



Strategy Briefing 2005  
International Financial Reporting Standards

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Be Life Confident

# AXA Asia Pacific Group Agenda

- Background
- High level guidance of key impacts
- Balance sheet
- Capital
- Profit and loss
- Performance indicators
- Summary



# Background

- Australia has adopted IFRS from 1 January 2005. It was introduced to achieve global accounting harmonisation
- Because of significant differences in US / Europe, IFRS will not achieve its objective of global harmonisation (eg. local modifications to certain standards)
- For the insurance industry, there is a two step approach, with insurance contract profit recognition being addressed only in phase 2
- We will report on the Australian version of IFRS (“AIFRS”) at 30 June 2005 and 31 December 2005 (with restated 2004 comparatives). We will also provide a reconciliation to AGAAP at both of these dates





## High level guidance of key impacts

- AIFRS shareholders' equity will be approx. \$730m lower than AGAAP as at 31 December 2004
- 2004 AIFRS Operating Earnings approx. equivalent to AGAAP
- 2004 AIFRS Investment Earnings, which like AGAAP will be volatile in nature, approx. \$44m (17%) lower than AGAAP
- Additional non-economic expenses are expected to be recorded under AIFRS for the Executive Share Option plan (-\$7m)

*Note: Actual comparative impacts may differ from those outlined above. Information has been provided as a guide only*



# Balance sheet

## **AIFRS shareholders' equity approx. \$730m lower than AGAAP as at 31 December 2004**

- Internally generated goodwill written off (-\$460m)
  - This is a one off impact on transition and primarily relates to AXA China Region and Sterling Grace New Zealand
- Increase in policy liabilities (-\$170m)
  - This is due to changes in accounting for investment linked contracts and the introduction of the risk free rate
- Consolidation of Executive Share Option Plan (-\$130m)
  - Underlying AXA APH shares held by the share plan trust must be recorded as a reduction in equity rather than an asset
  - We are continuing to investigate alternatives to limit this impact such as issuing options over unissued shares

*Note: Actual comparative balance sheet impacts may differ from those outlined above. Information has been provided as a guide only*



# Balance sheet

- Superannuation plan liabilities discounted at risk free rate (-\$120m)
  - The net liability recorded represents the difference between plan assets that are valued at fair value, and liabilities of the defined benefit plans which must be discounted at a risk free rate
- Associated tax impacts (+\$150m)
  - This is the net tax impact of the adjustments on transition from AGAAP to AIFRS and relate to:
    - internally generated goodwill           \$60m
    - superannuation plan                       \$40m
    - increase in liabilities                   \$50m

*Note: Actual comparative balance sheet impacts may differ from those outlined above. Information has been provided as a guide only*



# Balance sheet

- Reserving for policy liabilities at risk free rate (-\$170m)
  - Products will be classified as investment, insurance or discretionary participating
  - Investment products will be accounted for under AASB 139 (Phase 1)
  - Insurance and discretionary participating products will continue to be accounted for under AASB 1038 (Phase 2)
  - Insurance products whose benefits are fixed and are not directly linked to the value of assets must use the risk free rate to discount policy liabilities
  - Little impact for AXA Hong Kong and AXA Singapore

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# Balance sheet

## Policy liabilities at 31 December 2004

	AGAAP 31 Dec 2004	% of total policy liability	% increase AGAAP to AIFRS
A&NZ investment contracts (term certain annuities)	1,272	5.9%	0.4%
A&NZ investment contracts with no participation (single fund investment linked)	2,441	11.4%	1.3%
AXA CR investment contracts with no participation	106	0.5%	0.9%
<b>Total Phase I</b>	<b>3,819</b>	<b>17.8%</b>	<b>1.0%</b>
A&NZ discretionary participating business (investment account)	3,544	16.6%	0.0%
A&NZ discretionary participating business (multi-fund investment linked)	4,318	20.2%	0.0%
AXA CR discretionary participating business (DA)	692	3.2%	0.0%
AXA CR discretionary participating business (MPF)	587	2.7%	0.0%
A&NZ insurance contracts	4,247	19.8%	3.1%
AXA CR insurance contracts	3,438	16.1%	0.0%
AXA LS insurance contracts	764	3.6%	0.0%
<b>Total Phase II</b>	<b>17,591</b>	<b>82.2%</b>	<b>0.7%</b>
<b>Total</b>	<b>21,410</b>	<b>100%</b>	<b>0.8%</b>

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# Balance sheet

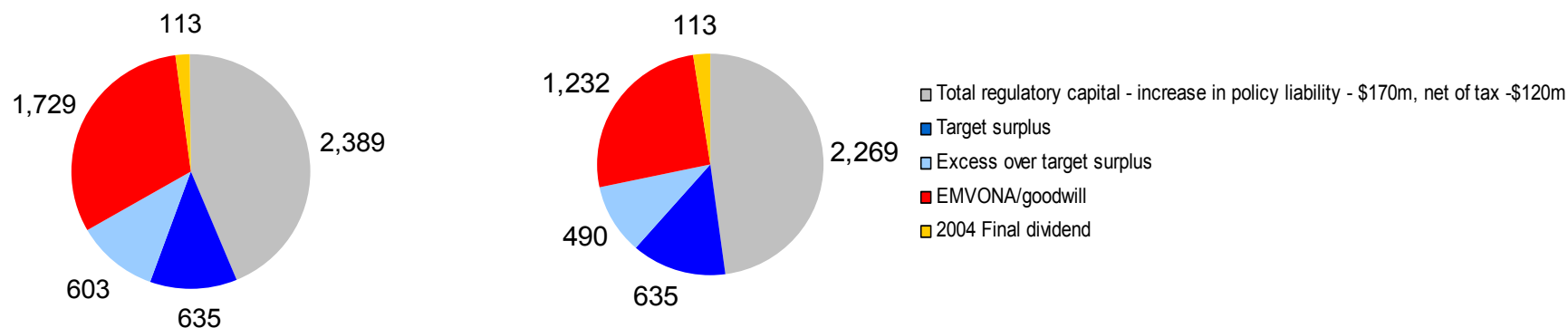
- Reserving for policy liabilities at risk free rate (-\$170m)
  - A&NZ income protection business (-\$80m)
  - A&NZ lifetime annuity business (-\$60m)
  - A&NZ term certain annuities (little change)
  - A&NZ investment linked products with no option to switch to discretionary participating investment account business (-\$30m)
- Discussion last week by the Institute of Actuaries about using a risk free rate for the liability adequacy test may result in a further adjustment to our DA retirement product in Hong Kong of approximately -\$150m. In this event, future Operating Earnings would increase

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# Capital

**Total capital - AGAAP (\$5,469m)    Total capital - AIFRS (\$4,739m)**



The table below shows the resultant change to gearing ratios

<b>Gearing ratios</b>	<b>AGAAP</b>	<b>AIFRS</b>
(Debt + hybrid) / equity	35.1%	42.7%
Debt / capital resources	10.1%	11.6%

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# Profit & loss

## 2004 AIFRS Operating Earnings approx. equivalent to AGAAP

- Stronger policy liability reserving basis under AIFRS (-\$3m)
  - While this has no impact on profit over the life of the product, it does affect the pattern of release for certain products. Typically, for certain products, profits will be lower in the period new business is written. This will be recouped in later years, all other things being equal. While a book of business is growing this should result in lower profits under AIFRS than AGAAP. Conversely profits would be expected to be higher for those products in run-off
- Greater impact of reserve strengthening from assumption changes (-\$4m)
- Increased allocation of investment assets (+\$10m)
  - Higher liabilities lead to a greater allocation of assets. The assumed long-term earnings on these assets will be included within Operating Earnings and will be removed from Investment Earnings

*Note: Actual comparative profit and loss impacts may differ from those outlined above. Information has been provided as a guide only*



# Profit & loss

## 2004 AIFRS Operating Earnings, approx. equivalent to AGAAP

- Defined benefit superannuation plan accrual (-\$3m)
  - Increase in each period the change in the net liability is recorded
  - The current year service cost, unwind of the discount rate and expected return on plan assets will be reflected in the profit and loss account (-\$13m). The actual cash contribution recognised as an expense under AGAAP is no longer relevant in determining the charge (+\$10m). This charge will be included within Operating Earnings
  - Any investment experience above or below that expected along with any actuarial gains or losses will be recorded directly in shareholders' retained profits

*Note: Actual comparative profit and loss impacts may differ from those outlined above. Information has been provided as a guide only*



# C Profit & loss

## **2004 AIFRS Investment Earnings, which like AGAAP will be volatile in nature, will be approx. \$44m (17%) lower than AGAAP**

- Reduced allocation of investment assets offsetting the impact noted in Operating Earnings (-\$10m)
- HK owner occupied property (-\$12m)
- NZ foreign exchange translation (-\$8m)
- Life company subsidiaries no longer held at market value (+\$2m)
- Increased volatility due to the mandated use of the risk free rate to discount policy liabilities (-\$16m)
  - Consistent with other investment market experience, we intend on including this volatility within Investment Earnings

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# Profit & loss

## **Additional non-economic expenses are expected to be recorded under AIFRS for the Executive Share Option Plan (-\$7m)**

- Executive share plan
  - Fair value of allocation rights granted to executives now amortised over the vesting period. This applies to rights issued after 7 November 2002 only and as such we expect this accounting charge (-\$4m) to increase over the next few years. This is in addition to recording the funding cost of holding the shares over which options are granted
  - Interest received from the share plan trust previously recorded as income will now be eliminated as an intra-group transaction (-\$3m)
  - A further charge is expected to be included in respect of our executives' participation in AXA SA share plans

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# Performance indicators

The tables below highlight the likely impact on key earnings indicators for the 12 months ended 31 December 2004

<b>Earnings per share</b>	<b>AGAAP</b>	<b>AIFRS</b>
Earnings per share	31.0	32.3
Earnings per share excluding non-recurring items	31.4	28.5

<b>Capital performance</b>	<b>AGAAP</b>	<b>AIFRS</b>
Return on equity	14.1%	15.8%
Return on equity (adjusted for "normalised" Investment Earnings)	13.4%	14.8%
Return on capital	10.6%	11.2%
Return on capital (adjusted for "normalised" Investment Earnings)	9.9%	10.6%

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# Summary Operating Earnings

	Impact	Volatility
Stronger reserving for new business	↓	—
Lower DAC for new business	↓	—
Higher liabilities released for in-force	↑	—
Increased allocation of investment assets	↑	—
Defined benefit superannuation plan	↓	—



# Summary Investment Earnings

	Impact	Volatility
Increased allocation of investment assets to Operating Earnings	↓	—
Certain asset valuations now through reserves	↑/↓	↓
Translation of the NZ branch now through reserves	↑/↓	↓
Risk free rate to discount certain liabilities	↑/↓	↑



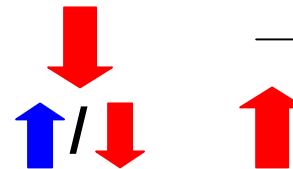
# Summary

## Corporate expenses

Executive share plan

Derivatives (minor)

Impact    Volatility





Q&A



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# Disclaimer

The material in this presentation is a summary of the historical results of the AXA APH Group and an update on Group activities and is current at the date of preparation, 13 May 2005. Further details are provided in the Company's half year and full year accounts, Investor Compendiums and results announcements. This presentation provides information in summary form and is not intended to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. Further information including historical results and a description of the activities of the Group is available at the website [www.axaasiapacific.com.au](http://www.axaasiapacific.com.au)





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