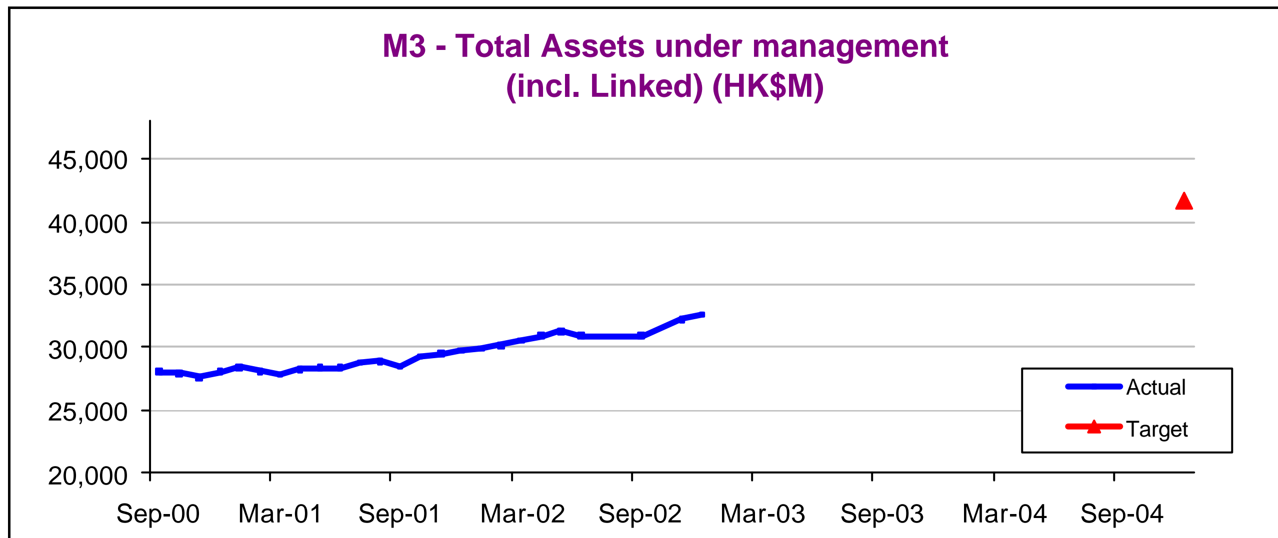
Enterprise Value is on track towards our **M1** goal of HK$23 billion in 2004. Persistency continues to improve, trending strongly to our long term assumption. Mortality experience continues to be favourable and our already low expense ratios continue to be reduced.



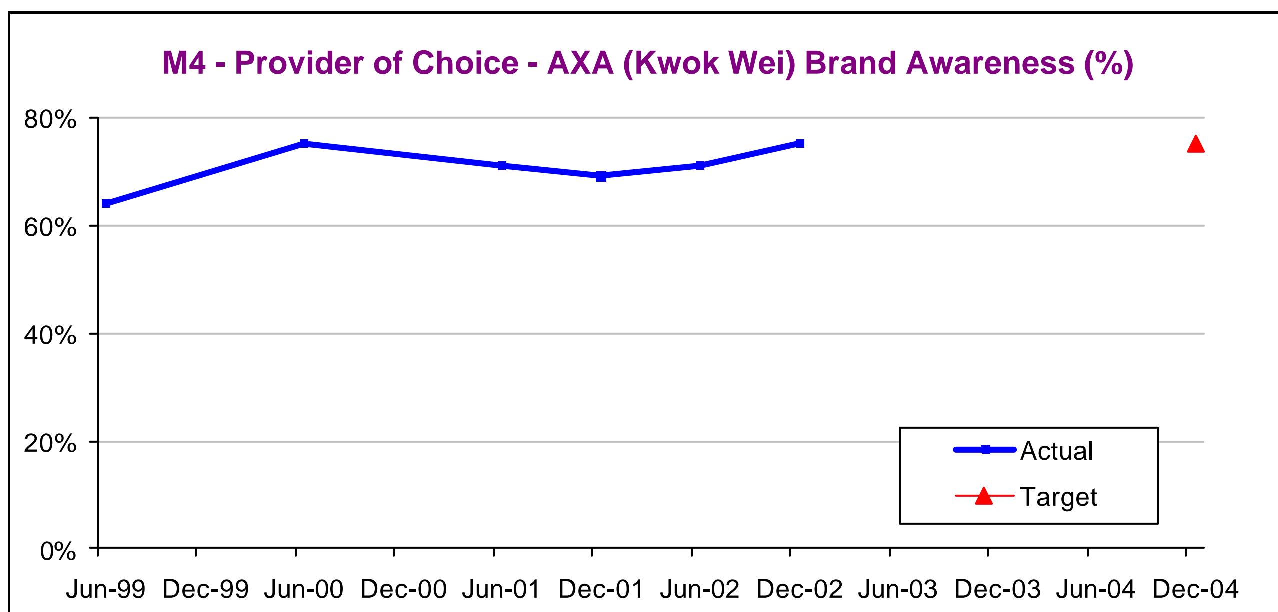
The decrease in gross premiums impacted our progress towards our **M2** target and reflected the lower renewal premiums on a smaller inforce base following agent poaching in the Hong Kong market during 2001. This was partially offset by the growth in individual life sales following new product developments, and successful diversification of distribution channels.



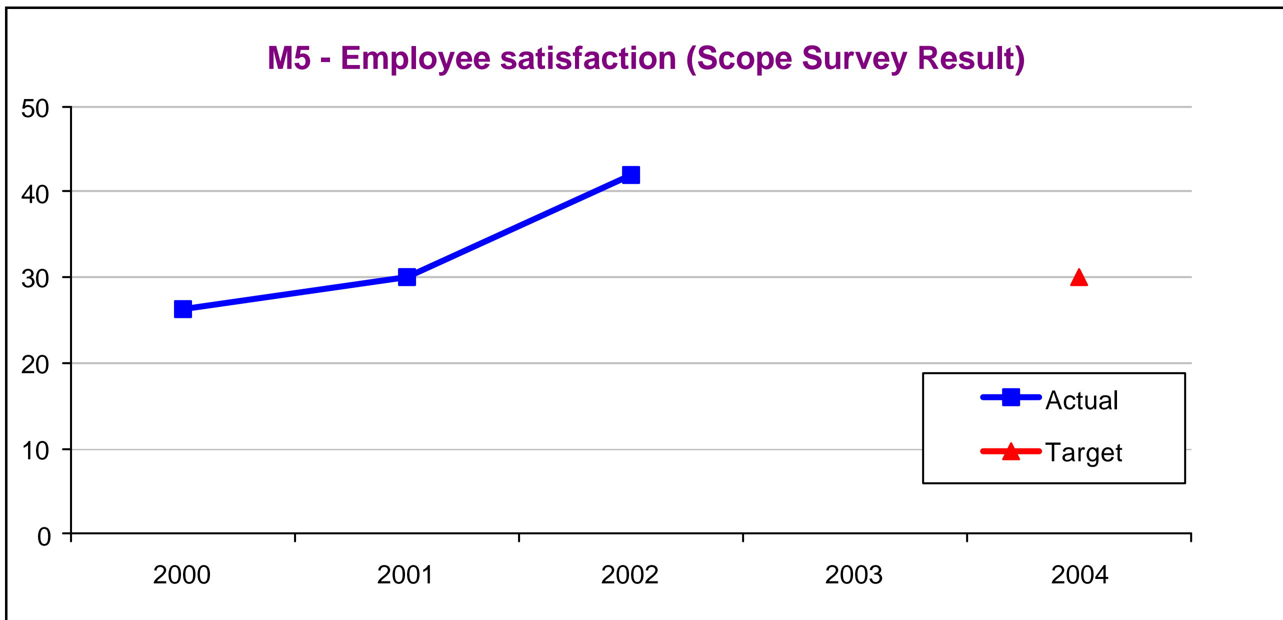
The increase in asset under management aided movement towards our **M3** goal and reflects the positive net fund flows of HK$3.7 billion partly due to the launch of new capital guaranteed funds, Vitamin C and Global Express with a total of HK$234 million in contributions.



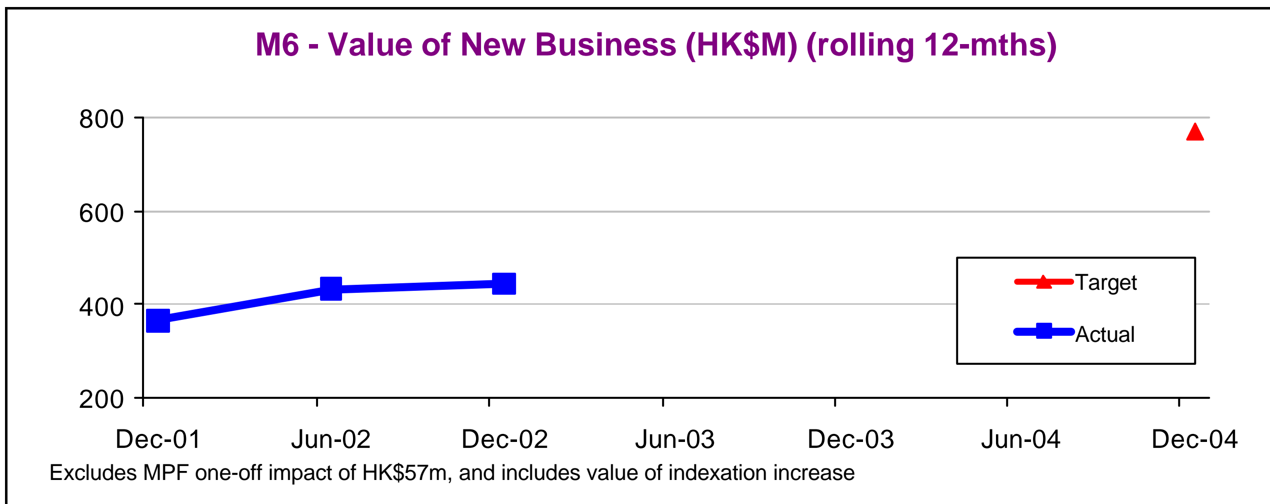
A recent survey showed that we achieved our **M4** target of brand awareness during 2002. The AXA brand was recognised by 100% of those interviewed, 75% of them unaided.



A very pleasing result with an overall Scope score of 42, compared to our **M5** target of 30. This is particularly good considering the amount of change and process improvement activities undertaken during 2002.



Our **M6** target was aided during 2002 by a 21% increase in value of new business. This compares favourably to 12% sales growth and is attributable to our ongoing focus on product profitability, in particular the re-pricing of our Smart series and non linked products.



Operating earnings are 7% lower than 2001 despite improvements in persistency and discontinuance experience. The lower profit is largely due to a reduced margin release following poor investment returns in 2001 and a resulting reduction in the long-term investment earning rate assumption, together with the high discontinuance rates in 2001, which gave rise to lower average in-force in 2002.

Financial Performance A$ million	12 months 31 Dec 02	12 months 31 Dec 01	% change Dec to Dec	12 months 30 Sept 00
Operating Earnings	156	180	(13%)	134
Investment Earnings	67	7	857%	114
Profit after Income Tax before non-recurring items	**223**	**187**	**19%**	**248**
Non-recurring items	**0**	**(12)**	**100%**	**0**
Profit after Income Tax and non-recurring items	**223**	**175**	**27%**	**248**

Investment earnings in Hong Kong of A$67 million include tax payable in Australia on passive shareholder investment earnings. As this tax is paid in Australia, it is not included in the local currency investment earnings of HK$297 million.

Financial Performance HK$ million	12 months 31 Dec 02	12 months 31 Dec 01	% change Dec to Dec	12 months 30 Sept 00
Operating Earnings	662	712	(7%)	653
Investment Earnings	297	47	532%	560
Profit after Income Tax before non-recurring items	959	759	26%	1,213
Non-recurring Items	0	(46)	100%	0
Profit after Income Tax and non-recurring items	959	713	35%	1,213

Financial Performance HK$ million	12 months 31 Dec 02
Expected Profit Margins Released	**712**
Experience Profit (Loss)	
- Expenses	(17)
- Investment Return	(64)
- Other (incl. Underwriting & Surrenders)	31
Capitalised Losses & Reversals	-
Operating Earnings	**662**

The improving persistency reflects the reduction of the policy twisting activities by defected agents, together with the broad range of customer service initiatives implemented during 2002, including our dedicated conservation team, our new Customer Care Centre and a single point of contact service structure.

Life, Unit Linked, Health & DI (%) - by premiums	12 months 31 Dec 02	12 months 31 Dec 01
13 month persistency	78.6	77.5
25 month persistency	70.8	68.3
Individual Life only (%) - by cases		
13 month persistency	78.5	77.4
25 month persistency	69.7	67.1

3.2 | Financial Summary (ctd)

Recurring management expenses are 9% lower than last year. Staff numbers are now 560, 10% lower than at 31 December 2001, reflecting the successful process improvement initiatives. Excluding the 16 new staff for the Customer Care Centre, staff numbers have reduced by 13%.

Expenses HK$ million	12 months 31 Dec 02	12 months 31 Dec 01	% change Dec to Dec	12 months 30 Sept 00
Total recurring management expenses	363	399	**9%**	390
Project expenses	29	24	**(21%)**	15
One-off expenses	19	43	**44%**	29
Management Expenses	**411**	**466**	**12%**	**434**
Total Commission and related expenses	737	718	**3%**	838
Total Expenses	**1,148**	**1,184**	**3%**	**1,272**

Incremental expenses on the M6 programme projects and other non-recurring activities were HK$48 million for the twelve months to 31 December 2002.

Investment earnings of HK$297 million were 532% higher than 2001, reflecting the impact of a reduction in bond yields giving rise to capital appreciation on the bond portfolio, offset by falling global equity markets and the increase in corporate bond spreads. The spread narrowed again in the latter part of December 2002. Included in the investment result are losses on Worldcom which impacted shareholder profit by A$13 million in 2002.

Investment Earnings HK$ million	12 months 31 Dec 02	12 month Return %	12 months 31 Dec 01	12 months 30 Sep 00
Equities	(512)	(18%)	(403)	(35)
Fixed Interest	805	12%	449	522
Property	(16)	(6%)	(20)	22
Cash	20	2%	21	51
Investment Earnings	**297**	**3%**	**47**	**560**

3.3 | Sales & Funds Flow

New business showed strong growth on the prior year, with a total of HK$909 million annualised (including 10% single premium), 12% ahead of 2001 (HK$810 million). Discontinuance was improved significantly with a rate of 9.9% for 2002 compared to 13.5% over 2001.

Annual Premium Products **HK$ million**	**New Business**			**Discontinuance**			**In Force**		
	12 mths 31 Dec 02	**12 mths 31 Dec 01**	**% change**	**12 mths 31 Dec 02**	**12 mths 31 Dec 01**	**% change**	**At 31 Dec 02**	**At 31 Dec 01**	**% change**
Individual Life (Non-Linked)	**523**	**422**	**24%**	**542**	**689**	**(21%)**	**4,548**	**4,565**	**(0%)**
Individual Life (Unit Linked)	**142**	**155**	**(8%)**	**45**	**6**	**650**	**246**	**149**	**65%**
Total Individual Life	**665**	**577**	**15%**	**587**	**695**	**(16%)**	**4,794**	**4,715**	**2%**
Group Retirement (incl. MPF) #	**27**	**19**	**42%**	**92**	**147**	**(37%)**	**1,246**	**1,312**	**(5%)**
Group Risk	**62**	**71**	**(13%)**	**27**	**22**	**23%**	**312**	**277**	**13%**
Total	**754**	**667**	**13%**	**706**	**864**	**(18%)**	**6,352**	**6,304**	**1%**
General Insurance (P&C)*	**107**	**85**	**26%**						

** Total premium*
 # Group Retirement/MPF new business and discontinuances are shown net of internal conversions from ORSO to MPF schemes and net of MPF one-offs impact in 2001.

Single Premium Products **HK$ million**	**Inflows**			**Outflows**			**Net Flow**			**FUM**	
	12 mths 31 Dec 02	**12 mths 31 Dec 01**	**% change**	**12 mths 31 Dec 02**	**12 mths 31 Dec 01**	**% change**	**12 mths 31 Dec 02**	**12 mths 31 Dec 01**	**% change**	**At 31 Dec 02**	**At 31 Dec 01**
Individual Life (incl. Unit Linked)	295	392	(25%)	12	16	(25%)	283	375	(25%)	717	444
Group Retirement#	181	188	(4%)	80	158	(49%)	101	31	226%		
Total	**476**	**580**	**(18%)**	**92**	**174**	**(47%)**	**384**	**406**	**(5%)**	**717**	**444**

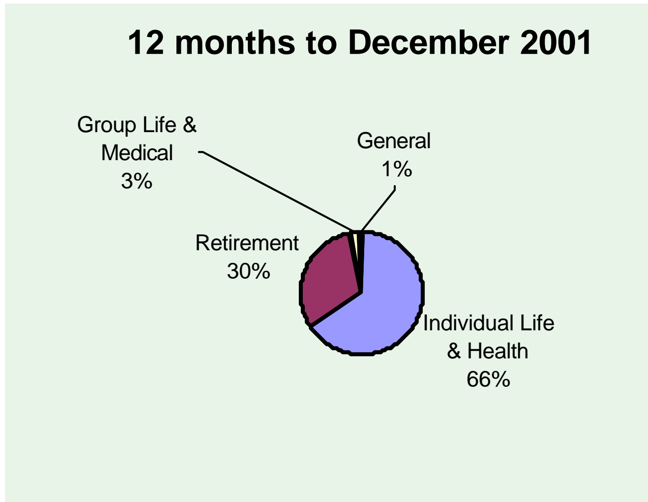
 # FUM for retirement does not split between regular and single contributions and excludes internal ORSO conversions

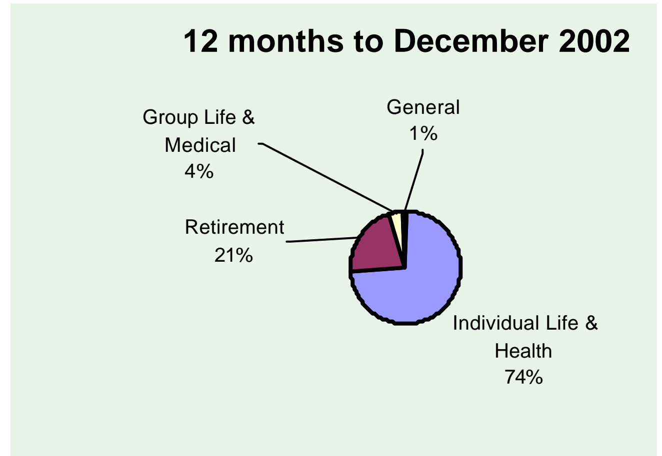
During 2002, AXA China Region launched two closed-end guaranteed funds, "Vitamin C" and "Global Express", with total single premium sales of HK$234 million. The funds are unit linked, but with a capital guarantee to the customer provided by a third party.

The increase in non-linked individual life sales reflects the HK$132 million from Smart Jumbo Saver (non-linked endowment plan) and the good performance in general insurance reflects the increase in premium rates and strong sales from non-agency channels. However, unit linked sales were lower than last year due to the adverse equity markets.

Premium Income Product Split

The increased percentage of individual life business reflects the higher sales in non-linked business due to the launch of Smart Jumbo Saver. The higher premium in Group Life & Medical reflects the good performance of non agency channels. The lower proportion of retirement income reflects the high one-off effect in 2001 when the MPF scheme was implemented.



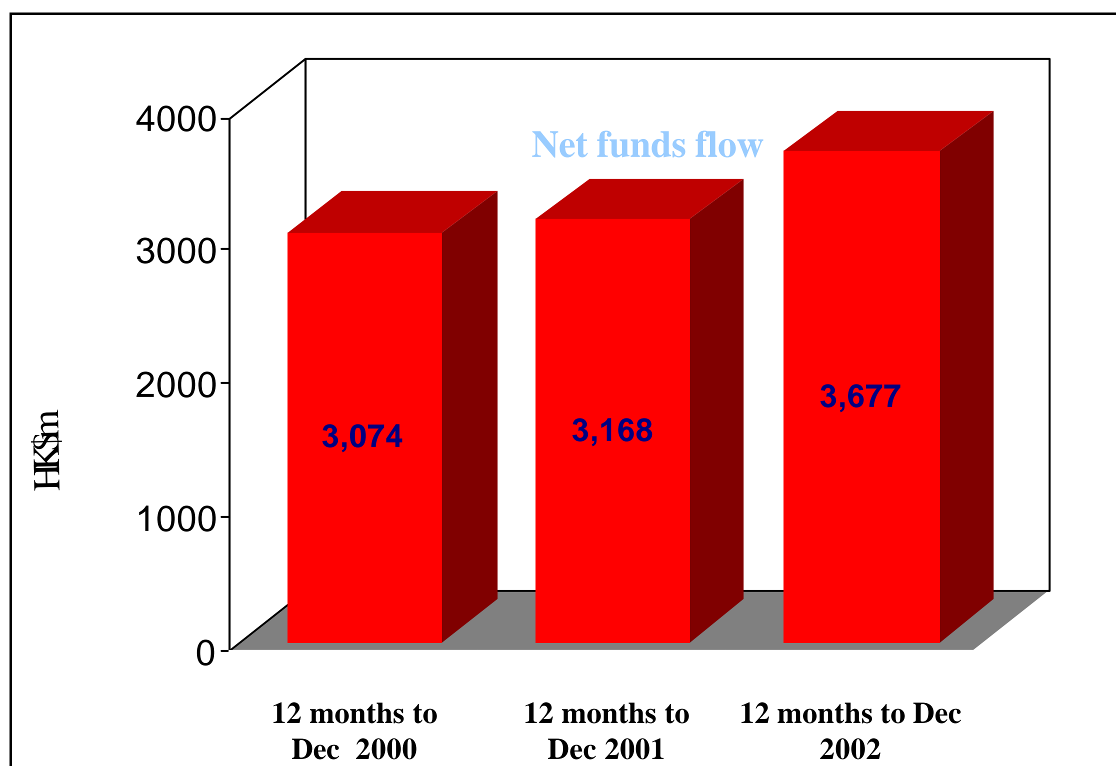


3.4 | Funds Under Management

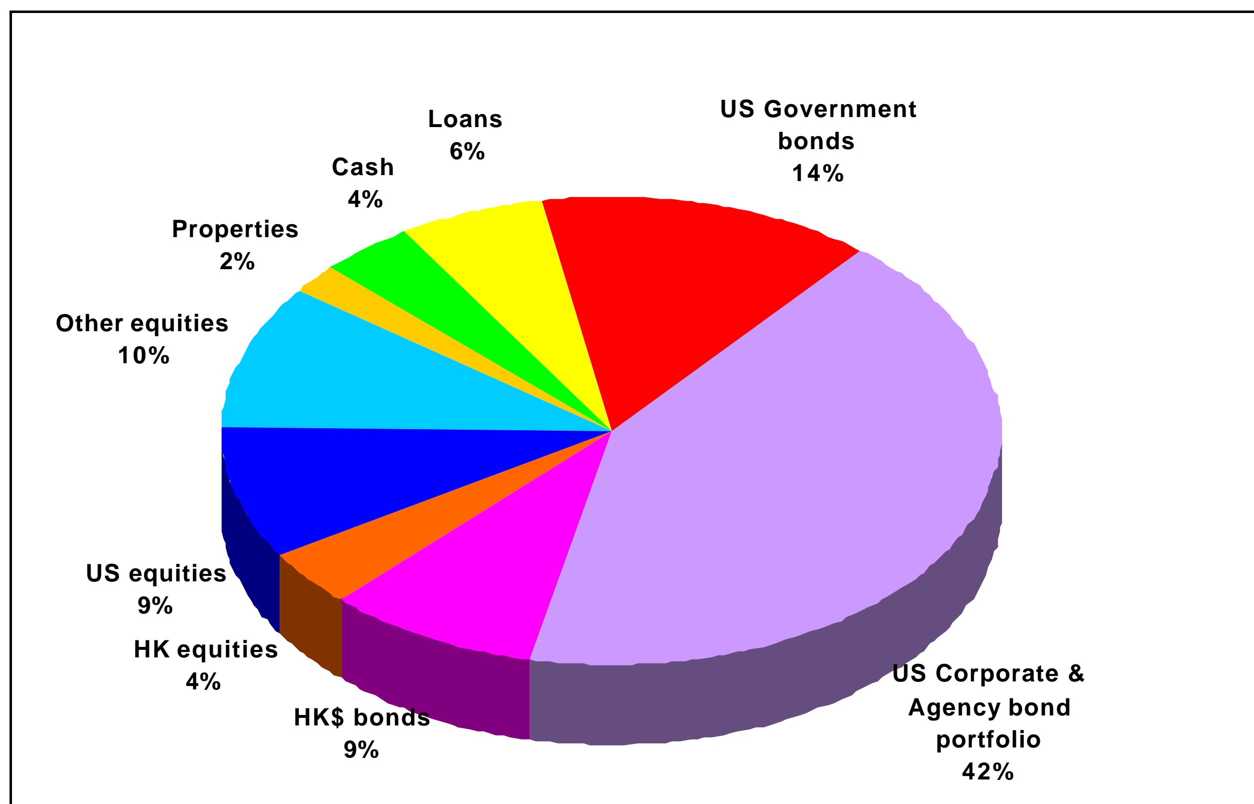
Funds under management continued to grow despite the unfavourable equity market conditions which was partially offset by the decrease in bond yields.

Breakdown of Major Funds **HK$ billion**	**12 months** **31 Dec 02**	**12 months** **31 Dec 01**
"NL" closed Life fund	17.5	16.6
"Smart" open Life fund	0.6	0.3
"DA" Retirement fund (closed to new schemes)	4.2	3.7
"MPF" Guarantee Fund	0.4	0.3
Others (including shareholder fund)	10.0	8.9
Funds Under Management (incl. Linked)	**32.7**	**29.8**

Net funds flow continues to be strong at HK$3.7 billion, including the impact of single premium unit linked and retirement business.



Portfolio Composition



A breakdown of the US Bond portfolio by rating is also included below.

US Bonds	Rating	Proportion
Government and Agency	AAA	33%
Corporate	AAA	3%
	AA	10%
	A	30%
	BBB	24%
Total		**100%**

On a weighted basis, our average target credit rating for the US bond portfolio is A, with a minimum average of A-. The resulting percentage allocations across the various ratings will fluctuate as the fund managers actively manage the portfolio.

3.5 | Advisers & Agents

	31 Dec 02	31 Dec 01	% Change Dec to Dec
Commissioned agents managed by agency leaders	1,453	1,583	(8%)
Commissioned agents managed by salaried staff	702	554	26%
Salaried advisers	196	75	161%
Total	2,351	2,212	6%

4 China & South East Asia

4.1 | Strategic Overview & Highlights

AXA's other Asian businesses comprise joint venture operations in China and South East Asia and are overseen by the AXA Asia Life Regional Centre based in Hong Kong. Our strategic vision is to be recognised as a leader in financial protection and wealth management in all the countries in which we operate, with specific focus on growing the shareholder value of these businesses.

The focus of our approach is a multi-channel, multi-product offering with enhanced operational effectiveness through extensive sharing of processes, IT systems and products. This is supported by the strong regional management team now in place together with an ongoing focus for people development across the region. We have strengthened our risk management capabilities throughout the Asian entities, with a clear focus on product profitability, investment governance, internal control and compliance, as well as robust performance reporting with a key focus on value creation.

Although AXA's presence is currently small by comparison to more developed regions, the China and South East Asia markets offer opportunities for significant long term growth. Our focus is to obtain a competitive share in these markets through organic growth and partnering opportunities. AXA has developed a bancassurance programme which has been successfully implemented in The Philippines and is now being rolled out in Thailand and Indonesia in conjunction with our banking partners.

The China operations include Shanghai and the soon to be established Guangzhou branch. The South East Asian operations comprise our businesses in Singapore, The Philippines, Thailand and Indonesia. Most of these are still at the developing stage in developing markets, but provide great opportunities for long term growth. This can be demonstrated by the strong growth in new business results in 2002.

Ownership Structure

Country	Entity Name	AXA APH Ownership Interest	Partner(s)
China – Shanghai & Guangzhou	AXA-MinMetals Assurance Co Ltd	25%	MinMetals (49%), AXA SA (26%)
Singapore	AXA Life Insurance Singapore Pte Ltd	100%	
The Philippines	Philippine AXA Life Insurance Corporation (Philippines)	45%	Pan Philippines Life Insurance Corporation (Metrobank) (55%)
Thailand	Krungthai AXA Life Insurance Co Ltd	50%	Krung Thai Bank (50%)
Indonesia	P.T. AXA Life Indonesia AXA Mandiri Life*	80% 51%	Tempo Group (20%) Bank Mandiri (49%)

* Joint venture announced January 2003, name subject to regulatory approval

In each of these joint venture businesses, AXA has responsibility for management.

4.2 | China – Shanghai & Guangzhou

AXA's life insurance joint-venture in Shanghai, AXA-Minmetals Assurance Co. Ltd, has achieved strong growth since its establishment in June 1999.

In local currency, gross premiums increased 46% in 2002 compared to 2001, although in A$ terms the increase was only 27%. The increase in gross written premium was mainly attributable to the increase of renewal premium, which was 111% higher than last year. The fall in new business reflected lower agent numbers, which was mainly due to increased qualification requirements, and a drop in agent productivity. However, productivity improved towards the end of 2002, with a corresponding pick up in sales.

In March 2002 we launched our first unit linked product, which was the market leader in Shanghai by the end of the year. As an example of our strategy of leveraging capability across the region, this product is a localised version of the Honey product from Hong Kong. Sales through our agency force were supported by monthly investment seminars for potential clients and the product accounted for 14% of sales in 2002.

We successfully acquired a new licence to open a second China branch in Guangzhou and plans to commence operations are now well advanced. The Guangzhou branch will strengthen our position in the Chinese market and is consistent with our strategy of concentrating on growth markets where we can achieve a leading position within a reasonable time frame. The recruiting of staff and agents in Guangzhou is now underway.

4.3 | Singapore

Gross premium income in Singapore was A$222 million for 2002. This is slightly down on last year due to lower single premium sales in line with industry experience and the revision of the product range to focus on profitable new business.

Sales of single premium business for 2002 are well below the prior year as a result of a sales push in the first quarter of 2001 that targeted Central Provident Fund monies that became available for investment for the first time. As a result, AXA Life Singapore (AXA LS) new business is 49% lower than the same period last year. Unit linked business represents 35% of regular premium new business sales (2001: 13%) and 97% of single premium business (2001: 91%).

Recognising the significant growth opportunities for investment products and financial advice in the Singapore market, AXA LS has launched a new strategy to focus on the wealth management and financial protection markets. This strategy builds on the Singapore Financial Advisor Act legislated in April 2002; to promote higher standards in the areas of financial planning and advice. We have commenced a programme that provides training and software support to enable our existing tied agents to become qualified financial planners and at the same time strengthen our distribution capacity in the market.

A new designation, AXA Financial Planner, was introduced in August 2002, based on both external financial planning qualifications and internal accreditation and training requirements. As at 31 December 2002, AXA LS had over 146 accredited qualified planners.

Our new strategy requires the development of new products and services to support this offer to the market. A new single premium product, Inspire, was launched in August 2002 to target the core wealth needs of our customers, and is focussed on matching the product features with their lifestyle. The product also provides flexibility in fees and charges, better aligning the adviser to servicing the customer through the introduction of a trailer fee.

4.4 | The Philippines

Our partnership with the largest banking group, Metrobank, positions Philippine AXA Life (PAL) as one of the largest players in the Philippines. This bancassurance model has been driving strong growth and provides a leading example of a successful bancassurance operation in Asia. We currently estimate that we are ranked 2nd in new business and 4th for total premium income in this market.

Sales for 2002 were very strong with 107% increase over 2001 in annual premium plus 10% single premiums. In particular, single premium new business through Metrobank increased by 94% on the previous comparable year contributing 80% of the total single premium sales.

4.5 | Thailand

Our joint venture with Krung Thai Bank (KTB) is progressing well. KTB is a large financial institution with an extensive customer network in Thailand. We have obtained KTB's commitment to expand the bancassurance operation to a further 200 branches and we continue to leverage our experience from the Philippines bancassurance model. As at 31 December 2002 we had rolled out to 130 branches with more than 100 financial consultants.

Total new business increased 51% in 2002 (annual premium plus 10% single premium). This is mainly driven by the rapid expansion of the agency force and Krung Thai's strong position in the home loans market, which has led to strong sales of our single premium Mortgage Reducing Term Assurance product.

4.6 | Indonesia

AXA and Bank Mandiri announced a new bancassurance joint venture in Indonesia in January 2003. Bank Mandiri is the largest bank in Indonesia with approximately 682 branches and over 6 million corporate and individual customers. The operation will leverage the strengths of our existing life insurance operation in Indonesia together with our proven successful bancassurance model currently operating in the Philippines. This new venture does not affect our joint venture into the Tempo Group.

Products of AXA Life Indonesia (AXA LI) have been repriced during the year for increased profit margins and reduced risks. New business is up 33% on 2001 (annual premium plus 10% of single premium). With the launch of an investment linked single premium product, HONEY, based on reuse of the successful HONEY product in Hong Kong, single premium sales are 310% up on the previous comparable year.

AXA LI is the first insurance company in Indonesia to achieve the ISO 9001 accreditation. This reflects the continued improvements we have made on customer service, which have also led to improved retention of our existing customer base.

4.7 | Financial Summary

As part of the Group restructuring, the ownership of AXA LS was transferred from NMLA to AXA APH, the Group parent entity, on 27 December 2001. The financial performance of AXA LS is included in the Group result and is consolidated on a line by line basis. Prior to the transfer, AXA LS was accounted for on a market value basis. The 2001 figures below have been re-stated on a comparable basis.

The results on financial performance stated in the below table include AXA LS only. As the other operations in the region are in a relatively early stage of development, these are not consolidated in the Group result.

Financial Performance A$ million	**12 months 31 Dec 02**	**12 months 31 Dec 01**	**% change Dec to Dec**	**12 months 30 Sep 00**
Operating Earnings	(3)	(7)	57%	6
Profit after Income Tax before Non-Recurring Items	**(3)**	**(7)**	**57%**	**6**
Non-Recurring Items	0	0	n/a	0
Profit after Income Tax and Non-Recurring Items	**(3)**	**(7)**	**57%**	**6**

Management focus on improving product profitability and reducing the expense ratio has helped mitigate the impact of adverse global equity markets. The prior year includes a loss of $5 million (September 2000 $1 million) from the Taiwan business which was sold in 2001.

4.8 | Sales

Gross Premium Income

Apart from Singapore, our China and South East Asian operations have increased gross premium income significantly.

Gross Premium Income A$ million	12 months 31 Dec 02	12 months 31 Dec 01	% change Dec to Dec
China	19	15	27%
Singapore	222	337	(34%)
The Philippines	93	49	90%
Thailand	32	18	78%
Indonesia	34	19	79%

New Business

The Philippines, Thailand and Indonesia have experienced very good sales during the year, mainly driven by the launch of new designed products and through new distribution channels, in particular bancassurance.

New Business Premium In millions	Currency	12 months 31 Dec 02	12 months 31 Dec 01	% change Dec to Dec
China	RMB	28	36	(22%)
Singapore	SGD	21	41	(49%)
The Philippines	Peso	738	357	107%
Thailand	Baht	449	297	51%
Indonesia	Rupiah	66,213	49,687	33%

4.9 | Advisers & Agents

Adviser Numbers	As at 31 Dec 02	As at 31 Dec 01	% change Dec to Dec
China	1,236	1,334	(7%)
Singapore	359	377	(5%)
The Philippines	1,715	1,310	31%
Thailand	3,659	3,235	13%
Indonesia	1,697	1,978	(14)%

Adviser numbers for AXA LS have decreased slightly from 377 to 359. This is mainly due to the tougher requirements in adviser qualifications in meeting the market needs. This was the same issue in China.

5 Value and Capital Management

5.1 | Enterprise Value

Illustrative Enterprise Value of AXA APH	31 December 2002					
A$ million	Value of Inforce	Value of One Year's New Business	Range of Multiples (a)	(b)	Total (a)	Total (b)
Australia & New Zealand						
- Financial Protection	1,185	14	7	9	1,284	1,313
- Wealth Management	1,340	44	15	20	1,999	2,218
Australia & New Zealand	**2,525**	**58**			**3,283**	**3,531**
Hong Kong						
- Financial Protection	2,123	76	7	9	2,650	2,801
- Wealth Management	109	1	15	20	129	135
- Health	189	12	4	7	237	273
Hong Kong	**2,421**	**89**			**3,016**	**3,210**
South East Asia	**24**	**8**	**9**	**12**	**100**	**126**
Asian Regional Centre Expenses					**(72)**	**(72)**
Total	**4,970**	**155**			**6,328**	**6,795**
Corporate Expenses					(240)	(240)
Australia Health*					595	595
Members Equity*					95	95
Group Net Worth					722	722
Hybrid Capital and Debt					(2,544)	(2,544)
Total Value after Debt and Corporate Expenses, before Dividend					**4,956**	**5,423**
Dividend Provision					**(87)**	**(87)**
Total Value after Debt and Corporate Expenses, after Dividend					**4,869**	**5,336**
Illustrative Value per Share					**$2.80**	**$3.07**

** Value is gross proceeds (ie. no allowance has been made for tax)*

An illustrative range for the enterprise value of AXA APH is provided in the table above. The range is based on a discounted cash flow methodology, which comprises:

- the value of inforce, being the present value of future profits plus the release of capital in respect of business inforce as at 31 December 2002;
- an estimate of the value of future new business;
- group net worth, being the net assets of the AXA APH Group in excess of the regulatory capital included in the value of in force;
- corporate expenses capitalised;
- capitalisation of the costs associated with the Asian Regional Centre;
- less corporate debt and hybrid capital, and the provision for dividend.

The value of new business is estimated as a multiple of the value of new business written in the 12 months to 31 December 2002. The multiples applied are intended to provide a range based on what might be considered reasonable in the market, and do not necessarily reflect the view or plans of AXA APH.

The presentation for the purpose of this compendium has changed from that previously provided. In particular, the net worth, being the difference between total assets less product liabilities (including regulatory capital), is shown as a single value at Group level. As at 30 June 2002, net worth was notionally allocated across business lines.

The above information is provided for illustrative purposes. It does not necessarily reflect the value that the Directors would place on AXA APH.

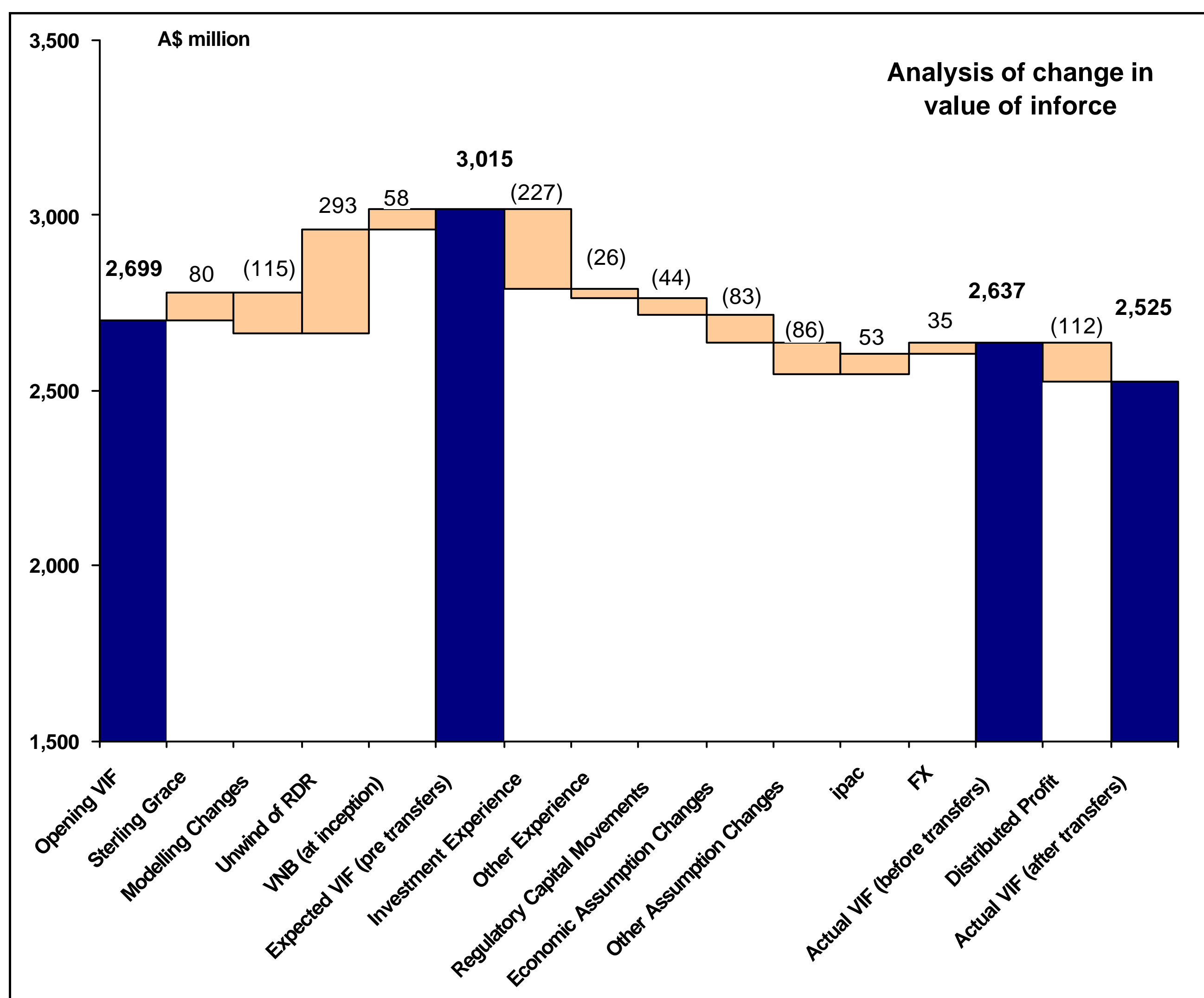
5.2 | Value of Inforce – Movements

Value of Inforce A$ million	31 December 2002 (after distributed profit)	31 December 2002 (before distributed profit)	31 December 2001	% Change
Australia & New Zealand				
- Financial Protection	1,185		1,356	
- Wealth Management	1,340		1,343	
Australia & New Zealand	**2,525**	**2,637**	**2,699**	**(2.3%)**
Hong Kong				
- Financial Protection	2,123		2,193	
- Wealth Management	109		103	
- Health	189		215	
Hong Kong	**2,421**	**2,500**	**2,511**	**(0.4%)**
South East Asia	**24**	**24**	**24**	**0%**
Total	**4,970**	**5,161**	**5,234**	**(1.4%)**

The figures above exclude the value of the Australian Health insurance business. In June 2002 we announced the sale of this business with a completion date in early 2003. The value of this business has been included in the AXA APH enterprise value at the gross sale price of $595 million. Payments received to date in respect of the sale, in particular the initial payment received of $57 million and the pre-completion dividend, have been removed from the Group net worth.

Australia and New Zealand

The value of inforce for Australia and New Zealand has decreased by 2.3% before profit distributed to Group net worth and 6.5% after distributed profit. The major movements occurring during the year are outlined below.



5.2 | Value of Inforce – Movements (ctd)

Sterling Grace was included in the net worth of wealth management at a value of $233 million at 31 December 2001. We have reviewed this approach and effective 1 January 2002 we included a value of inforce for Sterling Grace of $80 million, with the balance of value now reflected in the value of new business.

Modelling changes have been made during the second half of 2002. This includes the adoption of a more prudent approach to the way capital is modelled, which represents an adjustment to the opening value of $70 million. Other methodology and modelling changes amount to $45 million. Therefore a total adjustment of $115 million to the opening value is included in the chart shown above.

Investment experience over the period has resulted in a reduction in the value of inforce. The effect of the lower investment returns reduces value in two ways:

- investment returns over the period were lower than expected in the calculation of the value of inforce at 31 December 2001; and
- the lower than expected investment returns means that the actual account balances for wealth management business are less than where they were expected to be at 31 December 2002. Hence, the expected fee income to be derived in the future has been reduced. This directly reduces the value of the inforce business.

Other experience items reflect differences in actual experience over 2002 compared with the expected experience underlying the valuation as at 31 December 2001.

Regulatory capital held as at 31 December 2002 increased above that which was implicitly expected in the value as at 31 December 2001. This largely relates to changes in the regulatory capital regime, effective 1 July 2002, and increases due to the resilience reserve held on the life business.

Economic assumption changes have reduced the value of inforce by $83 million, the major impact being a reduction in the long-term domestic equity earning rate assumptions of 100 basis points to 10%. The risk discount rate has not been reduced in line with the assumed decline in equity rates and hence the margin between the risk discount rate and the assumed future earning rate on assets has increased, which is a more conservative approach than previously adopted. This reflects a more conservative outlook in light of the current volatile market environment.

Other management assumption changes include a combination of adjustments to various assumptions across product lines. The adjustments relate to lapse rates, income protection claims experience and expense allocation. The overall net impact of these movements is a reduction in value of $86 million. The most significant item relates to expenses. The expense reduction programme is well on track with actual dollar expenses being reduced in line with the K5 programme and reductions in unit costs. Despite this continued improvement, the lower than expected volumes in 2002 have resulted in unit costs not reducing to the extent previously anticipated in the value of inforce. This has had a negative impact on the value of inforce. We would expect as markets stabilise that the rate of volume growth increases, unit costs will be reduced further, which will be reflected in an increase in the value in future periods.

In July 2002 we announced the acquisition of ipac Securities Limited for $205 million. The inforce value of wealth management includes ipac at a value of $53 million reflecting net assets and the value of inforce. The remaining enterprise value of ipac is included in the value of future new business and net worth.

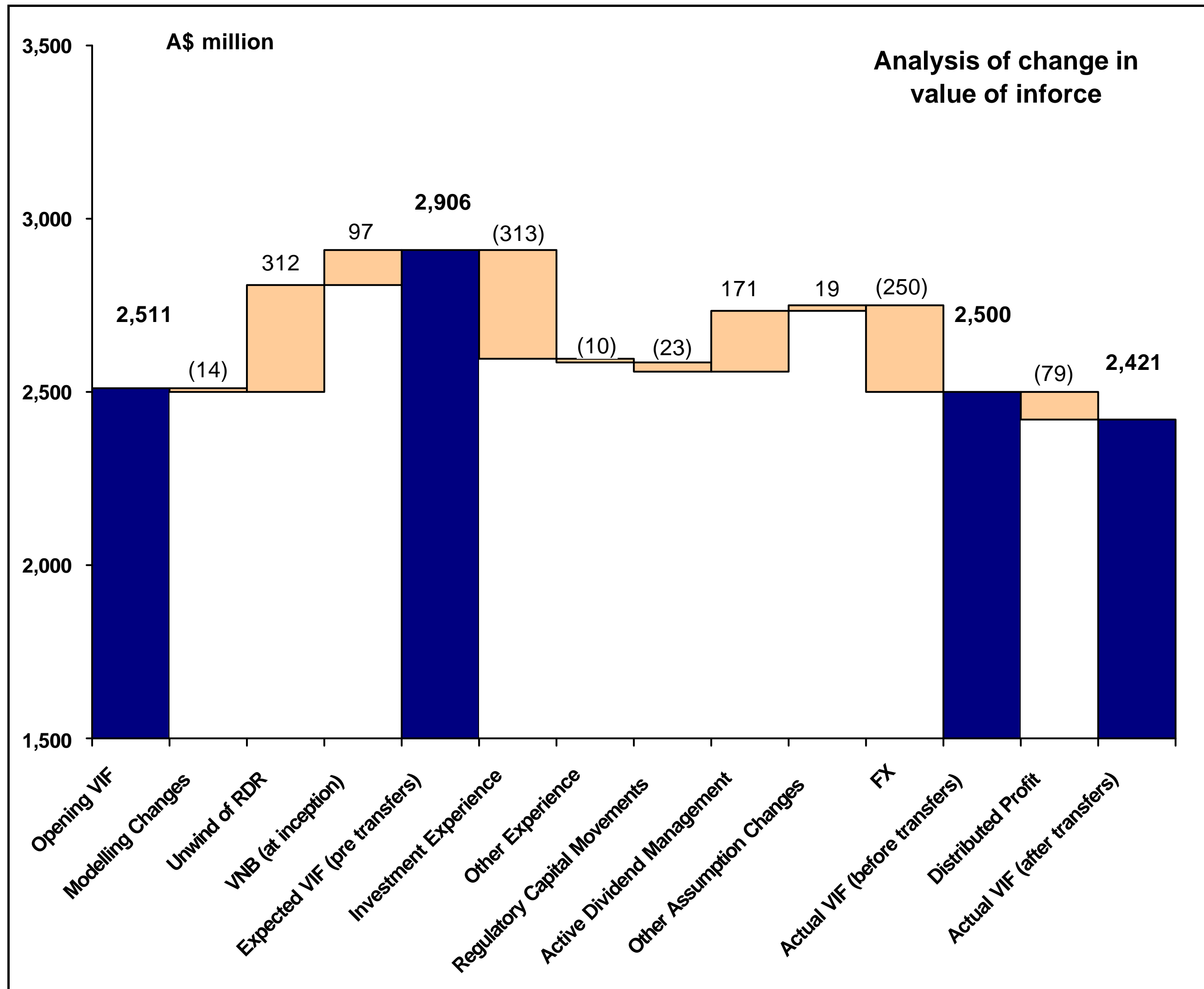
A currency gain of $35 million in respect of the New Zealand business is included in the value at 31 December 2002.

The distributed profit of $112 million increases the Group net worth and includes estimated franking credits of $43 million.

Hong Kong

In local currency terms the value of inforce of Hong Kong has increased by 10% before profit distributed to Group net worth, and by 6% after distributed profit. When converted to Australian dollars, the value before profit distributed to Group net worth has decreased by under 1% as a consequence of the appreciation of the Australian dollar over the period. Hence, the currency appreciation has an impact of A$250 million on the movement over the period.

The reduction in value due to exchange rate movements is partially offset by hedges held. The hedges, which comprise US dollar debt and swaps, increased in value by A$208 million over the period. This offset is not included in the analysis of the Hong Kong value of inforce shown in the chart below. It is included in the consolidated assets of the Group, and hence is reflected in the Group net worth.



5.2 | Value of Inforce – Movements (ctd)

The investment experience loss includes lower than expected investment returns due to weak global equity markets. The loss from equities and property was partially offset by gains on the bond portfolio. The gains on the bond portfolio include the capital gains from a fall in bond yields in late December 2002. It should be noted that these gains have since reversed with the rise in bond yields during the early part of 2003.

Other experience includes a negative impact of actual persistency being lower than expected, although an improvement on 2001, reflecting the improvement in overall persistency. The average lapse rate is now at 9.9%, compared to 11% at the beginning of the year and is trending down towards the long-term assumption. The lapse experience loss was partially offset by gains due to mortality experience.

Over the year the regulatory capital has increased in local currency terms. This has been driven by changes in the regulatory capital required due to the investment market environment and to some small change in the underlying assumptions.

The change in economic assumptions includes changed assumptions in respect of policyholder dividend under the Active Dividend Management approach. The lower than expected investment returns on policyholder assets will be recovered through an adjustment to the future policyholder crediting rates. This contributes an increase in value.

The distributed profit of A$79 million increases the Group net worth.

South East Asia

The value of inforce has remained flat over the course of the year. There were negative contributions from lower than expected investment performance, changes to expense allocation in Singapore, and currency movements. This was offset by a reduction in the risk discount rate for Thailand, and further improvements to methodology and modelling. In addition there were injections of capital in the second half of the year to support new business growth.

5.3 | Value of Inforce – Assumptions & sensitivity

Value of inforce - Assumptions		Australia	NZ	Hong Kong
Long-Term Assumptions				
CPI		2.5%	2.5%	3.0%
Cash Rate		4.75%	5.5%	3.0%
Fixed Interest	- Domestic	5.5%	6.5%	5.9%
	- Global	5.5%	5.5%	6.2%(USD)
Equities	- Domestic	10%	11%	11.5%
	- Global *	9.25%	10.25%	9.7%
Property		7.75%	8.00%	8%
Risk Discount Rate		11.0%	11.0%	12.5%
Lapse Rates		Varies by product		Varies by product
Expense Assumption		The long-term expenses assumption is consistent with achieving K3. There is allowance for a short-term expense | overrun in 2003.		The long-term expenses are consistent with pricing assumptions. There is allowance for a short term expense overrun in 2003.

* Assumptions for global shares vary between region due to the different portfolio mix.

Sensitivity Tests

The table below shows the sensitivity of the value of inforce business to variations in the key economic and business assumptions and are based on the position at 31 December 2002. The sensitivities are indicative only as they assume that the movement in a particular variable is independent of other variables. In addition, the impact on the value of inforce from a movement of a variable is not always symmetrical or linear.

% Change on Value of Inforce	Australia & NZ		Hong Kong		
	Financial Protection	Wealth Management	Financial Protection	Wealth Manage-ment	Health
Increase risk discount rate					
plus 1%	(6.5)%	(5.0)%	(6.2)%	(8.5)%	(5.3)%
plus 2%	(12.2)%	(9.8)%	(11.6)%	(15.9)%	(10.1)%
Decrease risk discount rate					
minus 1%	6.7%	5.3%	7.1%	9.6%	5.9%
Minus 2 %	14.0%	10.8%	15.4%	20.7%	12.5%
Change in earnings rate and risk discount rate - equity rate minus 1% - cash/fixed interest rate minus 0.5% - risk discount rate minus 1%	5.1%	2.3%	1.6%	9.2%	5.1%
Expenses decreased by 10% of best estimate assumption	1.7%	5.1%	0.8%	4.1%	8.5%
Discontinuance rates decreased by 10% of best estimate assumption	8.1%	2.7%	3.0%	10.6%	7.4%
Mortality rates decreased by 10% of best estimate assumption	10.0%	1.0%	2.2%		
Morbidity incidence rates decreased by 10% of best estimate assumption	5.7%		0.5%		
Morbidity termination rates increased by 10% of best estimate assumption	8.6%				

5.4 | Value of New Business

A$ million	Value of One Year's New Business		
	31 December 02	31 December 01	% Change
Australia & New Zealand			
Financial Protection	14	21	(32%)
Wealth Management	44	32	38%
Australia & New Zealand	**58**	**53**	**10%**
Hong Kong			
Financial Protection	76	60	26%
Wealth Management	1	20	(93%)
Health	12	15	(15%)
Hong Kong	**89**	**95**	**(6%)**
South East Asia	**8**	**7**	**17%**
Total	**155**	**155**	**(0%)**

The value of one year's new business is the value from policies written over the twelve months preceding the date of the valuation. This basis differs from that underlying the K1 and M6 measures in a number of areas, the most significant of which is that K1 and M6 include the value from new business increments on inforce business. There are also some differences in the economic assumptions which have been kept constant over time in the K1 and M6 measure to aid performance comparisons over time.

Australia and New Zealand

The value of new business increased by 10% from December 2001. The major drivers have been:

- overall growth in new business over the year;
- a shift in the mix of business within wealth management products;
- an increase in unit expense assumptions, reflecting the combined impact of lower volumes and a greater proportion of expenses being allocated to acquisition (as opposed to maintenance expenses). We have also assumed a lower level of future expense reductions beyond 2003;
- the inclusion of the value of new business written by Sterling Grace and ipac; and
- the focus on more profitable business, which has led to reduced volumes within financial protection.

Hong Kong

The value of one year's new business in local currency increased by 3% from December 2001. However, excluding last year's one-off impact of MPF (A$14.3 million) it increased by 21% in local currency terms. The movement in the exchange rate over the period has had an adverse impact when translated into Australian dollars.

The main drivers have been:

- growth in financial protection sales volumes. The Smart Jumbo Saver product was launched in August, with strong sales of A$31 million over the four months;
- an improvement in financial protection profitability as a result of expense savings;
- lower MPF sales volumes in 2002 compared to 2001; and
- repricing of products to improve profitability.

South East Asia

The value of new business has increased over the period in both local and Australian dollar terms, despite the adverse impact of currency movements. The increase reflects higher volumes, with a greater emphasis on sales of more profitable profits and the repricing of unprofitable products.

5.5 | Capital Structure & Performance

A$ million	31 Dec 2002	31 Dec 2001
Capital Resources		
- Equity excluding Outside Equity Interests	3,060	3,016
- Hybrid	1,102	1,184
- Corporate Debt	1,442	1,079
Total Capital Resources excluding Outside Equity Interests	**5,604**	**5,279**
Gearing Ratios		
- Debt/Capital Resources	26%	20%
- (Debt+Hybrid)/Capital Resources	45%	43%
- Debt/(Equity+Hybrid)	35%	26%
- (Debt+Hybrid) / Equity	83%	75%

Total capital increased by $325 million over the past 12 months to 31 December 2002:

- AXA APH paid an interim dividend of 4.75 cents per share on 1 October 2002 and has provided for a final dividend of 5 cents per share payable on 4 April 2003;
- due to the appreciation of the AUD/USD exchange rate, the AUD equivalent of the Non-Cumulative Redeemable Preference Shares (NCRPS) was reduced by A$82 million;
- senior debt increased by A$427 million to fund the ipac acquisition, a share buyback, other investments and working capital requirements. Due to the appreciation of the AUD/USD exchange rate, the AUD equivalent of the US$395 million loan was reduced by A$64 million. Note that the proceeds from the sale of AXA Health and Members Equity in Australia will be received in early 2003 and it is anticipated will be applied to reduce corporate debt; and
- from 9 September 2002 to 11 December 2002, AXA APH bought back 22.6 million shares for A$56 million. Up to 22.6 million shares may be reissued over the period as part of the retention and deferred performance incentive programme for ipac's executive directors and key staff.

Movement of Capital for 12 months ending 31 December 2002	A$ million
Earnings after tax	330
Interim Dividend	(84)
Provision for Final Dividend	(87)
Change in Hybrid Capital	(82)
Change in Corporate Debt	363
Share Buyback	(56)
Foreign Currency Translation Reserve*	(59)
Total increase in Capital	**325**

Net Assets

Movement of Net Assets for 12 months ending 31 December 2002	A$ million
Opening Net Assets as at 31 December 2001	3,016
Earnings after Tax	330
Interim Dividend	(84)
Provision for Final Dividend	(87)
Share Buyback	(56)
Foreign Currency Translation Reserve*	(59)
Closing Net Assets as at 31 December 2002	**3,060**

**Foreign Currency Translation Reserve relates to the translation of our investments in foreign operations and the foreign exchange movement on the hedges we have against our investment in Hong Kong.*

Capital Performance

	12 months 31 Dec 02	12 months 31 Dec 01
Return on Equity	10.4%	9.5%
Return on Capital	6.8%	6.5%

Return on Capital is calculated as earnings after tax before non-recurring items plus interest expense after tax as a percentage of average total capital resources. Return on Equity is calculated as earnings after tax before non-recurring items as a percentage of average shareholders' equity excluding outside equity interests.

Debt & Hybrid

At 31 December 2002 (A$ million)	Committed	Drawn
Senior Debt		
Loan from AXA S.A. (USD denominated $395 million)	701	701
Loan from AXA S.A.	980	700
Bilateral Standby Facilities	100	-
Deposit from Sales Trust	-	41
Total Senior Debt	**1,781**	**1,442**
Subordinated Debt		
Hong Kong - Redeemable Preference Shares (USD denominated $463 million)	822	822
Subordinated Debt	280	280
Total Subordinated Debt	**1,102**	**1,102**

The average interest rate for interest bearing debt for the period 1 January 2002 to 31 December 2002 was 4.55%, after accounting for the effect of interest rate derivatives.

Currency Exposure

AXA APH uses a combination of cross-currency interest rate swaps and corporate debt to manage the exposure of the group balance sheet to AXA Hong Kong.

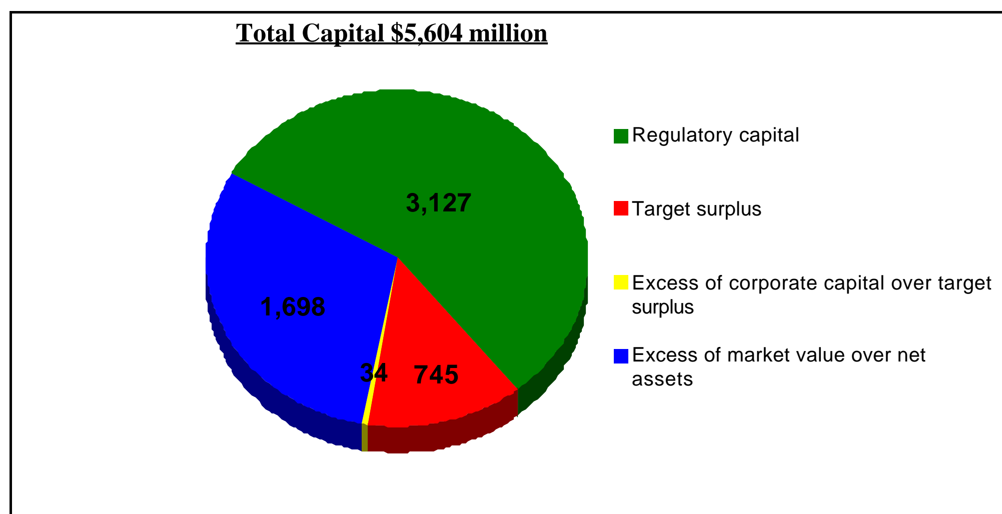
	AUD Equivalent A$ million
Strategy in place:	
- Exposure to HKD Hedged	553
- USD denominated debt	1,523
Total Hedged	**2,076**

5.6 | Capital Utilisation

Capital Allocation

At 31 December 2002 A$ million	Notional Net Assets	Excess of Market Value over Net Assets	Total
Australia and New Zealand	1,237	494	1,731
Hong Kong	2,582	1,140	3,722
South East Asia	53	64	117
Unallocated Corporate Net Assets	34		34
Total Capital (excluding Outside Equity Interests)	**3,906**	**1,698**	**5,604**
Corporate Debt			(1,442)
Hybrid Capital			(1,102)
Shareholder Equity (excluding Outside Equity Interests)			**3,060**
Outside Equity Interests in Controlled Entities			340
Shareholder Equity (including Outside Equity Interests)			**3,400**

AXA APH has total capital resources, being shareholder equity, hybrid capital and corporate debt, of $5,604 million. This split across our excess of market value over net assets ($1,698 million), regulatory capital requirements ($3,127 million) driven predominantly by our life operations, target surplus and excess over target surplus.



Total regulatory capital requirement for the Group has decreased by A$78 million over the 12 months to December 2002.

Regulatory capital required in the Australian and New Zealand operations has increased by A$75 million. Revised prudential standards, along with a reassessment of prudential margins on Group risk business, were the key drivers of an increase in prudential capital on financial protection business of A$39 million and wealth management of A$36 million.

Regulatory capital required within the Hong Kong business has decreased by A$63 million. An increase for wealth management has been offset by an increase in funding to AXA Life Singapore and a reduction in the level of prudential margins relating to mortality. A change in the calculation of regulatory solvency has also released capital. A reduction in regulatory capital of A$90 million in South East Asia is largely as a result of the sale of the business in Taiwan.

It is our policy to set an internal target surplus benchmark in addition to regulatory capital. The purpose of our internal target surplus benchmark is to provide a buffer over regulatory capital requirements in periods of market volatility. Depending on market dynamics, we would therefore expect to be holding capital above this level when markets are growing strongly and possibly below it when they fall.

At 30 June 2002 the target surplus was $664 million. We have strengthened the policy reserving basis during the second half of the year and our target has increased to $745 million as at 31 December 2002. Notwithstanding the significant reductions in equity markets over the last few periods, we continue to hold capital marginally above our target.

5.7 | Investment of Assets Supporting Shareholder Capital

The current policy for shareholder assets is 20%-30% in growth assets (equity, property and strategic assets) with the remainder in fixed income assets and cash.

As at 31 December 2002 A$ million	Shareholder Capital	Cash	Fixed Interest	Loans	Equities	Property
Australia & New Zealand	1,259	505	473	12	231	37
Hong Kong	2,420	141	1,496	100	636	47
South East Asia	57	0	10	20	26	0
Total	**3,735**	**646**	**1,978**	**132**	**894**	**84**
Subsidiary Assets & Other Provisions	171					
Excess of Market Value over Net Assets	1,698					
Total Capital	**5,604**					

Australia & New Zealand

The following table shows the breakdown of the current shareholder invested capital by regional market for equities and fixed interest.

	Equities	Fixed Interest
Australia	53%	90%
New Zealand	24%	7%
Other	23%	3%
Total	**100%**	**100%**

The benchmark for equities is the S&P/ASX 300 All Ordinaries in Australia and the NZSE40 Gross Index in New Zealand. The approximate duration of the fixed interest portfolio is three and a half years. Investment earnings are taxed at the local corporate rate (Australia 30%, New Zealand 33%).

The following table shows the immediate after tax impact of a change in investment markets:

Australia & New Zealand	A$ million
5% change in local equities	6
5% change in world equities	2
1% change in bond yields	(11)

Hong Kong

The following table shows the breakdown of the current Hong Kong shareholder invested capital by regional market for equities and fixed interest.

	Equities	Fixed Interest
US	46%	91%
Hong Kong	11%	9%
Other	43%	0%
Total	**100%**	**100%**

The overall equity benchmark is similar to 90% MSCI World Free ex non-Japan Asia + 10% MSCI AC Far East Free ex Japan. US bonds dominate the Hong Kong fixed interest portfolio and have a benchmark duration of approximately eight years. Foreign sourced income is not taxable in Hong Kong.

The following table shows the immediate after tax impact of a change in investment markets:

Hong Kong	A$ million
5% change in world equities	32
1% change in US bond yields	(110)

6 Financial Statements

6.1 | AXA Asia Pacific Consolidated Balance Sheet

A$ million	31 Dec 2002	31 Dec 2001
Assets		
Cash at bank and deposits on call	1,418	1,597
Receivables	573	661
Equity securities	8,483	9,033
Debt securities	12,307	12,345
Property investments	2,463	2,517
Other investments	272	460
Operating assets	104	105
Intangibles	13	13
Excess of market value over net assets of controlled entities	1,705	1,490
Deferred tax assets	343	27
Other assets	53	78
Total Assets	**27,734**	**28,326**
Liabilities		
Payables	1,113	1,470
Current tax liabilities	75	-
Borrowings	1,442	1,080
Provisions	289	300
Deferred tax liabilities	201	197
Other liabilities	185	274
Subordinated debt	1,102	1,184
Life insurance policy liabilities	19,927	20,432
Total Liabilities	**24,334**	**24,937**
Net Assets	**3,400**	**3,389**
Equity attributable to shareholders of the parent entity		
Contributed equity	1,130	1,186
Asset revaluation reserve	15	15
Foreign currency translation reserve	(59)	-
Shareholders' retained profits	1,974	1,815
Total equity attributable to shareholders of the parent entity	**3,060**	**3,016**
Outside equity interests in controlled entities	340	373
Total Equity	**3,400**	**3,389**

6.2 | Consolidated Profit and Loss Analysis

12 months to 31 December 2002 A$ million	A&NZ	Hong Kong	China & South East Asia	AXA APH	Consolidated AXA APH
Operating Earnings excluding Health	109	156	(3)		**262**
Operating Earnings – Health	43				**43**
Capitalised Losses & Reversals	17				**17**
Operating Earnings and Capitalised Losses & Reversals	**169**	**156**	**(3)**		**322**
Investment Earnings	17	67			**84**
Foreign currency gain from translation of New Zealand net assets	27				**27**
Investment Earnings	**44**	**67**	**0**		**111**
Corporate Expenses & Goodwill Amortisation				**(39)**	**(39)**
Interest Expense				**(78)**	**(78)**
Profit After Income Tax and before Non-Recurring Items	**213**	**223**	**(3)**	**(117)**	**316**
Non-Recurring Items	**2**			**12**	**14**
Profit After Income Tax and Non-Recurring Items	**215**	**223**	**(3)**	**(105)**	**330**

12 months to 31 December 2001 A$ million	A&NZ	Hong Kong	China & South East Asia	AXA APH	Consolidated AXA APH
Operating Earnings excluding Health	124	180	(7)		**297**
Operating Earnings – Health	82				**82**
Capitalised Losses & Reversals	(40)				**(40)**
Operating Earnings and Capitalised Losses & Reversals	**166**	**180**	**(7)**		**339**
Investment Earnings	47	7			**54**
Foreign currency gain from translation of New Zealand and Taiwan net assets	5				**5**
Investment Earnings	**52**	**7**	**0**		**59**
Corporate Expenses & Goodwill Amortisation				**(47)**	**(47)**
Interest Expense				**(74)**	**(74)**
Profit After Income Tax and before Non-Recurring Items	**218**	**187**	**(7)**	**(121)**	**277**
Non-Recurring Items	**30**	**(12)**		**13**	**31**
Profit After Income Tax and Non-Recurring Items	**248**	**175**	**(7)**	**(108)**	**308**

Non-Recurring Items A$ million	12 months to 31 Dec 02	12 months to 31 Dec 01
Injection into defined benefits Superannuation fund	(12)	
Tax benefit on AC&L Part 9 transfer	12	
Tax credit on internal swap wind-up	14	
Profit on sale of NMFM property management business		50
Write-down in connection with the sale of Taiwan branch		(34)
Tax benefit on wind up of subsidiaries		23
Net tax credit arising from foreign currency losses on repayment of US debt		31
Write off of Mortgage Service Rights in Members' Equity		(6)
Provision for tax on AXA China Region dividend		20
Redundancy and restructuring provisions		(17)
Other provisions		(36)
Non-Recurring Items	**14**	**31**

6.3 | Australia & New Zealand Profit & Loss Analysis

12 months to 31 December 2002 A$ million	Financial Protection	Wealth Management	Health	Investment Earnings/Other	A&NZ
Earnings [need name to differentiate]		20	43		**63**
Expected Margins Released	40	67			**107**
Experience Profit	(6)	(12)			**(18)**
Operating Earnings	**34**	**75**	**43**		**152**
Capitalised Losses & Reversals	**15**	**2**			**17**
Operating Earnings and Capitalised Losses & Reversals	**49**	**77**	**43**		**169**
Investment Earnings				**44**	**44**
Profit After Income Tax and before Non-Recurring Items	**49**	**77**	**43**	**44**	**213**
Non-Recurring Items				**2**	**2**
Profit after Income Tax and Non-Recurring Items	**49**	**77**	**43**	**46**	**215**

12 months to 31 December 2001 A$ million	Financial Protection	Wealth Management	Health	Investment Earnings/Other	A&NZ
Earnings		5	82		**87**
Expected Margins Released	54	55			**109**
Experience Profit	11	(1)			**10**
Operating Earnings	**65**	**59**	**82**		**206**
Capitalised Losses & Reversals	**(41)**	**1**			**(40)**
Operating Earnings and Capitalised Losses & Reversals	**24**	**60**	**82**		**166**
Investment Earnings				**52**	**52**
Profit After Income Tax and before Non-Recurring Items	**24**	**60**	**82**	**52**	**218**
Non-Recurring Items				**30**	**30**
Profit After Income Tax and Non-Recurring Items	**24**	**60**	**82**	**82**	**248**

6.4 | Hong Kong Profit & Loss Analysis

HK$ million	**12 months 31 Dec 02**	**12 months 31 Dec 01**	**12 months 30 Sept 00**
Expected Margins Released	712	835	O/S
Experience Profit	(50)	(123)	O/S
Operating Earnings	**662**	**712**	**247**
Investment Earnings	**297**	**47**	**534**
Profit After Income Tax before Non-Recurring Items	**959**	**759**	**781**
Non-Recurring Items	**0**	**(46)**	**0**
Profit After Income Tax and Non-Recurring Items	**959**	**713**	**781**

7 Exchange Rate Table

	12 months 31 Dec 02	12 months 31 Dec 01	12 months 30 Sept 00
Profit and Loss			
- AUD/USD	0.54429	0.51210	0.60148
- AUD/HKD	4.24508	3.99400	4.68331
- AUD/SGD	0.97229	0.91986	1.02847
- AUD/NZD	1.16828	1.23034	1.26678
Balance Sheet			
- AUD/USD	0.56310	0.51189	0.54155
- AUD/HKD	4.39124	3.99163	4.22244

The Profit and Loss rate is an average of the exchange rate for the period being reported. The Balance Sheet rate is the exchange rate as at close of business on the last day of the reporting period.