

Text of analyst Presentation

Good morning everyone, welcome to the presentation of our results for the 15 months ended 31 December 2001.

I will start by briefly covering the highlights and then Paul Koppelman our Group Financial Controller will take you through the results in a little more detail and I will finish with a short overview of our activities, our progress, and our prospects.

In case you are wondering where Matthew Slatter is he has, sadly suffered a family bereavement and is in New Zealand attending the funeral of his father.

First the headlines - operating earnings for the 15th months were \$398 million representing a further very satisfactory improvement on the 47% increase that we posted at the 30th September.

We have seen growth in both Australia and New Zealand with operating earnings of \$211 million, and in AXA CR where operating earnings grew to \$198 million.

These are pleasing results which continue the improvement shown at 30th September.

Our investment earnings have improved quite significantly in the fifth quarter as global equity markets have shown some improvement. Investment earnings were \$119 million including a contribution of \$31 million in the December quarter. Before the impact of Enron investment earnings in the quarter would have been \$54 million.

In Australia and New Zealand investment earnings grew to \$63 million and in Hong Kong investment earnings were \$56 million.

After allowing for interest on debt and corporate expenses total profit after tax and before non-recurring items was \$366 million. After non-recurring items total profit after was \$395 million.

Turning to Australia and New Zealand, there was continued improvement in all three businesses.

Operating earnings in funds management increased to \$72 million compared \$42 million for the 12 months ending September 2002.

In risk, taking account of capitalised losses, operating earnings more than doubled to \$33 million and in health we enjoyed a further strong quarter with operating earnings coming in for the 15 months at \$106 million.

Total funds under management advice and administration grew from \$31 billion in September 2000 to around \$40 billion at the end of last year, an increase over the 15 month period of 29%.

Importantly retail product net funds flows over the 15 months were \$1.173 billion nearly \$1.2 billion again showing satisfactory growth.

And as we will discuss in more detail later on income protection experience in the final quarter was stable.

Turning now to AXA CR, in Hong Kong dollars operating earnings were \$814 million flat, on an annualised basis, over the 12 months to September 2000. In view of the challenging environment that we have faced over the period primarily due to agent poaching and policy twisting this is, I believe, a very satisfactory result.

In A dollars, due to exchange rate gains, operating earnings grew to \$198 million. These figures exclude restructuring costs of around \$11 million arising from the establishment of the Asian Life Regional Centre in Hong Kong.

Obviously over the 15 month period investment earnings were significantly affected by lower global equity markets. However there was quite a strong recovery in the December quarter leading to overall investment earnings of \$56 million for the period after allowing for the negative contribution from Enron bonds of \$23 million.

Total funds under management in HK grew 9% to \$HK30 billion at the end of the year.

Very encouragingly the final quarter has seen a return to growth in both agent numbers and new business and we have seen continued improvements in persistency which are now at levels quite close to those used in our long term actuarial assumptions.

Taking into account the growth in single premium sales new business has turned up in the final quarter.

I would now like to hand over to Paul Koppelman who is going to take you through the profit result in a little more detail.

Thank you Paul

I will now finish with a brief update on progress against our K5 objectives in Australia and New Zealand, and on the progress we are making in HK and the Asian region.

Firstly Australia and New Zealand

I would now like to spend a few minutes giving you an update of what we have achieved since April 2000 when we launched our transformation program.

As you will know National Mutual's position in retail investment had declined over a number of years and, whilst we were still strong in risk insurance and

financial protection, it was clear that we needed to transform the position of the company.

In April 2000 we set out 7 strategic imperatives

- To grow our market share of retail investment and superannuation
- To improve retention of funds under management
- To increase the size and productivity of aligned dealerships
- To increase penetration of the non aligned dealership sector
- To return our income protection portfolio to profitability
- To improve operational effectiveness and reduce our expense ratios and
- To improve the organisational capability through people

Internally we painted a very clear picture of what success would look like through setting 5 very tough and aspirational objectives - our K5 objectives

To double the value of our new business

To move into the top 5 in net retail funds flows

To reduce our expense ratio by 50%

To move into the top quartile in the Assirt service ranking, and

To move into the top quartile in employee satisfaction as measured by the global AXA Scope survey.

The K5 transformational program was launched in April 2000.

So how have we been getting on? Well I believe we have made a very significant amount of progress.

In December 2000 we merged our asset management with Alliance Capital, a member of global AXA group and one of the leading global asset managers.

In 2001 we outsourced property management to Deutsche - one of the top 3 global property managers.

This was followed by the launch of 26 new mezzanine and retail funds completely transforming our product offer in the retail investment market.

More recently we have launched a global equity value fund managed by Sandford Bernstein a hugely successful US fund manager.

As you will see in a second these products have received strong ratings from Assirt, Van Eyk and other asset consultants

- Indeed Alliance Capital has recently been awarded Mercers New Zealand fund manager of the year and we developed and launched a new administration platform to support these products

I am not going to go through this slide - suffice it to say that the rankings of our investment products stand comparison with anyone else in the market and are certainly the best that we have had for many years.

We have started to reposition our business mix in Australia and New Zealand. Our strategy is to grow aggressively in the high value market segments of equity backed unit trusts, master trusts and portfolio administration, superannuation and allocated pensions. In areas where we have high market shares and profitable products - lump sum insurance, group life and health we will defend aggressively. In areas where we have relatively high market shares but where there are low margins, such as long term annuities cash and mortgage backed unit trusts etc we will defend passively. And in areas where we have low market share and margins although we will, frankly, give a low priority.

So how have our flows been tracking.

Again I am not going to go through this slide in detail but -----

I won't go into detail on this slide but, as you can see, we have made good progress in all these areas over the last 15 months.

In some cases we started from a low base but, I think you will agree, we are seeing encouraging growth. In one or two segments, particularly business superannuation and international equity backed unit trusts, there was a slowdown in the final quarter reflecting uncertainty following the events of 11 September. We do though, expect that confidence will return and we remain strongly placed to grow when this happens.

Although longterm annuities is a market segment where our strategy is to defend passively there has been a move over the last 4 or 5 months to less volatile investments and it has meant that we have seen growth in this area.

Our low priority segments, ordinary savings and short term annuities have seen much lower growth but these are the closed products, or products with low profitability.

Some examples of actions we have been taking in recent months to help increase our flows. In December we completed a review of the model fund manager portfolio used in significant parts of our superannuation business. We have rebalanced portfolios which has led to an additional \$210 million moving from outside managers to Alliance Capital and, we estimate, an additional \$60 million per annum of flows into AXA funds.

We are also seeing increased flows into AXA products from Summit. The AXA portion of average monthly gross fund flows is up from 10% in September 2000 to around 15% at the end of the year equivalent to an additional flow to AXA products of around \$40 million per annum. Our target is to get the percentage of investments into Summit moving into AXA product to at least 20%, a level typical with some of our major competitors.

Our second strategic imperative is to increase the size and productivity of our aligned dealerships.

We have over 1100 aligned advisers in Australia across our 3 dealerships - AXA Financial Planning, Charter Financial Planning and Altus.

Adviser productivity has grown by 15% over the period and 96% of our total aligned adviser base are now authorised financial planners.

More and more AXA advisers are starting to use Summit - sales from aligned dealerships totalled nearly \$1 billion over the 15 months up from \$575 million in the 12 months to September 2000.

And we are also making progress in our penetration of the non-aligned and independent dealership sectors.

Non AXA advisers now account for 35% of new investment sales and the average monthly number of IFAs using Summit has increased from 58 in 2000 to nearly 100 at the end of 2001.

IFA sales of retail investment products, including Summit, totalled over \$1.1 billion in the period up from \$656 million in the 12 months to September 2000.

We still have a long way to go to achieve our aspiration of the top 5, but these important lead indicators are pointing in the right direction.

A prerequisite to selling retail investment products to the non-aligned sector is presence on Approved Product Lists - again our progress here is, I think, an encouraging lead indicator.

AXA's inclusion on competitor Master Trust platform approved product lists increased from 28 to 50 during the December quarter. And encouragingly these are in areas such as global equity and Australian equity. For the first time ever our products are now represented on Master Trusts such as

Navigator and AMP. Clearly we have to ensure that advisers now sell our product but getting on the lists is a very important first step.

The acquisition of Sterling Grace was a major strategic move into the financial planning business and positioned us as the leading financial advisory business in New Zealand with 13% of total funds under advice. The associated acquisition of Monitor Money strengthens our presence in Australia.

We are making good progress in integrating Sterling Grace. The transaction completed in November and we took over management responsibility. We are about to complete a 3 month integration planning phase and we can confirm that our valuation assumptions around revenue, operating expenses and savings have been validated.

Over the last 3 months Sterling Grace has made progress with total net funds flows in December of \$26 million in New Zealand and \$24 million in Australia, a little ahead of plan.

Finally on funds flows I think the following slide does illustrate that we are making progress. In 1999 we had net flows of only \$300 million. This doubled in 2000 to over \$600 million and in 2001 increased again to over \$1 billion. And if we allow for the expected annual flows following the acquisition of Sterling Grace we are now at a level where annualised flows are almost \$1.5billion.

This does not yet put us where we want to be and we still have to increase our flows and our market share very significantly if we are to reach the top 5. However we are not quite 2 years into our strategic turnaround and this does, I believe, represent reasonable progress.

Turning now to another important strategic objective - to return our income protection portfolio to profitability.

This area has continued to have intense management attention following the repricing and product design changes in December 2000.

We have now set up dedicated, specialist panels in Melbourne and Sydney to support our claims assessors covering key disciplines such as legal, medical, rehabilitation and investigations of potential frauds.

A dedicated claims training team is now in place and we have further increased resources, particularly on claims management.

We are carrying out monthly internal audits of our claims and underwriting processes and have had 2 external audits by specialist reinsurers over the last 12 months.

Early signs are that new business written on our new terms since December 2000 is profitable. And I can report that as far as the inforce book is concerned the situation was stable in the December quarter and on an experience basis we broke even.

We first showed you this slide 3 months ago comparing the actual number of open claims to those expected in our reserving basis.

For Australian Casualty and Life we did, as we reported last time, experience some deterioration in claims experience in late 2000 and the number of open claims during most of 2001 ran at a level above the reserving basis.

As you can see from the right hand side of the slide the number of open claims, the blue line, has declined steadily over the last six months and in the final quarter of last year was running below that expected in the current reserving basis, the red line.

We also have a reasonably satisfactory picture for the AXA book. Here the actual experience over 2001 was more in line with the reserving basis. The

number of open claims has remained pretty steady and over the last 3 months it is tracking at around about the levels expected in the reserving basis.

As I have said on several occasions I am not in a position to forecast the future experience of this book. Much will depend upon the number of claims coming through over the next couple of years from the inforce book that was underwritten in 1997, 1998 and 1999. We have completely changed the management team, are focussing expert resources on the issue and the results at the moment are in line with our reserving basis.

I would now like to say a few words about the health business - this does seem to have attracted a lot of publicity over recent weeks.

This business continues to perform extremely well. Total contributions are up 17% over 15 months and market share by revenue has remained stable around 25% in Victoria and 47.5% in South Australia. Looked at nationally we are the third largest with about 11.5%.

Although as we forecast, the underlying trend in claims started to rise as the weight of new members following lifetime rating came through, this was mitigated by seasonal effects and overall, our claims ratio in the period was 77% compared to 81% in the 12 months to 30 September.

We appear to have experienced lower growth in claims than the industry and we believe that this is due to our leadership in no gaps cover, product design and in the contracts we have negotiated with provider hospitals.

We have further reduced the management expense ratio. This is now 8.7% significantly lower than the industry average of 11.6% and also significantly lower than Medibank.

We applied for and were granted a premium increase of 1.5%, much lower than the other major health funds. This reflects our excellent expense and

claims ratios and will enable us to seek to attract members from other funds who are putting through much more substantial price increases.

Following a leak several weeks ago we were required by the ASX to confirm that we have over the last 6 months had discussions with MBF. I do not want to comment any further on this other than to confirm what I have said consistently over the last 12 months which is that we have an excellent business which is strongly positioned and a number of competitive advantages. However the health industry in Australia is fragmented and needs consolidation. There are structural barriers to consolidation due, in particular, to the mutual status of the major players. We will continue, if we think it appropriate, to have discussions on strategic options for our business. Our strategy remains to optimise value to our shareholders.

Finally on Australia and New Zealand a quick look at progress against our K5 targets. Firstly K1 the value of new business.

On a rolling 12 months basis this continues to move in the right direction albeit with the rate of growth slowing a little in recent periods. We do have to increase the rate of growth if we are to meet our target in 2003 of doubling the value of new business but growth in K1 will come when we start to increase the rate of funds inflows.

Turning to K2 net retail funds flows. After several months where the rolling 12 month rate had flattened off we have over the last quarter seen a return to growth helped by the Sterling Grace acquisition.

There is no doubt that the downturn in international markets over the last 15 months and the, we believe temporary, falling out of favour of the growth style of management has meant that gross inflows have not grown as quickly as we had hoped. However we do believe that this is temporary and we are firmly of the view that the platform we have in place with Alliance Capital, the new products we have launched, and the progress we are making with advisers

and in penetrating approved product lists, will lead to increases in fund flows as confidence returns.

As you can see we have also made progress on funds retention. The rate of growth of outflows has slowed down in recent months and is now stable. We have a range of initiatives around RSP and business superannuation and we are aiming to further reduce outflows over the next couple of years.

We still have a long way to go to reach our aspirational target of getting into the top 5 but we continue to dedicate ourselves to the task in hand.

Management expenses have continued to improve. The run rate in the final quarter 2001 was well below the average of the previous four quarters and we will see further reductions in operating expenses during 2002.

Turning now to AXA CR

There is no doubt that we have faced significant challenges in the marketplace over the last couple of years. Agent poaching in 2000 was a major distraction to management and to our agency leadership and did lead to fall in sales. This was followed by a concerted campaign to twist inforced policies. We have not experienced any defections for over a year now and 2001 was spent in stabilising the business and developing a new strategy involving broadening our product range and diversifying our distribution channels as well as introducing new management processes into our traditional, and still very successful, agency force.

We have, as you know, set an equally ambitious set of objectives for our business in HK. Mark 6 with objectives relating to the value of the business to bring in income to assets under management and to the value of sales.

I am pleased to say that we have seen clear signs in the final quarter of last year that we are returning to growth. Agent numbers are growing again,

recruitment is going well with a new seminar based approach. Agent numbers are now at their highest level for over 12 months.

We have also seen continuing increases in the productivity of both traditional agents and of our salaried AXA advisers. In fact the productivity of the salaried AXA advisers is now 50% higher than for our traditional agency force and that is itself at very encouraging levels.

As we outlined in September our strategy is to modernise and professionalise our traditional agency channel through new management processes and through migrating agents to the AXA Phoenix model which is managed by company employees. We are also building AXA advisers and we are shortly to start piloting a new channel AXA Partners who will be self employed agents but operating at the more sophisticated end of the market where we will be starting to build a financial planning operating targeted at high earners.

AXA now has the largest salaried adviser force in Hong Kong. Phoenix the company managed distribution has been growing strongly and now represents 28% of our total advisers and is the number one source of new sales.

I think there are clear signs that our strategy of not following paths throwing tons of millions of dollars to poach agents and investing instead in evolving our model and building professionalism and a new management structure has been vindicated and is starting to pay off.

As foreshadowed at the end of last year we have reduced crediting rates on our conventional participating life products a typical reduction being around 1% for the inforce portfolio.

As predicted our competitive position has been maintained as the other major players have also acted to reduce crediting rates.

Our open products for new business now have much lower guarantees and a terminal and maturity bonus design which allows greater exposure to equity, more attractive illustrations unless exposure to guarantees.

Our asset mix, based on reasonable assumptions of long term returns for major asset classes and based on current crediting rates mean that the prospective investment spread is maintained at at least the 1% level assumed in our pricing and valuations.

This slide is just a reminder of the overall position. The major closed life fund, the NL series, which has an investment guarantee of 4.25 is, at the moment, backed by an asset split of 70% bonds and 30% global equities. This gives prospective long term return of 7.1% and a current equivalent crediting rate of around 5.8%. The Smart Series, which is what we are selling for new business, has much lower guarantees, a 50/50 asset mix, a prospective long term investment return of around 8.2% and a current cash crediting rate of 4.3% with a maturity bonus structure.

I am pleased to say that the improving trend in persistency that we have seen in the second half of last year continued into the fifth quarter. The fall off in twisting activity from defected agents due to court action, the success of our retention team and our management focus on this issue generally, has continued to reduce lapse rates. In recent months the annualised rates have been moving close to those assumed in pricing and long term actuarial valuations.

We have also been paying close attention to cost management in Hong Kong. Recurring management expenses, on an annualised basis, have reduced quite strongly and we have set further cost reduction targets over the next couple of years which will be delivered through re-engineering business processes.

Finally our international operations

Our joint venture partner AXA MinMetals was granted a second life licence in September. We will shortly be submitting a business plan to the CIRC to establish our second operation in Guangzhou, a city of 15 million people not far from Hong Kong with the predominant language of Cantonese. This will enable us to easily transfer the skills, systems and management processes that have been so successful in Hong Kong over many years. We are hopeful that further branch licences will follow in the future.

We have now completed the establishment of the Asian Life Regional Centre in Hong Kong and we have made a number of new management appointments in the region with new CEO's in Thailand and Singapore and a strengthened finance and marketing team in the regional centre in Hong Kong.

We continue to see strong new business growth in Singapore, Indonesia, Thailand and the Philippines and we are well advanced in our plans to establish a financial planning business in Singapore.

As announced last year we are exiting the Taiwanese market and we are close to completing the formalities for this.

In summary in Australia and New Zealand I believe we are making good progress on the transformation program. As these results demonstrate we are starting to see significant improvement in operating performance. I have consistently said that we needed a year to build our capability, that we needed another year to get the message out to market and that if we did this successfully then we had a good chance of seeing growth in market share towards our K5 aspirations. We are now moving from capability building to the growth phase.

In Hong Kong we have a strong and successful business which is well positioned for further growth in this exciting region. Our strategy has been vindicated and instead of throwing millions of dollars at agency leaders we

have used this to invest in modernising our management processes and structure and in returning the traditional agency force to growth.

Over the next 12 months we will continue to broaden our product and distribution capabilities and, as I have said, we are extremely well positioned in China which we believe will be enormously exciting and profitable over the next 10 years.