



**Trevor D Lloyd**  
Company Secretary

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Dear Sir/Madam

**Half year results – presentation materials**

Attached are presentation materials which will be addressed today by the Group Chief Executive and Chief Financial Officer of the Company as part of a Strategy Briefing Session to the market.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Trevor D Lloyd'.

## **GCE Analyst Presentation**

### **Highlights**

Good morning everyone and welcome to the presentation of our results for the 6 months ending 30 June 2003.

The first quarter of 2003 saw further falls in equity markets following the falls of 2001 and 2002. Although equity markets have rebounded over the last few months consumer confidence remains fragile and, as you know, industry flows are still suffering from the uncertain environment.

In the light of this we are announcing what I believe is a further set of encouraging results and further evidence that we continue to make good progress in repositioning our business.

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I will start by briefly covering the highlights. Andy Penn 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.

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First the highlights – total profit after tax and before non-recurring items increased 114% to \$287 million.

Within this operating earnings, excluding our Health business the sale of which was completed in February, were \$137 million, at the same level as the corresponding period last year.

Operating earnings in Australia and New Zealand were up 5% to \$66 million. Operating earnings in Hong Kong were, in A\$, \$69 million, down 7% due to the strengthening of the A\$. In local currency terms Hong Kong operating earnings actually grew 7% to HK\$335 million.

Investment earnings over the period were up very strongly to \$188 million reflecting growth in equity markets, particularly towards the end of the period,

a reduction in US bond rates and contraction in corporate bond spreads. This had most impact on Hong Kong where investment earnings grew from \$1 million in the same period last year to \$173 million.

We saw further growth in Group funds under management, administration and advice which were \$48.7 billion at the end of the period. Our financial strength has further improved and our capital position remains strong.

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Looking at Australia and New Zealand we saw a 5% increase in operating earnings to \$66 million helped by a further reduction in recurring management expenses which were down 6% to \$168 million.

In addition we are announcing significant non-recurring profits of \$368 million largely as a result of the sale of AXA Health and our 50% interest in Members Equity.

Despite the difficult market conditions we have continued to grow our net retail funds flows which were up 32% to \$903 million.

In Australia and New Zealand funds under management administration are up 2% to \$41.8 billion and funds under advice grew 9% to \$3.5 billion.

Evidence of our continued progress was the fact that during the period we achieved top 5 ranking for net retail funds flows and we are also in the top 5 in the master trust and portfolio administration platform market.

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In Hong Kong new business grew 9% to HK\$480 million despite the problems caused by SARS, and the value of new business was up 11% demonstrating once again our ability to resist significant margin squeeze in this market.

Recurring management expenses were down 14% to HK\$155 million and funds under management grew 12% to HK\$36.4 billion.

Most importantly investment conditions over the period meant that the returns on our long-term funds significantly exceeded the 1% margin over policyholder crediting rates that is our target.

We have further broadened and diversified our distribution channels and our progress in improving aggregate persistency continues.

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In China and South East Asia we have now received final authorisation by CIRC to open the second China branch operation in Guangzhou. The management team and agency managers are in place and we will commence writing business very shortly.

In January we announced a new bancassurance joint venture in Indonesia with bank Mandiri. Following the bank's successful IPO we expect to launch the joint venture later this year.

We're making further progress in the Philippines where we successfully launched unit linked investment products through our bancassurance joint venture partner Metrobank.

Overall across the region the value of new business grew 13% in the period and, in preparation for the growth of wealth management in Asia, we have launched advisory businesses using the ipac model in both Singapore and Hong Kong.

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I will now hand over to Andy Penn who is going to take you through the results in a little more detail.

## **Review of Activities**

Thank you Andy. I will now finish with a brief review of our activities and touch on our prospects for the rest of 2003 and beyond.

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Firstly Australia and New Zealand.

Three years ago we set out some very aspirational objectives to transform our business and the next few months will determine how successful we have been in meeting them.

We have made significant progress towards our K5 goals and it is encouraging to note that, despite the most difficult market environment for many many years, as we stand here today we still have a chance of meeting each one of them.

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I said at the end of last year that our strategy was standing up well to the changes in market conditions and that our strategic imperatives had not changed. In fact it is an unremitting focus on these imperatives over the last 3 years that has enabled us to move forward when much of the market has been moving backwards or fighting to stand still.

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Funds under management and administration in Australia and New Zealand increased a little to \$42 billion as at the end of June. We have done well to maintain funds under management in AXA, our joint venture partner Alliance Capital has shown encouraging growth, and of course we are now benefiting from the acquisitions of ipac, Spicers and Monitor Money.

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In the strategically important area of master trusts and wrap platforms we have funds under administration of \$15 billion placing in the top 5 in this important segment according to ASSIRT. The reason for the small reduction during the period was the termination of a third party contract – Symetry – which was taken on when we acquired Sterling Grace. We attributed no value

to this in the acquisition as profit margins were low to negative and its loss was anticipated.

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We have strongly improved our market rankings in net retail funds flows. Although we still have some issues with the definitions of net flows used by the major market researchers – Plan for Life and ASSIRT – it is very encouraging to note the steady increase in our rankings, and the increase in our share of net flows under both surveys in the period since K5 was launched.

As you can see our ranking in the Plan for Life survey has improved from 18<sup>th</sup> in the 12 months to the 31<sup>st</sup> March 2000 to 5<sup>th</sup> in the 12 months to the 31<sup>st</sup> March 2003, with our market share of net flows increasing from 0.5% to 7.4%.

ASSIRT uses a different definition but here as well we have seen our ranking increase from 42<sup>nd</sup> to 7<sup>th</sup> with a market share of net flows of 4.6%.

There is still a little time to go before we can make a final judgement on our K2 objective but, as I said earlier, clearly we have a chance of meeting what some people said 3 years ago was an impossible target.

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If we look at the way we in AXA measure net retail funds flows we can see that, although there was a small reduction in 2002, the run rate for the first half of this year shows an upward trend. We had net inflows in the first six months of \$903 million compared to \$1.7 billion during the whole of 2002.

Encouragingly retail flows directly generated by AXA are showing a strongly increasing trend and fund flows into our advice businesses are also rising.

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We have also made progress in our strategic imperative of improving retention of funds under management.

In the six months to 30 June we retained \$177 million that would otherwise have been withdrawn, a threefold increase over the same period last year. Our target for 2003 is retention of \$400 million compared to a total of \$190 million in 2002.

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The ipac integration is now effectively complete.

We said when we announced the purchase in August 2002 that the purchase price was the equivalent of between 13 and 17 times expected 2003 profit after tax in normal investment market conditions.

Clearly markets have not been normal. Fund flows across the industry have been down and although ipac been very successful at retaining funds under advice, new client fund flows were below target during most of the six-month period. In addition depressed market values have led to lower than anticipated fee revenues.

Despite this we still expect the 2003 profit after tax to be consistent with a P/E multiple within the targeted range due to stringent cost controls and significant cost and other synergies between ipac and AXA, including the saving in external fund manager fees that has been captured by moving AXA's multi manager funds into ipac management.

Cost savings are anticipated to be \$10 million in 2003 with full annualised savings in 2004 expected to be around \$15 million – significantly greater than assumed at acquisition.

We are very pleased with the ipac acquisition. Not only are the signs very positive for the core ipac business as market confidence recovers, but we are already making acquisitions of smaller advisory businesses and, over time, evolving them into the ipac financial advice model.

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Our progress in increasing penetration of self-licensed and third party licensed advisers in the Australian market continues to be encouraging.

I have spoken before about our improved penetration of third party approved product lists, a clear sign – or lead indicator, that we should expect fund flows to AXA to grow as market confidence returns and flows into these platforms grow.

We have once again increased our representation on the top ten Master Trust product lists from 61 in total at the end of 2002 to 74 at the half-year. The most significant message from this slide is that in 2001 we had only 3 listings for our global equity value and growth funds. We now have 34.

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And we see a consistent picture if we look at our product entries on the top 50 dealer group approved product lists.

Representations increased from 75 at the end of last year to 94 at the half-year. Here the trend towards our equity products being listed is even more pronounced. In 2001 we had no equity products listed at all. We now have 44 listings for global value and growth and 4 for Australian equities.

We expect the recent launch of our Australian Equity value funds managed by Bernstein to lead to further increases in penetration.

Of course we have to now capitalise on this position and grow flows strongly, but we are already seeing encouraging signs here.

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Flows into mezzanine unit trusts in the half-year were \$191 million up 145% on the same period last year. Retail unit trusts were up 103% to \$73 million and we have also seen increases to retirement income products and personal superannuation.

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This success in increasing our penetration of non aligned adviser networks in Australia has continued the trend we have seen over the last couple of years in re-balancing our distribution. In the six months to June 2003 around 34% of sales came from the AXA aligned networks – AXA Financial Planning and Charter. 37% came from non aligned channels – that is self licensed independent adviser groups and those licensed by our competitors. And nearly 30% of flows now come from our advice businesses ipac and Monitor Money. Whilst AXA's aligned networks remain an important source of competitive advantage we need to be well represented in all advice based distribution channels if we are to be a major player and we are now starting to achieve the kind of position we need.

So how are we getting on – with only six months to go – against our K5 targets.

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Firstly K1. Well as you can see the value of new business has increased significantly over the last 3 years. The trend over the last few periods has been relatively stable despite difficult market conditions but we do need this to increase somewhat in the second half if we are to fully meet this objective.

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Turning to K2 – which was to get into the top 5 in net retail funds flows. As you know the green bars are the gross inflows, the blue bars are the outflows and the blue line is the difference – the net inflows. Although the rate of increase has clearly flattened off over the last 18 months or so due to the difficult market conditions, we believe this represents a very encouraging result particularly where evidence is that overall industry flows were down.

In fact, our initial review of the preliminary ASSIRT and Plan for Life data for the 12 months to 30 June 2003 suggests we have achieved a top 5 position.

K2 was widely seen to be the most difficult of our K5 objectives. We have always viewed it as very tough but not impossible. To meet our K2 goal we have to sustain this position over the next 6 months.

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Our management expense ratio continues to fall. We are tracking a little higher than where, ideally, I would like us to be but this is primarily because overall fund flows are lower than we had anticipated 3 years ago as a result of market conditions. Allowing for the changes in the structure of the business involving the sale of Health and our acquisitions, the underlying reduction in rolling 12 month expenses over the six month period on a like for like basis was 11%.

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As far as K4 is concerned we will not get the 2003 ASSIRT results until later this year. However we have seen the recently released AC Nielsen rankings in New Zealand where we have maintained our top quartile ranking and thus met our K4 objective there.

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And finally K5, to get into the top quartile in the AXA global Scope survey. We had the 2003 results a few weeks ago and I am pleased to say that the ratings for Australia and New Zealand improved consistently across all attributes and we remained in the top quartile thus achieving this objective.

Let me turn now to Hong Kong.

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As in Australia and New Zealand, we have set out a number of aspirational goals to be achieved by 2004 very much supporting our strategic focus on financial protection and wealth management, and on growing shareholder value.

We launched this transformation programme some time later than the K5 programme in Australia and New Zealand and hence we still have 18 months to go before the final assessment on how successful we have been.

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As in Australia we have a number of strategic imperatives. To recover from the agent poaching of 2 years ago and increase the number and productivity of traditional agents.

Recognising the changes in the market, to diversify and build profitable new distribution channels.

Of critical importance, to, on average over the medium to long term, achieve a margin over the crediting rate to policyholders in excess of our 1% target.

To bring persistency to target levels and to prepare for the growth of the savings and investment market in Hong Kong.

We continue to make good progress against each one of these imperatives.

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Over the 6 months adviser numbers increased by 10%. Indeed the number of new recruits into the traditional agency business in June was the highest since the industry introduced agent examinations in 2000.

Although SARS clearly had a major effect on life in Hong Kong, and on normal business operations, I'm pleased to say that both new business and productivity grew.

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Sales measured on the basis of new regular premiums plus 10% of single premiums were up 10% to HK\$480 million. As you can see we have grown in all channels but there has been particularly strong growth from our salaried adviser force, AXA advisers.

As you know one of the issues we faced 3 years ago which was a contributory factor in the agent poaching, was that our agents were almost entirely managed by commissioned leaders and not by AXA.

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Company managed distribution – that is agents managed by managers who are salaried employees of AXA – has grown again and is now 40% of the total.

The salaried adviser channel – AXA Advisers – is now delivering productivity that is double that of traditional agents and we are continuing to increase the size of this channel. In fact, the number of salaried advisers has grown 76% over the last 12 months.

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Turning to investment margins, as Andy mentioned earlier, the first half of 2003 saw margins significantly in excess of the target 1%. Recognising, though, that absolute returns in the future are likely to be lower than those we have seen in past, we implemented a further reduction in policyholder crediting rates of 25 basis points earlier this month following on from the 75 basis point reduction in January 2003.

We have also, in conjunction with the global AXA Group, reviewed our long-term assumptions for returns from global equities and from bonds and have made some reductions in these. However as you can see, based on our target asset mixes, we still expect to achieve margins in excess of those being credited to policyholders sufficient not only to deliver, on average, the 1% target but also to recover the necessary over declaration of the last 2 or 3 years through our Active Dividend Management approach.

The fact that 3 years of negative spreads can be followed by a very strong positive spread over the last 6 months is a clear demonstration that, over short periods of time, the spread is bound to be volatile. We are managing smoothed crediting rates over the medium to long-term and the approach of Active Dividend Management is clearly appropriate to manage this volatility and is consistent with the approach taken elsewhere in the world to managing participating business.

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Aggregate lapse rates have further improved to 9.7% for the 12 months to June 2003. We have recently seen some minor deterioration in 13 and 25 month persistency probably a reflection of the difficult economic climate in Hong Kong exacerbated by the SARS virus earlier this year. However persistency for policies that have been in force for a longer period of time has continued to improve and, in aggregate, overall persistency continues to move in the right direction.

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An important strategic imperative for Hong Kong is to prepare for the growth in savings and investments. Hong Kong continues to be an extremely attractive market. Savings rates are high and penetration rates are low for both insurance and investment products. The exposure of the Hong Kong population to wealth management products as a result of the introduction of the MPF is increasing awareness and we are optimistic that, as markets stabilise and confidence improves, we will see strong growth in wealth management.

In April we launched a new individual unit linked retirement savings plan and this is helping our growth in new business.

And in July we launched a new financial planning business in Hong Kong using the ipac brand and the ipac business and advice model.

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So what does progress look like against our M6 goals.

Firstly M1 – to grow enterprise value to HK\$23 billion by the end of 2004. Well we are on track here helped by continued improvements in persistency, favourable mortality experience, good new business product profitability and a low expense ratio which continues to improve.

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M2 – Well here we are not on track and our gross premiums have been effected by the fall in the last 12 months in single premium investments as a result of the difficult market conditions. However net funds flow continues to be strong at HK\$3.4 billion for the 6 months.

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For M3, total assets under management where the target is to grow to HK\$42 billion. Well here again we are on track to achieve this despite the difficult investment markets in 2001 and 2002. Fund flows from MPF are now rolling in on a regular basis.

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As far as the AXA position and brand in Hong Kong is concerned, surveys show that the AXA brand has 100% aided awareness and 75% unaided awareness and, for the third year in a row, AXA has been voted the best insurer in Hong Kong.

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As in Australia and New Zealand we have met our objective in 2003 in relation to the AXA global Scope survey.

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And finally M6 – to grow the value of new business to HK\$753 million by 2004. Well here again we are well on track through strong focus on profitability and shareholder value.

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In summary, I think that this is another encouraging set of results from AXA which represents good performance in a difficult environment.

There are clear signs that our work in repositioning our business in Australia and New Zealand, and in Hong Kong over the last 3 years is delivering real results.

Looking ahead we are in a strong financial position. Our gearing ratio has reduced and our capital position is strong with surplus capital in excess of our own target.

I believe we are well positioned to benefit from market recovery and I think we are starting to see the first signs of this recovery.

So the message is, once again, clear and simple. No change to our strategy and no change in our focus.

Thank you very much for your attention and we are now open to questions.

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**Andrew Penn CFO**  
**Results Announcement**  
**26 August 2003**

## Profit & loss analysis

- Thank you Les and good morning
- The Group profit after tax and before non recurring items for the 6 months to 30 June 2003 was \$287m. This is up 114% on the same period last year reflecting a very solid outcome in a difficult environment and more importantly validating the strategies we have been employing through our transformation programs over the last three years.
- The period saw significant one off profits from the sales of Members Equity and AXA Health. Profits from non recurring items totaled \$368m. In relation to the Health transaction in particular the result also includes the impact of a more favorable tax outcome than assumed at the time of announcement. This matter is currently the subject of an ATO ruling.
- Profit after tax and non-recurring items was \$655m up 389%.
- Operating earnings for the Group were \$137m, the same as last year. However on a constant exchange rate basis operating earnings were up 6%.
- Investment earnings were \$188m up considerably from \$27m.
- Overall, costs continue to fall. Although, corporate expenses increased marginally.
- Our interest expense improved by 27% to \$27m. This improvement is mainly due to the reduction in our gearing levels following the sale of Members Equity and AXA Health. It has also been helped by lower average interest rates and the appreciation of the Australian Dollar.

## **Earnings per share and return on equity**

- Earnings per share before non recurring items was 16.5 cents. A marked increase on 2002. This was helped by the significant increase in investment earnings.
- Return on equity for **12** months to 30 June 2003 was 14.3%. This was also assisted by the increase in investment earnings.
- Given how volatile investment markets have been over recent times, we continue to take a conservative approach towards our dividend policy and we have declared an interim dividend of 4.75 cents per share.
- The interim dividend will be franked to a level of 60%. Although as I have advised in the past, I expect the level of franking to reduce in future.

## **Capital structure**

- Overall our capital position has strengthened with all gearing measures reducing during the period. In particular, the ratio of our senior debt to total capital resources has fallen to 14% from 25% at December 2002.
- Total capital available to the Group as at 30 June was \$5.3bn. This is a reduction of \$419m largely reflecting the fact that we have reduced our debt.
- Total group equity has increased to almost \$3.6bn.

## Capital usage

- In terms of capital usage, over the period our regulatory capital requirement has fallen to \$2.8bn. The fall is mainly due to the impact of the exchange rate on Hong Kong. In addition the sale of AXA Health has released a small amount of regulatory capital.
- Regulatory capital requirements continue to be split approximately one third backing Australia and New Zealand and two thirds backing Hong Kong. They reflect mainly the regulatory capital requirements of our life insurance businesses.
- In addition to regulatory capital, \$1.7bn of capital represents the excess of market value over net assets of subsidiary companies.
- Target surplus at 30 June was \$725m. Our target surplus is calculated annually. It was last calculated at 31 December 2002 at \$745m and this has been adjusted for the sale of AXA Health.
- We continue to carry an excess over our target surplus, \$92m as at the end of June. Of course this would have been significantly higher had we not chosen to reduce our debt levels.
- It should be noted that a change in accounting standards regarding the treatment of dividends means our excess is not strictly comparable to the position at 31 December 2002. The \$92m in excess assets as at 30 June is before any provision for the interim dividend of \$83m.
- Overall we remain very comfortable with our capital structure which reflects a strong position in what has been a tough environment.

## **Illustrative value**

- We have also updated our analysis of the illustrative enterprise value of the group. As I have said before we provide this analysis to assist your understanding of how the company might be valued. It does not necessarily represent the value which AXA would place on itself.
- Details of the revised enterprise value are provided in the investor compendium. In summary over the last six months the mid-point of the illustrative value per share has decreased marginally from \$2.94 to \$2.82.
- The reduction arises mainly as a consequence of the impact of the appreciation of the Australian Dollar on the illustrative value of Hong Kong. On a constant exchange rate basis the illustrative values of inforce for Australia and New Zealand and Hong Kong have increased by 3% and 12% respectively.
- We have reviewed the carrying value of AXA Life Singapore and reduced this by \$25m as at 30 June 2003. This adjustment has been included in the non recurring items line of the group Profit and Loss account. It recognises a relatively difficult environment in Singapore and the fact we are undertaking a transformation program to lift product profitability and to focus on more profitable market segments. It also takes into account a new capital regime to be introduced in Singapore with effect from 1 January 2004. This will increase capital requirements for all industry players although at this stage it is not clear by how much. Finally, it also takes into account the significant appreciation of the A\$ compared to the Singapore\$ over the period.
- Moving forward we will only be publishing the value analysis on an annual basis in conjunction with our full year results. We will not report it at future half years. This will enable us to significantly bring forward our half year reporting timetable.

## **ANZ Profit after tax and before non-recurring items**

- So that is the picture at the Group level, now I will focus on Australia and New Zealand.
- In Australia and New Zealand operating earnings excluding AXA Health increased 5% to \$66m.
- Our strategy of increasing the focus on Wealth Management has paid off, with an improvement in operating earnings from Wealth Management partially offset by a small reduction in operating earnings from Financial Protection.
- I will talk through the drivers impacting these results in a moment.
- Investment earnings in Australia and New Zealand were \$15m, compared with \$26m last year. The reduction in investment earnings is as a consequence of the foreign currency translation of assets held in New Zealand dollars.

## **ANZ Operating earnings – Wealth Management**

- Operating Earnings in Wealth Management products were up 13%.
- The difficult investment environment, which persisted for much of the first half of 2003, has clearly had a significant impact on the wealth management industry. It has negatively affected industry net funds flows, fund balances off which fees are derived and has also led to a generally less profitable product mix for the industry.
- AXA has not been immune from these impacts. The 13% increase in profit illustrates the success of our strategic initiatives to improve our position in wealth management in the face of these challenges.
- In superannuation operating earnings were down \$5m mainly due to the impact of lower asset values on fee revenues.
- Profits from ordinary savings business were also down, although the profit in 2002 included some one off impacts. Compared to the second half of 2002, profit from ordinary savings remained flat consistent with the fact this business is in run off.
- Retirement income profit was up \$5m, reflecting the gains in equity markets mainly in June and strong funds flow during the period.
- Investment businesses, which include our 50% share of the profits in Alliance Capital plus the profits from retail and mezzanine unit trusts, also showed an improvement over last year. This is mainly as a consequence of the increased profitability of Alliance Capital. These profits were offset by the impact of lower asset values on fee revenues for retail and mezzanine unit trusts and our significant ongoing investment in this area. In the current period additional investment covered the launch of a number of new products, including the new Bernstein Australian equity value fund.
- Our ongoing reinvestment in the business and the impact of markets on revenue was also reflected in the result for portfolio administration services. During the period we made significant further investments into the Summit platform and we also largely completed the integration of the Assure master trust onto Summit. This will give rise to future cost savings.
- Profits from advice increased to \$10m for the half year, including a contribution from ipac, which was not included in 2002.

## **ANZ Operating earnings – Financial Protection**

- Operating earnings in Financial Protection were down slightly by \$2m to \$23m.
- Individual income protection operating earnings were \$3m lower for the period due to our revising down of our long term investment return assumptions in this portfolio.
- The income protection result includes a small positive underwriting experience and a further release of capitalised losses of \$5m.
- Individual Term and Trauma insurance was \$12m, the same as for 2002.
- Group risk showed a modest improvement, moving out of loss and reflecting ongoing management attention in this area.
- The long-term life business, which includes predominantly our old style endowment and whole of life products, contributed \$8m.

## **ANZ Investment Earnings**

- Investment earnings in Australia and New Zealand were \$15m down from \$26m last year.
- The most significant impact on the result was the change in the Australian/New Zealand dollar exchange rate. In 2002 this produced a \$19m gain whereas a weakening of the NZ dollar in the last 6 months has led to a loss of \$9m.
- The portfolio assets representing invested shareholder capital returned \$23m for the period. This is up considerably on last year. Most of these gains occurred in May and June as markets recovered late in the half year period.

## **ANZ New business/gross inflows**

- Turning to sales.
- Overall sales results in Australia and New Zealand have been positive.
- New annual premiums in Financial Protection products were up 15%.
- Financial Protection sales were mainly led by Group Insurance, where sales were up 78%.
- On the wealth management side total gross inflows were up 20% to \$4.3bn. This includes the impact of ipac which was not in last years numbers. Excluding ipac, inflows were up 8%.
- In Australia highlights included increases in business superannuation following enhancements to our Business Super Directions product and strong investment product sales. We saw strong inflows to the Bernstein Global Equity Value fund of \$103m, up from \$13m last year. We also had solid flows into our mortgage funds, property trusts and cash products. Alliance Capital also continued to enjoy strong growth in new mandates, up 15% to \$1.8bn.
- In New Zealand wealth management gross inflows were down 12% reflective of the overall industry experience. The New Zealand market remains considerably more vulnerable to the impact of poor investment returns. It does not have the benefit of mandated superannuation or any significant tax incentive to encourage investment in wealth management products. Nonetheless our market analysis indicates we are either maintaining or increasing market share in New Zealand.

## **ANZ Value of new business**

- Notwithstanding the very credible sales performance in the first half of 2003 we did see a small reduction in the value of new business.
- The decrease in the value of new business reflects predominantly the impact of the mix of new business. Consistent with industry experience we saw a shift to lower margin products such as mortgage funds, annuities and cash trusts.

## **ANZ Total management expenses**

- Total management expenses excluding commission and related costs in Australia and New Zealand for the six months to June were \$206m showing a further reduction on 2002.
- Our expense reduction program continues to be on track.
- We are also continuing our focus of business reinvestment with a further \$38m invested in the first half of 2003.

## **HK Profit after tax and before non-recurring items**

- Now turning to Hong Kong.
- In local currency profit after tax and before non-recurring items for the year was almost \$1.2bn compared to \$321m last year.
- Underlying this result was a 7% improvement in operating earnings to \$335m.
- Operating Earnings were favourably impacted by improvements in persistency, underwriting experience and investment returns.
- Investment earnings in 2003 were \$839m, up considerably over the period. I will comment on this in more detail in a moment.
- This is a very solid result from Hong Kong and continues to reflect the success of initiatives introduced by management through the M6 programme.
- During the 6 months the Australian dollar strengthened by more than 19 % compared to the US Dollar impacting the value of our Hong Kong earnings in the consolidated accounts.
- For the remainder of the slides I will talk to the results in HK\$.

## **HK Investment Earnings**

- Investment earnings were up significantly on 2002 at more than \$800m for the half year.
- Returns on equity investments were 9%, compared to losses of \$166m in 2002. These were strongly supported by the recovery in US market after Iraq and similar improvements in Asian equity markets.
- In fixed interest investments, we enjoyed considerable gains due to decreases in interest rates. During May and June US\$ bond yields and corporate spreads reduced to historical lows.
- Approximately 60% of the return on our fixed interest portfolio for the half year represents capital gains whilst 40% represents underlying investment income.

## **HK Investment margin on policyholder assets**

- This strong investment performance in the six months to June has meant that we have more than achieved our target of a 1% margin on investment returns for the NL series. In fact the margin to 30 June was 5.5%.
- Importantly this strong performance has reduced the extent of the future crediting recoveries now required.
- It is fair to say that some of the capital gains on the bond portfolio have reversed since with the increase in USD bond yields. However, we have also seen further strengthening of US and Asian equity markets since 30<sup>th</sup> June.
- Additionally, subsequent to the half year in August, we took further steps on crediting rates and reduced these by 25 basis points to 4.75%
- As we have been saying for some time now we remain confident that our target of a 1% margin on investment returns for these products is achievable given our forecasts of long term investment returns.

## **Hong Kong Investment portfolio mix**

- The bond portfolio backing the non-linked book is largely unchanged from 31 December 2002.
- The average credit rating of the portfolio remains A with 3/4rs of the portfolio being rated A and above.
- We have also maintained our policy of having no below investment grade bond exposure.

## **HK New business**

- New business in Hong Kong showed strong growth compared to last year despite the impact of SARs.
- Total new business, including regular premium and 10% of single premium was up 9% to \$480m.
- Individual life sales continued to be strong up 23% reflecting an increase in sales of regular premium unit linked products and good performance from non linked endowment products.
- MPF and retirement sales were also up more than 100% to \$24m.
- New individual life Single premium business was down. The single premium bonds which were very successful in 2001 and early last year have been less attractive in 2003 due to investment markets. Nonetheless, this reduction was more than offset by new single premium sales of retirement business.

## **HK Value of new business**

- The strong sales performance has flowed through into the Value of new business which was up 11%.
- This strong growth in the Value of New business remains a good indication that the product margins in Hong Kong are being maintained.

## **HK Total management expenses**

- Total expenses excluding commission and related costs in Hong Kong were \$168m down 17% on 2002. This includes a 14% reduction in recurring management expenses a very credible performance.
- We have now eradicated all previous expense overrun experience from our Hong Kong business and operate well within the expense loadings assumed in our product pricing.
- Similarly to Australia and New Zealand our ongoing focus on cost reduction in Hong Kong has enabled us to make significant investments in the business through improvement projects.

## **China & SEA New business premium**

- Finally a few words on the other Asian businesses.
- Across the region we saw mixed results in terms of total sales with the impact of global investment markets and also more localised issues.
- A key focus for us during the period has been a major review on product profitability. This has led to some major product changes, repricing as well as the closing of some products to new business. It has also seen the introduction of unit linked products for the first time into The Philippines and Indonesia. This places these businesses on a much stronger footing for value creation in the future
- As a consequence of these initiatives the Value of New Business increased by 13% for the region. In total the value of new business for the 12 months to 30 June 2003 represented a little over 5% of the Group's total at \$8m in Australian dollars.

## **Summary**

- That concludes my comments on the financial results for the half year.
- In summary, in what has been a further difficult but improving period for global investment markets and therefore our industry, these results demonstrate the resilience of our strategy.
- I will now hand back to Les to take you through a more detailed review of activities.