



Strategy Briefing 2005  
Margin on Services and change in Operating Earnings disclosure

Geoff Roberts  
Group Chief Financial Officer



13 May 2005

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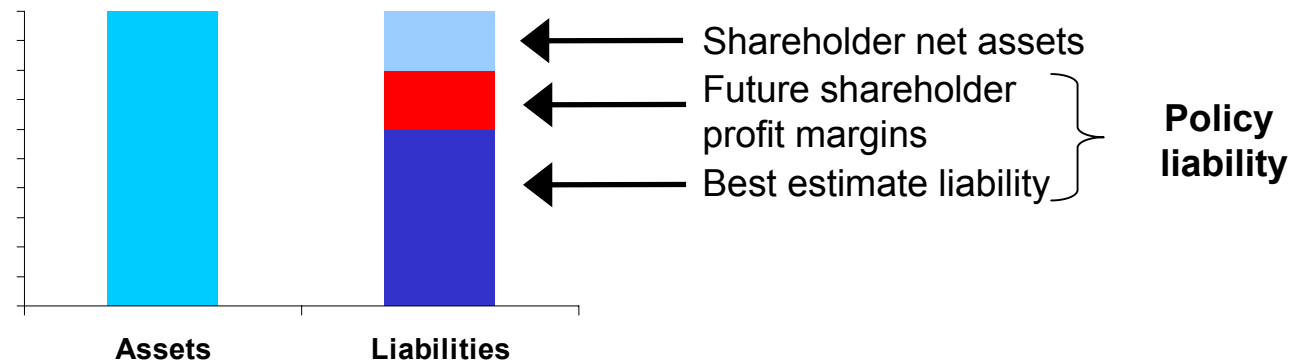
# Agenda

- Determining planned margins
- Impact of assumption changes
- Principles for reviewing assumptions
- Experience profits
- Change in Operating Earnings disclosure



# Determining planned margins

- At each reporting date, the value of future profit margins is determined for each product group
- A portion of these future profits is released each period, in line with a “profit carrier” reflecting services provided to the policyholder over that period
- This profit release is the planned profit margin



- Future shareholder profits are estimated when each policy is written. This adds to the balance of future shareholder profit margins expected to emerge from inforce business
- The balance is reduced each reporting period by the release of planned margins (ie. profit expected if best estimate assumptions eventuate)





## Impact of assumption changes

- The best estimate liability, and resulting planned future shareholder profit margins, requires a 'best-estimate' assessment of future experience relating to:
  - investment returns
  - expenses
  - mortality rates
  - morbidity rates
  - lapses
- Assumptions must be realistic or 'best-estimate'. It should be equally likely that experience will be either better or worse than assumed
- Experience profits / losses arise when the actual experience over the year is better (or worse) than the best estimate assumptions
- Changes in 'best estimate' assumptions about future experience impact the balance of future profit margins and future experience profits
- Experience profits, if assumed to be permanent and not just short term fluctuations, should be reflected in revised best estimate assumptions and reflected in higher or lower planned profit margin releases in future years





## Principles for reviewing assumptions

- Best estimate assumptions are reviewed and audited each reporting period. The following considerations are relevant when considering changes
  - **Materiality:** How material are emerging experience profits or losses? The greater the materiality, the more regularly assumptions need to be reviewed
  - **Trends in experience:** Has experience been consistently better or worse than best estimate assumptions? Over what period of time? The more consistent the trend, the more likely assumptions should be changed
  - **Causes of trend:** What are the influencing factors behind the trend and are they expected to continue? For example, how has the current strong economic environment impacted on recent income protection claims experience, and would this be expected to continue if the economic environment deteriorated?
  - **Policy conditions:** Have there been any material changes to terms and conditions or internal practices that will have an impact on expected future experience?
  - **Market conditions:** What has recent experience been like in the Australian and overseas markets, and are there any themes emerging that may impact future experience? For example, are mortality improvements expected to continue?



# C Experience profits

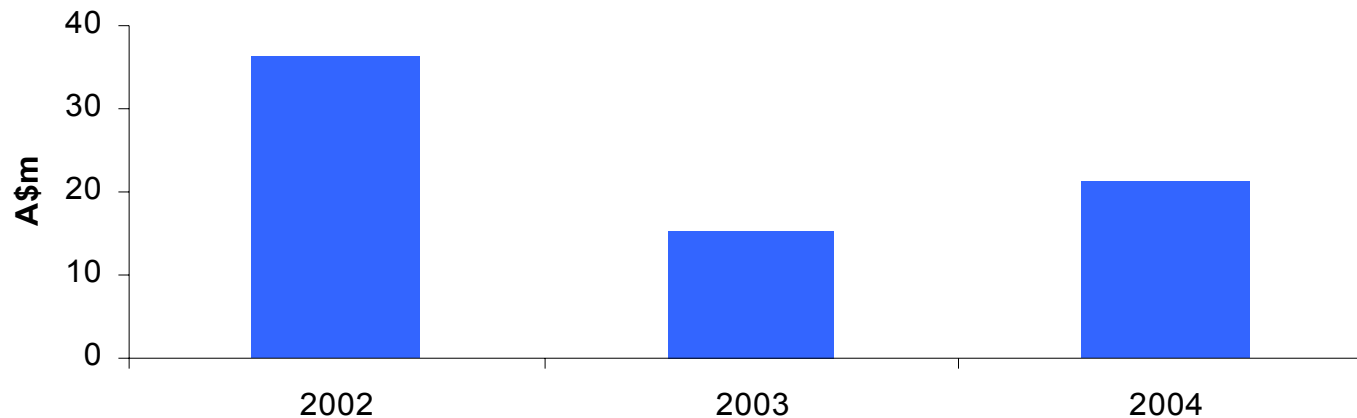
**In 2004 there were two material sources of experience profits**

| <b>Product</b>  | <b>Retirement income</b>   | <b>Individual income protection</b>   |
|---|--|---|
| <b>Experience profit</b>                              | <b>A\$23.9m</b>  | <b>A\$6.1m</b>  |
| <b>Key driver</b>                                     | Very strong domestic equity performance  | Positive claims termination experience  |
| <b>Materiality</b>                                    | High   | High  |
| <b>Trend in experience</b>                            | Positive in 2004, but volatile and difficult to predict  | Positive in 2002, 2003 and 2004 but remains volatile from month to month  |
| <b>Policy conditions</b>                              | No changes   | Underwriting and claims processes have been progressively enhanced  |
| <b>Market conditions</b>                              | Less volatile than the period 2000 to 2003, but reliance on oil prices, US and China economies | Favourable economic background, with low unemployment   |
| <b>Change in best-estimate assumptions justified?</b> | No   | <b>Still viewed by actuary and management as too early to conclude that experience is permanent. Will be reviewed again in 2005</b> |



# Experience profits

**AXA APH experience profits (excl. investment experience)**



- Experience profits (excl. investment experience) have been positive over recent years, driven mainly by expense improvements and strong underwriting performance
- Best estimate assumptions reviewed twice a year





Change in Operating Earnings disclosure



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# Change in Operating Earnings disclosure

- To add understanding we will, with effect from H1 2005 results, show investment experience profits / losses on capital backing product liabilities in Investment Earnings rather than Operating Earnings
- Planned profit margins in Operating Earnings will continue to be based on assumed long term investment earnings rates
- Investment Earnings will be analysed into:
  - Investment Earnings on shareholder capital
  - excess / (deficit) of Investment Earnings over assumed long term investment earnings rates on capital backing product liabilities
- This change will remove the impact of short term volatility of investment markets / interest rates from Operating Earnings



# Change in Operating Earnings disclosure

The table below compares our actual 2004 Operating Earnings disclosure to what would have been presented had we adopted this change in presentation last year

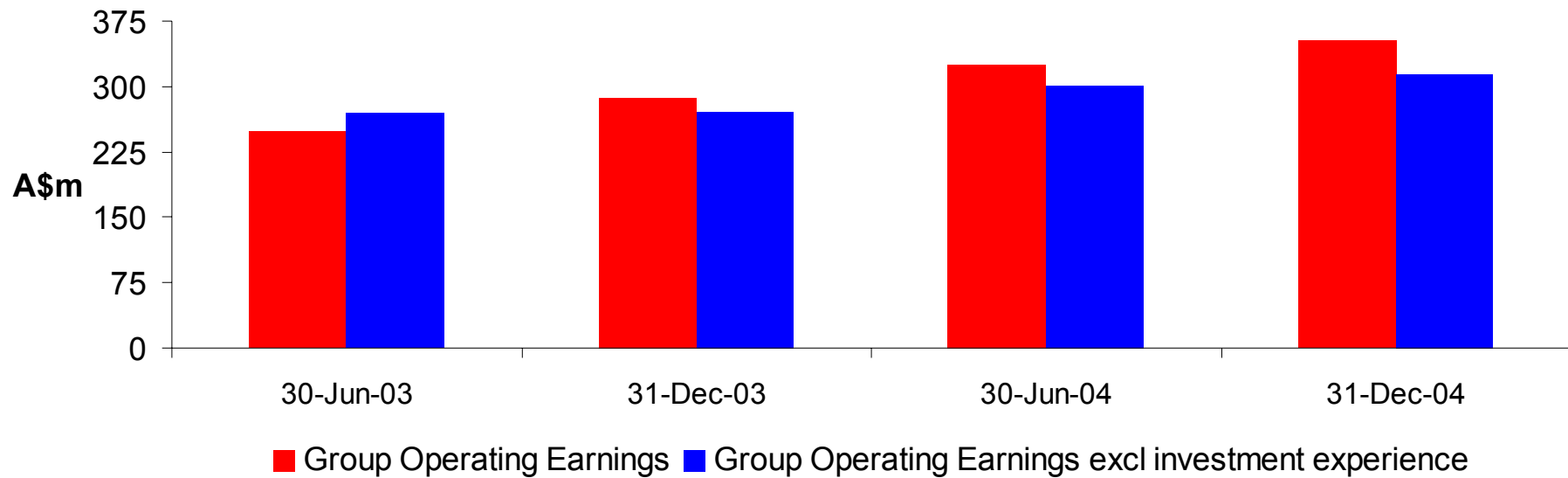
| <b>AGAAP Operating Earnings<br/>12 months to 31 Dec 2004<br/>(A\$million)</b> | <b>As reported</b> | <b>Reallocate<br/>investment<br/>experience</b> | <b>New format</b> |
|---|--------------------|---|-------------------|
| <b>Australia and New Zealand</b>  |                    |   |                   |
| Wealth management   | 121.6              | (24.5)  | 97.1              |
| Financial protection  | 70.7               | (10.1)  | 60.6              |
| <b>Operating Earnings A&amp;NZ</b>  | <b>192.3</b>       | <b>(34.6)</b>                                   | <b>157.7</b>      |
| <b>Hong Kong</b>  |                    |   |                   |
| Hong Kong (HK\$)  | 921.9              | (40.2)  | 881.7             |
| <b>Operating Earnings HK</b>  | <b>160.5</b>       | <b>(7.0)</b>                                    | <b>153.5</b>      |
| <b>Operating Earnings Singapore</b>   | <b>1.4</b>         | <b>0.0</b>                                      | <b>1.4</b>        |
| <b>Group Operating Earnings</b>   | <b>354.2</b>       | <b>(41.6)</b>                                   | <b>312.3</b>      |
| <b>Investment Earnings</b>  | <b>260.7</b>       | <b>41.6</b>                                     | <b>302.3</b>      |
| <b>Corporate Expenses</b>   | <b>(42.8)</b>      | <b>0.0</b>                                      | <b>(42.8)</b>     |
| <b>Interest Expense</b>   | <b>(24.9)</b>      | <b>0.0</b>                                      | <b>(24.9)</b>     |
| <b>Profit after income tax before non-recurring items</b>                     | <b>547.2</b>       | <b>0.0</b>                                      | <b>547.2</b>      |





## Change in Operating Earnings disclosure

### A/NZ and Hong Kong Operating Earnings (rolling 12 months)





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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