



# Lehman Brothers Seminar

Gerald HARLIN, Deputy CFO

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*Be Life Confident*

# Cautionary statements concerning forward-looking statements

Certain statements contained herein are forward-looking statements including, but not limited to, statements that are predications of or indicate future events, trends, plans or objectives.

Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties.

Please refer to AXA's Annual Report on Form 20-F and AXA's Document de Référence for the year ended December 31, 2006, for a description of certain important factors, risks and uncertainties that may affect AXA's business. In particular, please refer to the section "Special Note Regarding Forward-Looking Statements" in AXA's Annual Report on Form 20-F.

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





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- 1 The transformation of the insurance industry**
- 2 Solvency II could be a unique opportunity**
- 3 AXA is well positioned to benefit from the new environment**
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# The on-going revolution of the insurance business model

## *The Old World*

- Risks pooled and borne by the insurers
- Requiring a relatively large amount of capital, not always efficiently used
- No or limited risk management

## *The New World*

- Risks pooled and structured by the insurers
- Requiring moderate amount of capital with appropriate capital management
- Risk management becomes a business enabler

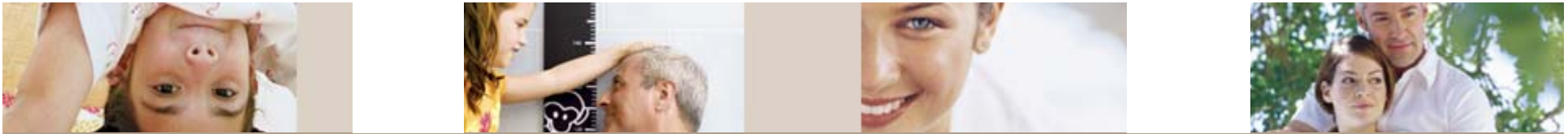
# Solvency II should be much awaited by market participants

*Industry changes  
are increasingly  
acknowledged by  
rating agencies...*

*...and by some  
local regulators...*

*...while the  
Solvency I  
framework still  
maintains  
European insurers  
in the “Old World”*

- S&P's Enterprise Risk Management
- Moody's Risk Management Analysis
- Fitch's stochastic model (PRISM)
  
- UK's ICA/ICG
- Swiss Solvency Test
  
- No differences between risks
- ALM not taken into account
- Conservative approach to hybrid capital, putting insurers at a disadvantage to banks
- No recognition of diversification and advanced risk transfer techniques
- No harmonisation across Europe



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# Solvency II principles are good!

*Regulatory  
benefits from  
efficient risk  
management...*

*...and  
harmonization of  
the European  
landscape...*

*...should be a  
competitive  
advantage for the  
European industry*

- Possible use of internal models, on a fully economic basis
- Diversification benefits
- A simple standard model, with limited options
- A clear standard for calibrating technical provisions
- A lead supervisor
- Streamlining of supervision and harmonization of rules will shape a single European insurance market
- Solvency II is on the front of international developments and will set a standard for further international convergence

# The draft directive points in the right direction on key issues...

## *Economic approach to capital requirements*

- Recognition of risk transfer and mitigation techniques (reinsurance, hedging, securitization...)

## *Competitive approach to available capital*

- Definitions for tier 1 and tier 2 capital may be in line with banking sector
- Quantitative rules give flexibility (minimum 1/3 of Tier 1 in available capital)

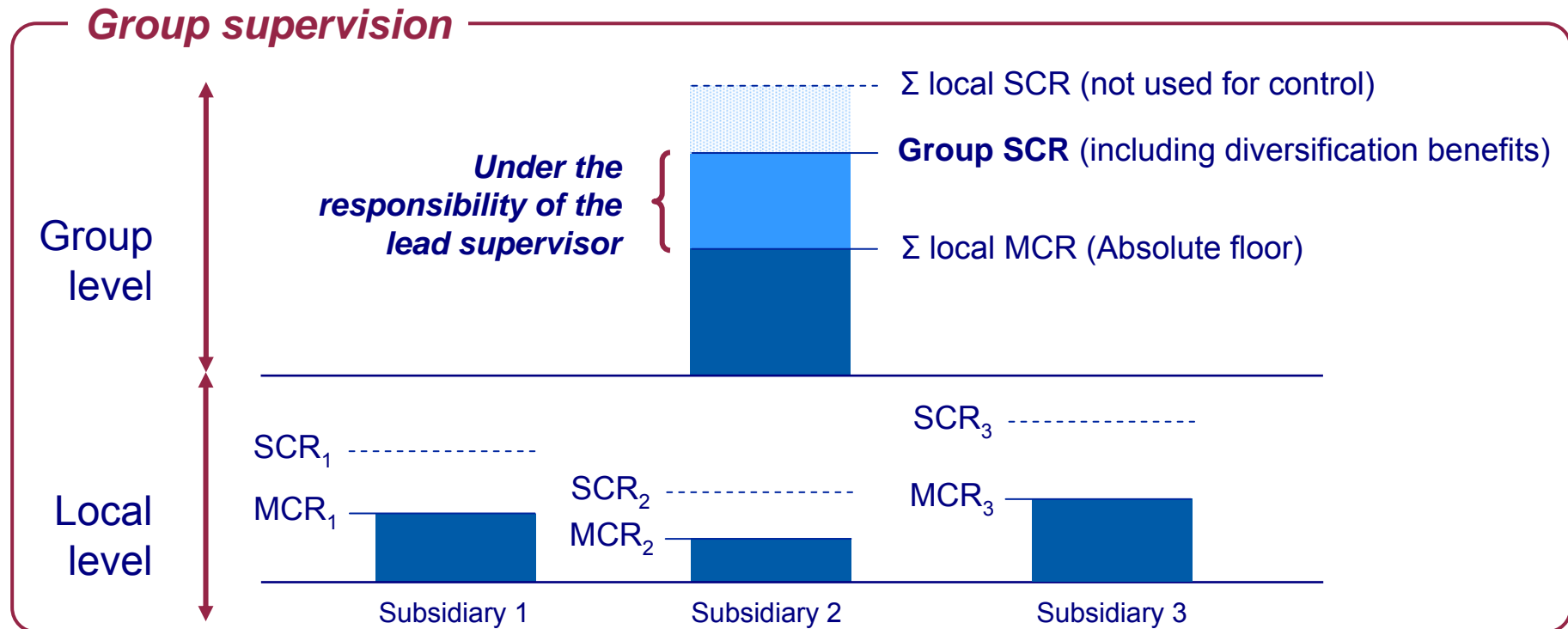
## *A true Group treatment*

- Only MCR<sup>(1)</sup> controlled at local level, and without capital add-on
- CEIOPS as a consultative body in case of disagreement between supervisors or between the company and supervisors



(1) MCR (Minimum Capital Requirements): absolute minimum solvency, simple assessment  
SCR (Solvency Capital Requirements): target solvency, calculated with standard model, or internal model, if validated by supervisors

## ...notably on Group treatment...



- Explicit support from the Group limits local supervision to entity's MCR
- In case of breach of MCR<sub>i</sub>, Group support is capped at SCR<sub>i</sub> - MCR<sub>i</sub>

# ...but major shortfalls have to be avoided in order for Solvency II to reach its initial goals...

## *Remaining Group treatment issues*

- Quantum of diversification benefit
- Treatment of non-EU subsidiaries
- Intra-group fungibility of capital should be fully recognized

## *Remaining calibration and modeling issues*

- P&C underwriting risk (50% of premiums) is 3x higher than under Solvency I
- The model as a whole should be pre-tax, to reflect reality in distressed situations

## *Need for consistency*

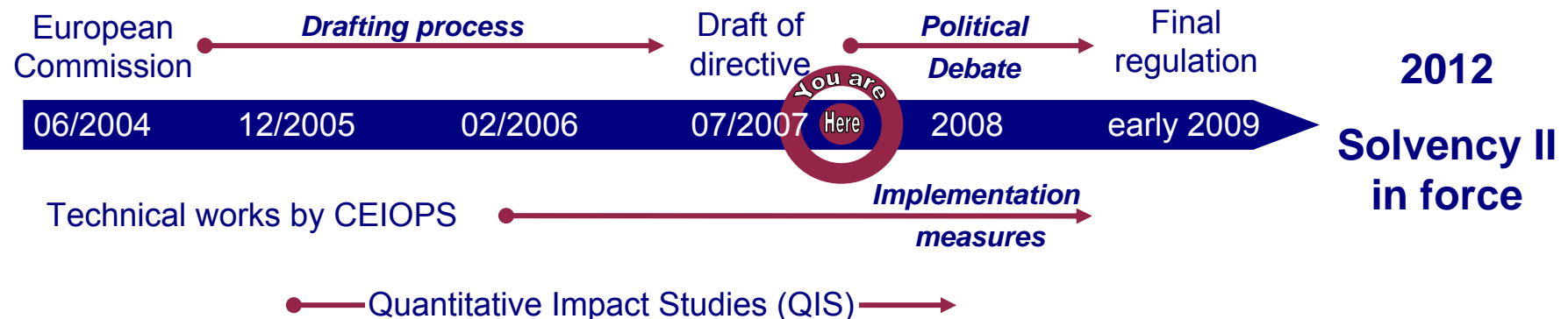
- Some balance sheet items need to get the same regulatory treatment if comparable in nature (e.g. split available capital / technical provisions in Life)
- Solvency II has to be aligned with IFRS phase 2 framework

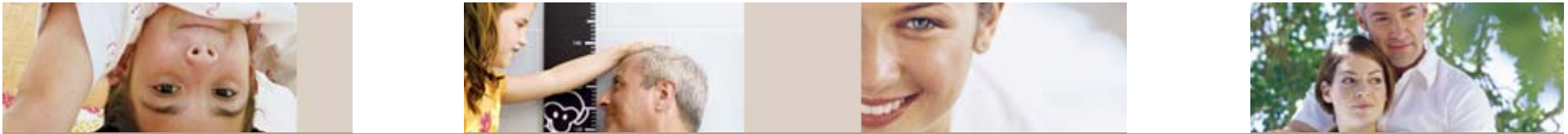
# ...including all the risks associated with any political debate

## *Political risk*

- Entry into the political phase of the discussion shouldn't jeopardize recent progress and *un-knit* the Solvency II ambition

### *The Solvency II timetable*





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# Risk management and stochastic modeling are key drivers of this revolution at AXA

*AXA's Enterprise Risk Management assessed 'Excellent' by S&P  
- 2 insurers only in Europe -*

*Development of  
risk adjusted  
indicators...*

- AXA's risk management organisation and stochastic modeling framework are instrumental to key business processes:
  - ▶ Economic capital
  - ▶ ALM
  - ▶ Risk transfer optimization
  - ▶ Product pricing
  - ▶ Value (EEV)

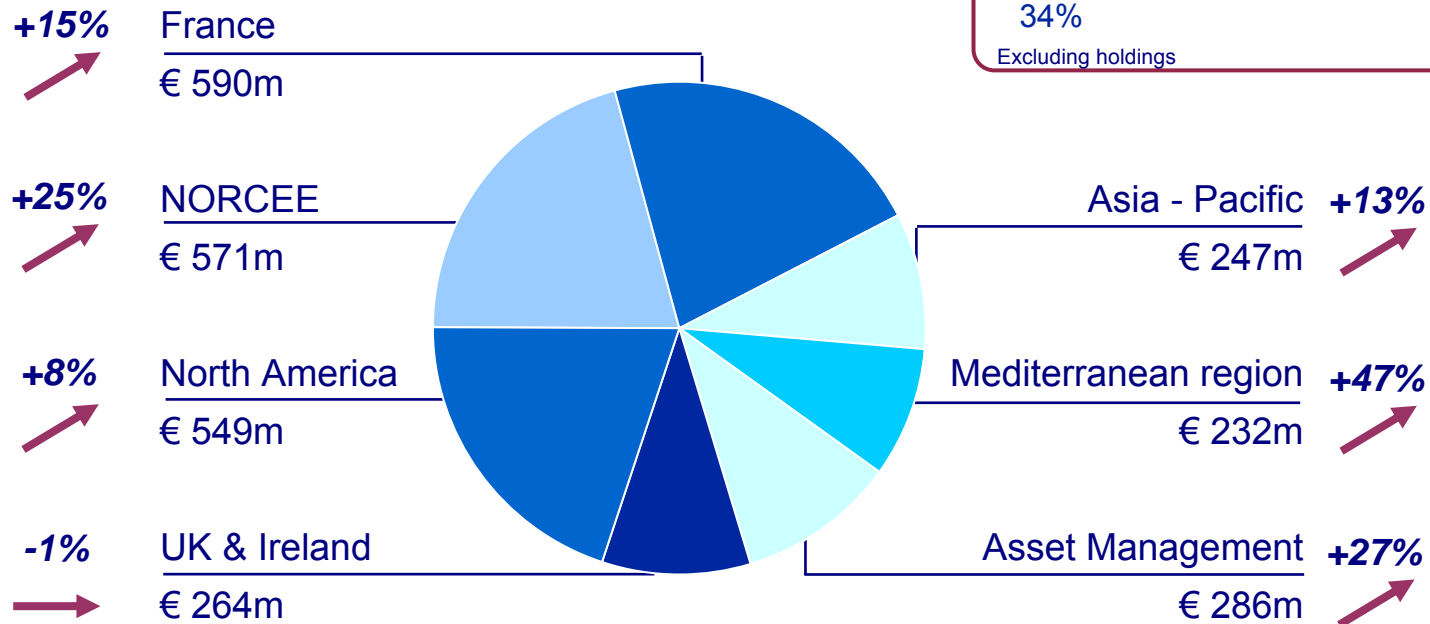
*...increasingly  
embedded across  
the company*

- Employees and distributors' incentives
- Management compensation
- Financial communication



# AXA offers a very strong diversification of growth and earnings engines

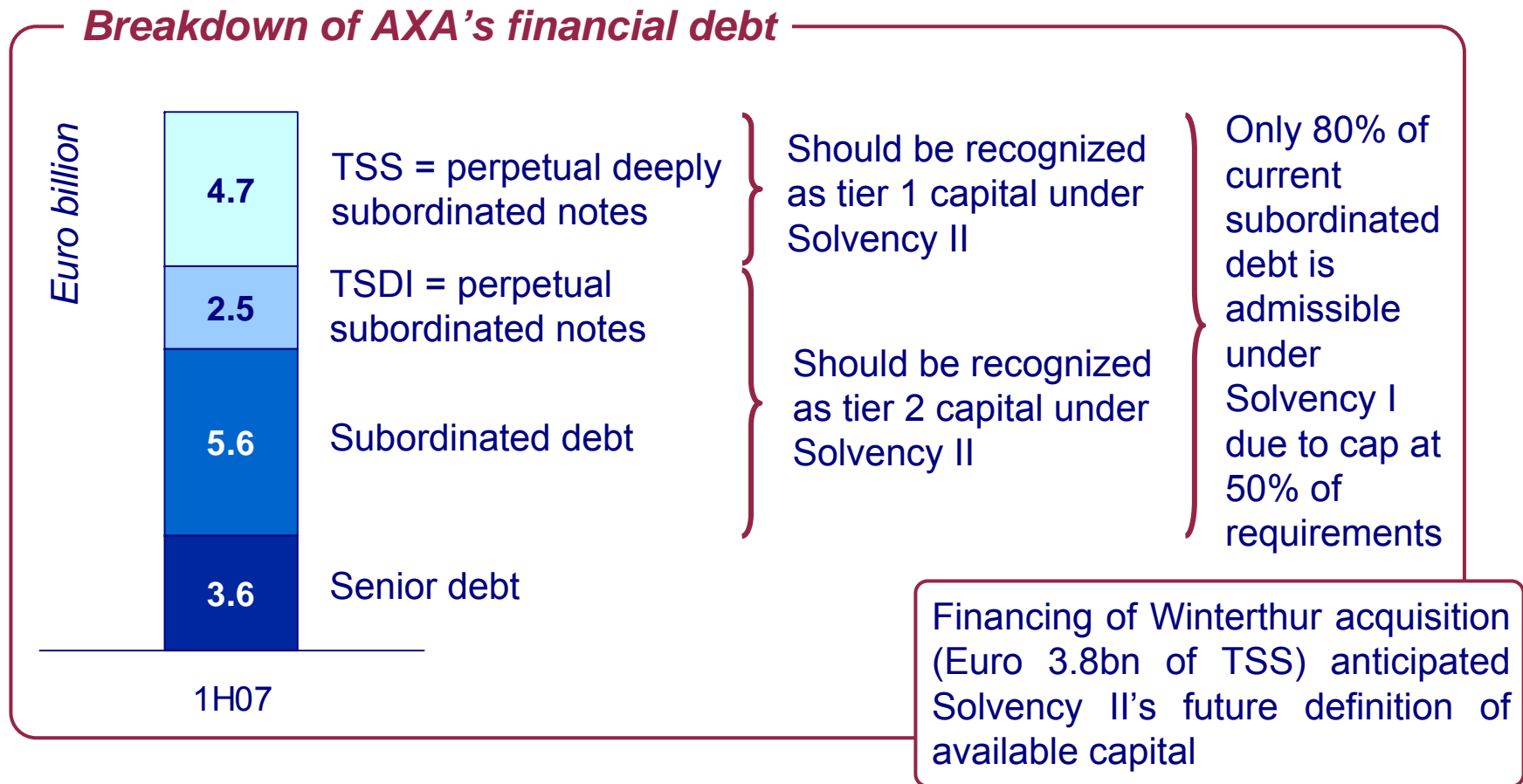
## Breakdown of 1H07 underlying earnings<sup>(1)</sup>



**Diversification benefit of 46% according to AXA's long term economic capital**



# AXA's financial structure to benefit from new definition of available capital

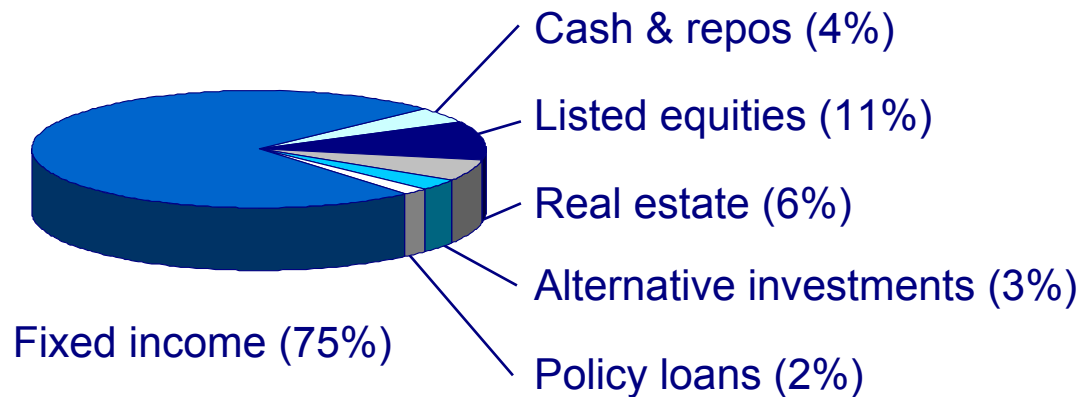


**Capital structure should be the main driver for efficient hard capital management**

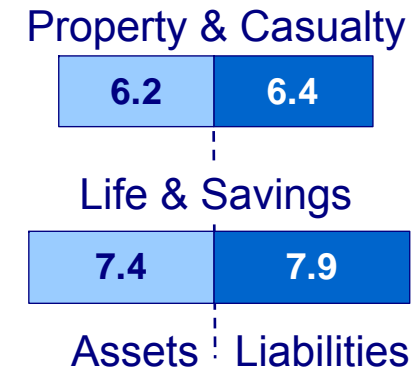


# AXA's asset allocation reflects the multi-year nature of the insurance business

## Asset allocation



## Duration gap

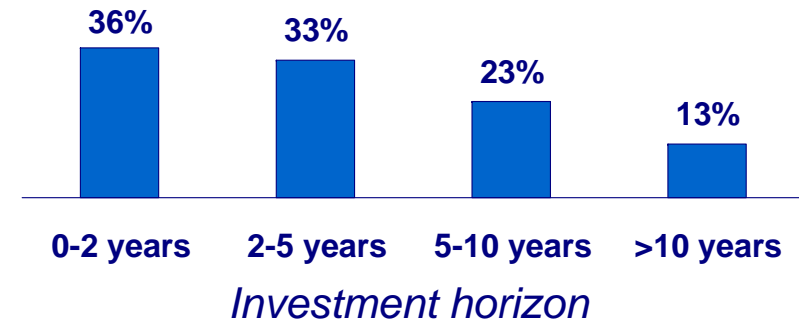


## QIS3 charges for interest rate risk

Requirements on bonds are obtained by stressing the yield curve (non parallel shift: higher stress for short term maturities), e.g.

- ▶ Fully matched: no charge
- ▶ 7 year duration with 1year mismatch: ~2% of asset value

## QIS3 charges for equity risk (option)



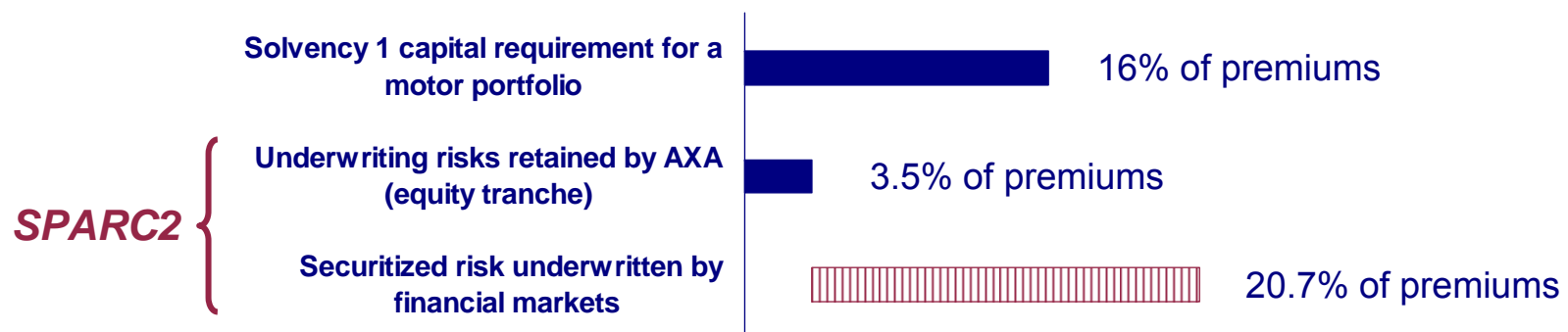
**Solvency II should support AXA's ALM strategy**

# AXA is pioneering the transfer of insurance risks to financial markets

## *AXA's Insurance-Linked securitizations*

- SPARC (2005 / € 200m / AAA to BBB tranches):
  - ▶ 1st securitization of a motor portfolio
- OSIRIS (2006 / € 300m / A+ to BB+ tranches):
  - ▶ 1st extreme-mortality risk coverage program
- SPARC2 (2007 / € 450m / AAA to BB- tranches):
  - ▶ 1st securitization of multiple motor portfolios on a pan-European basis

## *Potential of securitization as a capital management tool: SPARC2*





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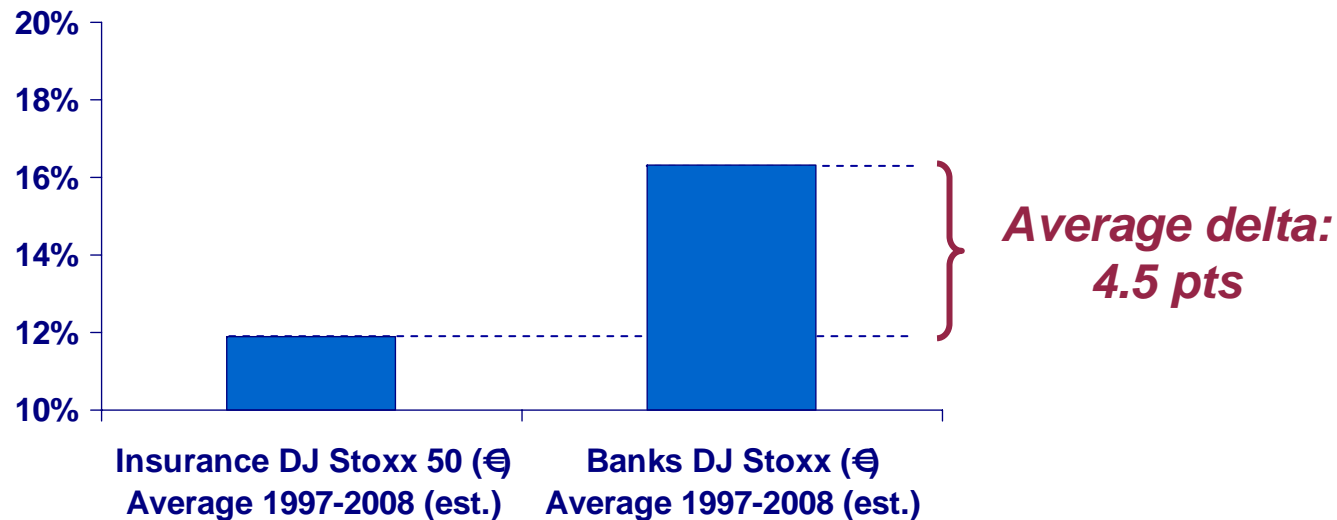
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# A successful implementation of Solvency II should be beneficiary for insurance investors

- If successfully implemented, Solvency II should...
  - ▶ Foster transparency, discipline and risk management
  - ▶ Give flexibility to capital management
- ...Contributing to higher/less volatile ROEs and leading to more attractive insurance stock valuations

## Insurers and Banks' RoE





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