Solvency 2

FPK Conference – Dec 6, 2006

Denis Duverne

CFO, Member of the Management Board

FINANCIAL PROTECTION

Be Life Confident

Cautionary statements concerning forward-looking statements

The information presented here is not an offer for sale within the United States of any security of AXA or any of its affiliates. Securities of AXA or any of its affiliates may not be offered or sold in the United States absent registration under U.S. securities laws or unless exempt from registration under such laws.

This presentation contains “forward-looking statements” which involve risks and uncertainties. These statements include, but are not limited to, statements that are predictions of or indicate future strategy, forecasts, events, trends, plans or objectives (including statements herein with respect to (a) our Ambition 2012 project and the objectives, financial and other, associated with that project, and (b) our proposed acquisition of Winterthur announced on June 14, 2006 and the related synergies associated with that acquisition). Many of the forward-looking statements are derived from operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on the date of this presentation. Forward-looking statements used herein include such statements as defined under US federal securities laws.

Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by numerous factors that could cause actual results and our strategy, forecasts, plans and objectives to differ materially from those expressed or implied in the forward looking statements (or from past results). These risks and uncertainties include, without limitation, the risk that the Winterthur acquisition will not be executed and closed in a timely manner; that our and the Winterthur businesses will not be integrated successfully; the costs related to the transaction; inability to obtain, or meet conditions imposed for, required governmental and regulatory approvals and consents; the risk of unforeseen events occurring resulting in certain of our strategies, forecasts, plans and/or objectives becoming unrealistic or unattainable; and the risk of future catastrophic events (including possible future pandemic and/or weather-related catastrophic events and/or terrorist related incidents), economic and market developments, legislative developments, regulatory actions or investigations, as well as litigations and /or other proceedings. We caution you that the foregoing list of factors does not contain all of the material factors that are important in considering the forward-looking statements; please refer to our Annual Report on Form 20-F and Document de Référence for the year ended December 31, 2005, for a description of certain important factors, risks and uncertainties that may affect our business.

We undertake no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

Agenda

- **Insurance industry: a changing risk return approach**
- AXA's experience
- The Solvency II opportunity
- Which prospects for the insurance industry?

FINANCIAL PROTECTION

Non economic approaches by both insurers and regulators have been a key weakness of the industry

- Historically, failures of insurance companies have often been caused by <u>concentration of risks not controlled or not identified</u>:
  - Real estate and high yield bonds for US Life Insurance in the early 90s
  - Longevity risk for some UK life insurers
  - Cat risk for Bermudian reinsurers

- On the regulatory side, inappropriate constraints have led to <u>inefficient capital allocation and to non-optimal pricing</u>

An environment detrimental to both insurers' consumers and shareholders

AXA FINANCIAL PROTECTION

Insurers have gone through their cultural revolution with an enhanced modeling and risk management discipline

- Risk management focus, stochastic calculations and IT capabilities have changed the way global insurers look at their business and at their balance sheet

Internal models

- Asset Liability Management
- Technical management of insurance portfolios
- Rating agencies
- Investor relations

Improving earnings quality on a risk adjusted basis, leading to higher and less volatile ROEs… although still below the banking industry's

AXA FINANCIAL PROTECTION

Agenda

- Insurance industry: a changing risk return approach
- **AXA's experience**
- The Solvency II opportunity
- Which prospects for the insurance industry?

Over the last 5 years, AXA has developed a comprehensive economic capital framework…

- AXA first disclosed its economic capital in September 2002. The risk management organization has now over 300 professionals across the Group, embedding economic approaches in every key process

Internal model

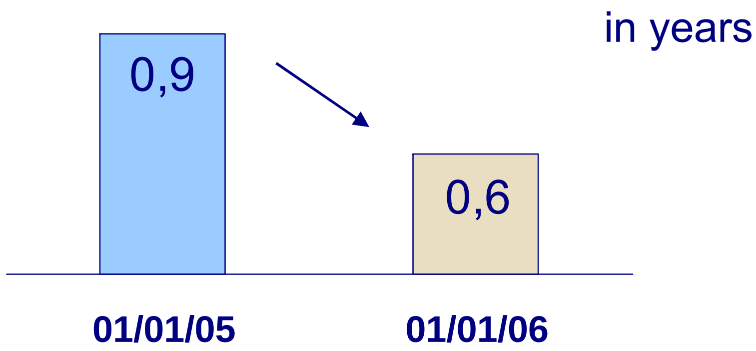
- Asset Liability Management
- Technical management of insurance portfolios
- Reinsurance & risk transfer optimization
- Management incentives & Investor relations
- Financial strength qualitative assessment by rating agencies

Risk Management and economic approaches are not only a control function, but also a business enabler

…fostering advanced asset and liability management techniques,

- Although not recognized in Solvency II, AXA is constantly managing its exposure to interest rates:

Life & Savings
Non unit-linked duration gap



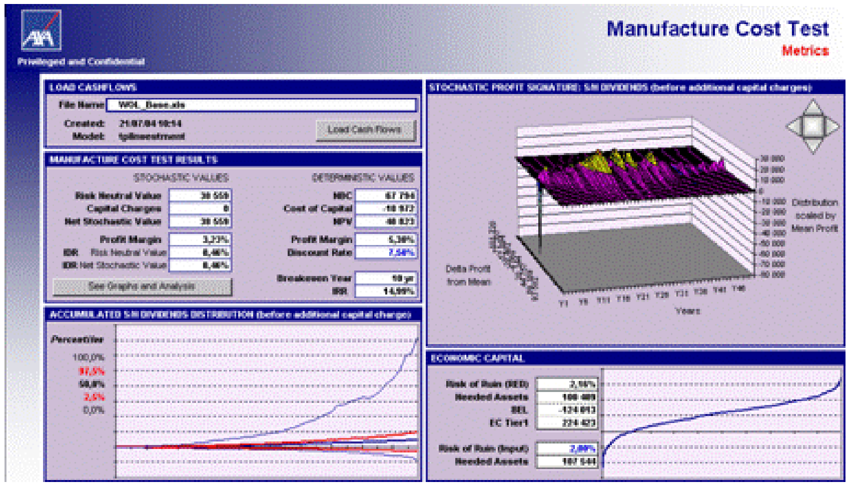
Unaudited internal measure

  - Lengthening duration of fixed income portfolio
  - Use of caps / floors /swaptions programs to manage convexity gap

- Investment in new asset classes favoring diversification benefits:
  - Alternative asset classes (private equity and hedge funds)
  - Structured credit

…risk-adjusted product pricing,

- AXA's Product Approval Process assesses the risk adjusted profitability of every product launched
- Costs of risks are systematically analysed to track embedded options (e.g. VA with guaranteed living benefits, or highly volatile P&C commercial business)
- AXA has developed centrally and cascaded locally a methodology with supporting tools
    - Consistent across the Group
    - Applied locally
    - Involving top management, product development, distribution, underwriting and risk management teams



FINANCIAL PROTECTION

…innovative risk transfer techniques,

- Increasingly, risks underwritten by insurers will be transferred to financial markets :
  - High frequency, low severity risks: capital management
  - Low frequency, high severity risks: reduction of tail risks

- AXA aims to be at the forefront of this fundamental evolution of the business model of the insurance industry. This should lead to a systematic use of financial instruments to dynamically manage the balance sheet:

Securitization of high frequency risks
- Motor risk: SPARC, Nov. 2005(€ 1.1bn portfolio)

Securitization of high severity risks:
- Cat risk: AURA RE, Jan. 2005 (€68m of European windstorm risks)
- Mortality risk: OSIRIS, Nov. 2006 (€ 350m of extreme mortality risks)

Dynamic Hedging of Guaranteed Benefits on variable annuities
- Managed through AXA Equitable and AXA Life Europe hedging platforms

…and aligning financial communication and management incentives with risk adjusted performance

- Starting in 2005, AXA has adopted EEV with a Bottom-up Market Consistent approach, which:
  - Provides the most transparent information on value to the shareholder
  - Makes results independent from the choice of market assumptions
  - Provides explicit allowance for the time value of Options & Guarantees based on stochastic scenarios, consistent with the approach used in financial markets
  - In line with product pricing and product approval process at the local level

- Management incentive compensation is based on targets reflecting the risk-adjusted performance of AXA
  - AXA Management Board has above average “at-risk” component of total remuneration (93% in 2005)
  - Senior executives of life companies of the Group are incentivized, among other criteria, to maximize the market consistent New Business Value

AXA FINANCIAL PROTECTION

The last missing piece is the ‘regulatory’ framework

Internal model

- Asset Liability Management
- Technical management of insurance portfolios
- Reinsurance & risk transfer optimization
- Management incentives & Financial communication
- Financial strength qualitative assessment by rating agencies
- Solvency II

Agenda

- Insurance industry: a changing risk return approach
- AXA's experience
- **The Solvency II opportunity**
- Which prospects for the insurance industry?

FINANCIAL PROTECTION

Solvency II is rightly moving towards an economic assessment of solvency…

- Use of internal model for solvency assessment
- Recognition of diversification already included in QIS II
  - between lines of business
  - between ALM and insurance risks
- Recognition of risk transfer and mitigation techniques
  - Securitization, reinsurance pooling
  - Hedging programs

An advantage for diversified Groups with sophisticated and dynamic risk management

- Allow to develop more sophisticated insurance products (GMxBs,…)
- Foster innovation (securitization, innovative forms of capital,…)
- Incentive to elaborate new risk management techniques

AXA FINANCIAL PROTECTION

…as well as creating a long awaited harmonized environment

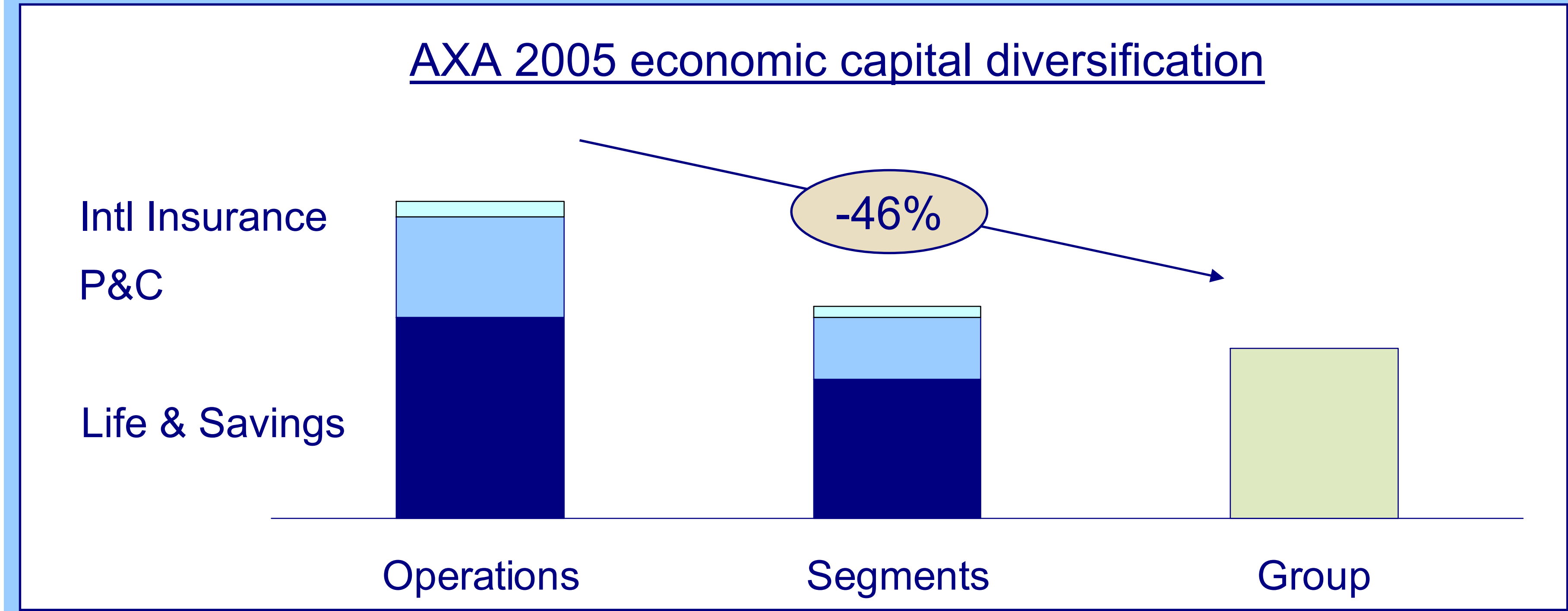
- Streamlining of supervision and harmonization of rules will shape a more homogenous European insurance market

From national…	Separated views and responsibilities on groups Redundancies Different rules and implementation
…to European supervision	A common view on groups shared in group supervisory college A main point of contact for groups Convergence of rules and implementation

Setting a standard for further international convergence should be a key advantage for European insurance groups competing at international level

Some challenges remain: credit for diversification…

- Risk diversification is at the heart of the insurance business and not taking it into account results in non-optimal decision



Solvency II framework should recognize geographical diversification

Correlations should not be set too conservatively

…Multiyear management of insurance portfolios,

- Multiyear management is a characteristic of the insurance business
  - Provider of long term protections: e.g. Pension products, liability protections, high renewal of P&C contracts in some countries
  - Matched with a long term view on investment: e.g. equities, private equity

Solvency II framework has to find the right balance between a one year security level and a multiyear assessment of ALM

Standardization of investment strategies would be detrimental to customers and shareholders

AXA FINANCIAL PROTECTION

…Truly harmonizing the European market

- A simple standard model, with limited options and right calibration
  - Credibility rather than conservatism is key for a level playing field
  - Lessons should be drawn from QIS II in the design of QIS III (e.g. calibration of premium and reserves factors)
- A clear standard for technical provisions
  - Best estimate + market value margin based on cost of capital
- Limit the possibility for local supervisor to 'gold plate' the European system:
  - No supplementary asset rules at local level
  - No discretionary capital add-on based on a local qualitative assessment

An opportunity to streamline the management of a pan-European activity

Agenda

- Insurance industry: a changing risk return approach
- AXA's experience
- The Solvency II opportunity
- **Which prospects for the insurance industry?**

Protection and retirement needs across markets will drive the long term growth of the insurance industry…

GDP Growth	2005-2012: Economic Growth	
	OCDE	2% per year
	Emerging countries	4% to 7% per year

X

Sector Growth Gap	2005-2012 GWP Growth	
	Life & Savings	5% per year
	P&C	3% per year
	Asset Mgmt fees	>5% per year

…while Solvency II should help optimize risk return approach

- Over the recent years, large insurers have been going through a(n) (r)evolution comparable to the one the banking industry went through 20 years ago.

- Solvency II should create a friendly environment for this (r)evolution:
  - a better management of the assets and liabilities through the increased focus on risk management and the use of dynamic hedging
  - a better balance sheet efficiency through hybrid instruments
  - lower capital requirement with increasing transfer of risks to capital market through securitization

- The larger players are welcoming the advent of more transparent, predictable and economically rational solvency regulations.
  - Thanks to a privileged access to capital markets, a large diversification benefit, and a strong technical expertise, they should be well positioned for this new development

AXA FINANCIAL PROTECTION

We are confident for the future

- Long term growth
- Higher / less volatile ROEs
- Improved transparency

➔ The attractiveness of the insurance industry as an asset class should increase

➔ Solvency II should confirm and reinforce the appropriateness of AXA's business and capital management strategies

AXA FINANCIAL PROTECTION

FINANCIAL PROTECTION

Be Life Confident