# Presentation of 2011 half-year earnings

## Operating highlights for the first six months of 2011

**Henri de CASTRIES**
**Chairman and CEO**

Our performance over the first six months of this year was strong in an environment that remains agitated and uncertain. Underlying earnings are back on the growth track, and net income quadrupled. Our balance sheet remains extremely solid, and solvency ratios are strong.

The AXA Group was very active during the first half of the year, completing the sale of our Australian and New Zealand operations, a move that gives us full control over our business activities in Asia. We sold our property-casualty operations in Canada under satisfactory conditions. In addition, and consistent with the lines laid down for the Ambition AXA program, we have adopted a more aggressive approach to the emerging markets as well as to certain distribution segments, such as direct selling channels. We are also being very selective in the mature markets, where our priority is high-margin segments. Efforts to improve productivity are being rolled out in a satisfactory way. Over the six months just ended, there have been fewer exceptional natural disasters affecting the property-casualty segment than last year, although the recent tsunami has impacted our life insurance business in Japan.

In light of the above, we are looking to the future with vigilance but also with relative confidence.

# Financial performance over the first half of 2011

## Denis DUVERNE
**Deputy CEO**

## Group

Total revenues were down by 3%, to 47 billion euros. The decline was particularly visible in life and savings, where revenues fell by 6.6%. In the property-casualty segment, revenues grew by almost 3% thanks to price increases and our dynamic performance in both high-growth markets and direct sales. In asset management, our revenues rose slightly (+3%).

New business was strong in high growth markets for both life and savings and property-casualty operations was significant (+11%). For direct sales, growth was good (+9%) but slightly below our medium-term objective for this segment (12 %), due to price stagnation in the South Korean market. This situation is currently being turned around and business grew significantly in other countries, including Italy, Poland, France and Japan.

Total underlying earnings for the AXA Group rose by 10% for the six months ended, reaching 2.222 billion euros. The increase in property-casualty underlying earnings was a substantial 15%, led by France, Northern Europe and Asia. Direct insurance underlying earnings also increased. The life and savings segment underlying earnings fell by 1%, a slight decline that masks scope effects (the sale of some UK businesses). Restated for these scope effects, total underlying earnings rose by 9%. Underlying earnings for the period were impacted by the tsunami in Japan, which had a pre-tax cost of 70 million euros. Asset management underlying earnings were up by 6%, driven by AXA Investment Managers. Earnings also improved for the holding companies.

Property-casualty, personal protection and health business represents 72% of Group pre-tax underlying earnings, compared with 28% for savings and asset management. Despite market turbulence, our platform remains extremely strong, since it is not highly sensitive to financial market fluctuations.

Our adjusted earnings increased by 7% over the first half of the year. Net income quadrupled, reaching 4 billion euros, boosted by significant capital gains on the sale of an interest in Taikang Life and AXA's businesses in Australia and New Zealand.

## Life & Savings

AXA remains the world's number one life insurer, with more than 40 million clients. In the first half of this year, we were highly selective in terms of new business. Two business lines experienced significant growth over the period: health and personal protection, up by 14%, and mutual funds, which grew by 15%. Unit-linked sales were mixed from one country to the next. Overall, new business declined by 1% over the six months ended June 30, 2011, but NBV margin improved by three percentage points, to 26%.

## Property & Casualty

The P&C segment turned in the best performance in 1H2011. AXA is the world's third largest P&C insurer, with 55 million clients and an operating presence in nine countries for direct P&C. AXA's total revenues from P&C operations rose by 2.7% in 1H2011. Personal lines posted strong growth, adding 800 000 new clients globally. Commercial lines also resumed growth (+1%).

Our combined ratio improved too, from 98.6 to 97.2%. The combined ratio for the current year was 99.2%, which is below our target of 100% for this year, so we did better. This improvement is attributable to the absence of natural disasters and our efforts to improve the efficiency of our operations. Combined ratio also reflects positive loss development on prior years, although lower than last year.

## Asset management

Assets under management declined in the first half of 2011, with net outflows for AllianceBernstein reaching 24 billion euros. For AXA Investment Managers, net investment inflows were positive (€1 billion). The euro's appreciation versus the US dollar also had an impact on assets under management. The net outflow on equities for AllianceBernstein was significant and could continue for several quarters to come, though this development was partly offset by net positive inflows for its fixed income and alternative investment portfolios.

Asset management revenues rose by 3%. As for earnings, growth trends were mixed. AXA Investment Managers achieved an increase in underlying earnings of 25%, while AllianceBernstein reported a decline of 15%.

## Balance sheet

The balance sheet remains extremely solid at the end of the first six months of 2011. Shareholders' equity decreased slightly, reflecting the payment of dividends, forex movements, lower unrealized capital gains and the AXA APH transaction. Our Solvency I and II ratios improved by 4 and 6 points, respectively, to reach 186% and 184%. Our debt gearing ratio remains unchanged at 28% and could fall to 26% with the completion of the disposal of our Canadian operations at the end of September. Our General Account asset allocation did not change significantly during the period, and the General Account total went from 441 to 435 billion euros.

Our exposure to the sovereign debt of the Eurozone peripheral countries amounted to 7% of the General Account, and our net exposure was just above 11 billion euros. Unrealized capital gains on fixed income investments came to 2.6 billion euros at the June 30, 2011 reporting date. We provisioned 92 million euros for impairment on Greek debt maturing prior to 2020, announced our intention to participate as a private investor in the relief plan for Greece, and marked to market our Greek debt with maturities shorter than 2020. On August 1, 2011, our unrealized gains on fixed income investments totaled 3.5 billion euros.

In the second half of 2011, we intend to continue rolling out the Ambition AXA plan, which entails focusing on selected profitable segments, such personal protection, health insurance and unit-linked business in life & savings while also making further strides toward the goal of reducing operating expenses. We will also be focusing our energies on direct P&C and the emerging markets for P&C business. In asset management, we will continue to seek improvement in terms of investment performance.

# Conclusion

**Henri de CASTRIES**
**Chairman and CEO**

The numbers are sound. We plan to continue on the path that we have defined in connection with Ambition AXA.

# Question & Answer Session

**Thomas URBAIN, *AFP***

What is the gross impairment expense for Greece and what are the impacts on PPE (unallocated policyholder reserve in France)? What option have you chosen?

**Henri de CASTRIES**

We chose the mark to market option for maturities prior to 2020, in compliance with the spirit and the letter of the plan that was passed. We must now make the right choices, company by company, on the basis of the economic and commercial interests at stake. We have chosen the most conservative solution, and the one that would give us the greatest degree of latitude.

**Denis DUVERNE**

The pre-tax provision and investment in Greece amounts to 224 million euros, while policyholder reserves that can be assimilated to the French PPE for the Group amounted 15 billion euros.

**From the floor**

Your performance got a boost from certain one-off items but you are suffering at the same time from net outflows from your asset management business and a sharp decline in life and savings. What growth drivers are you counting on? In addition, what is your global exposure to Greek debt?

**Henri de CASTRIES**

Net income got a boost from positive factors, to be sure, but underlying earnings also progressed substantially. P&C revenues rose, as did P&C earnings in the emerging and mature markets alike. As for life and savings, new personal protection and health business grew by 14%, with margins in excess of 40%. On the savings side, we decided to be more selective with respect to general account products, which are not generating satisfactory margins, and which allowed us to free up capital for allocation to more profitable segments. While the environment is definitely uncertain, we have good reasons to think that the situation is getting better, especially in P&C and in health and personal protection lines, where revenues are up.

As for Greece, private investors have agreed to make an effort on debt maturing before 2020, while Greece has agreed in return to meet its debt obligations after 2020. This is why we have provisioned earlier maturities on a marked to market basis. This is not necessary for longer maturities.

**Denis DUVERNE**

Our net exposure to Greece is 300 million euros, while our gross exposure is 1.5 billion euros, of which 560 million euros on maturities shorter than 2020 and 960 million euros on maturities thereafter.

**Christian PLUMB, *Reuters***

What is your general strategy with respect to acquisition, in particular for ING assets in Europe and Asia?

**Henri de CASTRIES**

I won't address the issue of any acquisition in particular. The AXA Group has three core businesses: P&C insurance, Life & Savings, and Asset Management. We want to develop all three by increasing our margins in mature countries and our exposure in emerging countries that show promise. Outside of Asia, we have acquired Dexia's P&C insurance unit in Turkey in connection with the Dexia restructuring.

**Laura FORT, *La Tribune***

How do you intend to be more selective with respect to the General Account?

**Henri de CASTRIES**

Margins on the General Account are not as elevated as for other products and are even non-existent in some cases. That is why we want to be less aggressive, increasing our revenues on the most profitable products.

**Laurent THEVENIN, *Les Echos***

Do you think further price hikes are in the cards for property-casualty insurance?

**François PIERSON**

In the second half of the year, there will be automatic price increases. We raised our prices by 3% in the first quarter, and by 3.5% in the second quarter. We renewed 100% of our portfolio in both Germany and Switzerland, but increases were more modest in these cases. Our next renewals concern countries where price increases have been more substantial. This means that price increases for these regions will be automatic over the period. In addition, we still see room for further increases in countries like German and Belgium.

**Marc MICHAUX,** ***L'Expansion***

You are envisioning growth in direct P&C business. Where do you think this growth will come from? What are your development plans for this segment? What brand name will you use? Is acquisition part of this strategy?

**Henri de CASTRIES**

The direct P&C business is a growth driver for the Group, and posted revenue growth of 9% over the first six months of 2011. The younger generations in particular are looking to acquire straightforward insurance products via this new distribution channel. In France, we operate under the brand name Direct Assurance. Depending on the presence of AXA with respect to traditional networks in a given market, direct insurance is being developed either under the AXA brand (Japan, South Korea) or under other names (Italy, Spain). In any case, both revenues and earnings are on the rise for this segment. The combined ratios are also improving considerably, even though this is a young portfolio. But our traditional networks are also doing very well. In fact, we do not plan to develop direct insurance in every market, and intend to make the larger markets our priority, the ones that represent several dozens of millions of inhabitants. The strength of our business model lies in our ability to manage the peaceful coexistence of every type of distribution channel.

**Fabio BENEDETTI,** ***Agence Bloomberg***

Have you reduced your exposure to Italy and Spain? Do you think you will achieve balanced asset management operations in 2011, and are you maintaining your growth target of 4-5% for 2012?

**Henri de CASTRIES**

We are not worried about Italy and Spain. Italy is running a primary budget surplus, even though its debt is equal to 120% of its GDP. And Spain has taken relatively severe adjustment measures, which should bear fruit. So we see no reason to reduce our exposures.

As for the Eurozone, our relative exposure to various countries has a strong influence on revenue trends. The rise in interest rates in both Italy and Spain generates a marking to market of capital losses that are well below the additional capital gains that we are harvesting for France and Germany.

For asset management, the situation is mixed. AXA IM expects to turn in a good performance in 2011. Alliance Bernstein is still experiencing significant outflows, due in particular to the underlying shift in pension funds from a defined benefit to a defined contribution model. And Alliance Bernstein continues to feel the adverse impact of its bad performances in 2008, although it posted positive inflows on fixed income and alternative investments. However, this was not enough to fully offset outflows.

**Denis DUVERNE**

Our target in this area for 2011 is to progressively restore a state of balance. For 2015, the goal is 4-5% growth.

**From the floor**

In the area of asset allocation, are you maintaining your focus on corporate bonds?

**Denis DUVERNE**

We are reorienting ourselves in the direction of corporate bonds, which we see as offering good quality risk today. But the percentages remain limited. For the first half of this year, our positive cash flow was just 2 billion euros.

**From the floor**

Lots of economists have stated that the second bailout plan for Greece will be inadequate.

**Henri de CASTRIES**

A number of economists have been wrong in recent years. We think that the plan announced last week is a step in the right direction insofar as it extends European mechanisms of support, as well as in terms of the efforts being made by private investors and Greek citizens.

**From the floor**

What is the latest on the financing of long-term care needs?

**Henri de CASTRIES**

Public policy decisions in this area have been postponed until the fall. It will most likely be necessary to adopt certain technical measures in the short run and then undertake deeper reform over the long term. In fact, our own position remains strong and has become even more so in light of recent developments. Insurance mechanisms turn out to be essential because they allow us to cover this risk under acceptable financial conditions for the community as a whole. They also foster the development of national solidarity by reducing costs, improving the level of services offered and ensuring individuals that they will be able to access identifiable and individualized protection over the long term.

**From the floor**

So you are thinking in terms of mandatory insurance coverage.

**Henri de CASTRIES**

We are talking about universal insurance coverage that reaches the entire population, and not just those who can afford it.

**Matthieu PECHBERTY, *Journal du Dimanche***

What is your take on the current tensions in the Italian and Spanish markets?

**Henri de CASTRIES**

For more than thirty years, the developed countries have sustained their growth by raising their debt. It is a Faustian pact. We are getting closer to the moment where the Devil will come to reclaim his due! Going forward, we need to think about the level of government expenditure. If it is too high, it hampers the ability to compete. So it must be brought back down to a sustainable level. The efforts that have been made over the last two years by Spain and Italy are a step in the right direction, even though the results won't be felt immediately.

**From the floor**

Does implementation of your strategy mean ceasing to invest in the mature countries?

**Henri de CASTRIES**

Some segments, such as direct insurance, are developing in the mature countries. Most acquisitions are expected to involve the emerging countries, but we do not rule out making them in the mature countries, where we are nonetheless more selective.

**Document written by Ubiqus – Tel. 01.44.14.15.16 – http: >>** www.ubiqus.fr **–** infofrance@ubiqus.com