

# **AXA: On the road for growth**

**Goldman Sachs European Financials Conference**

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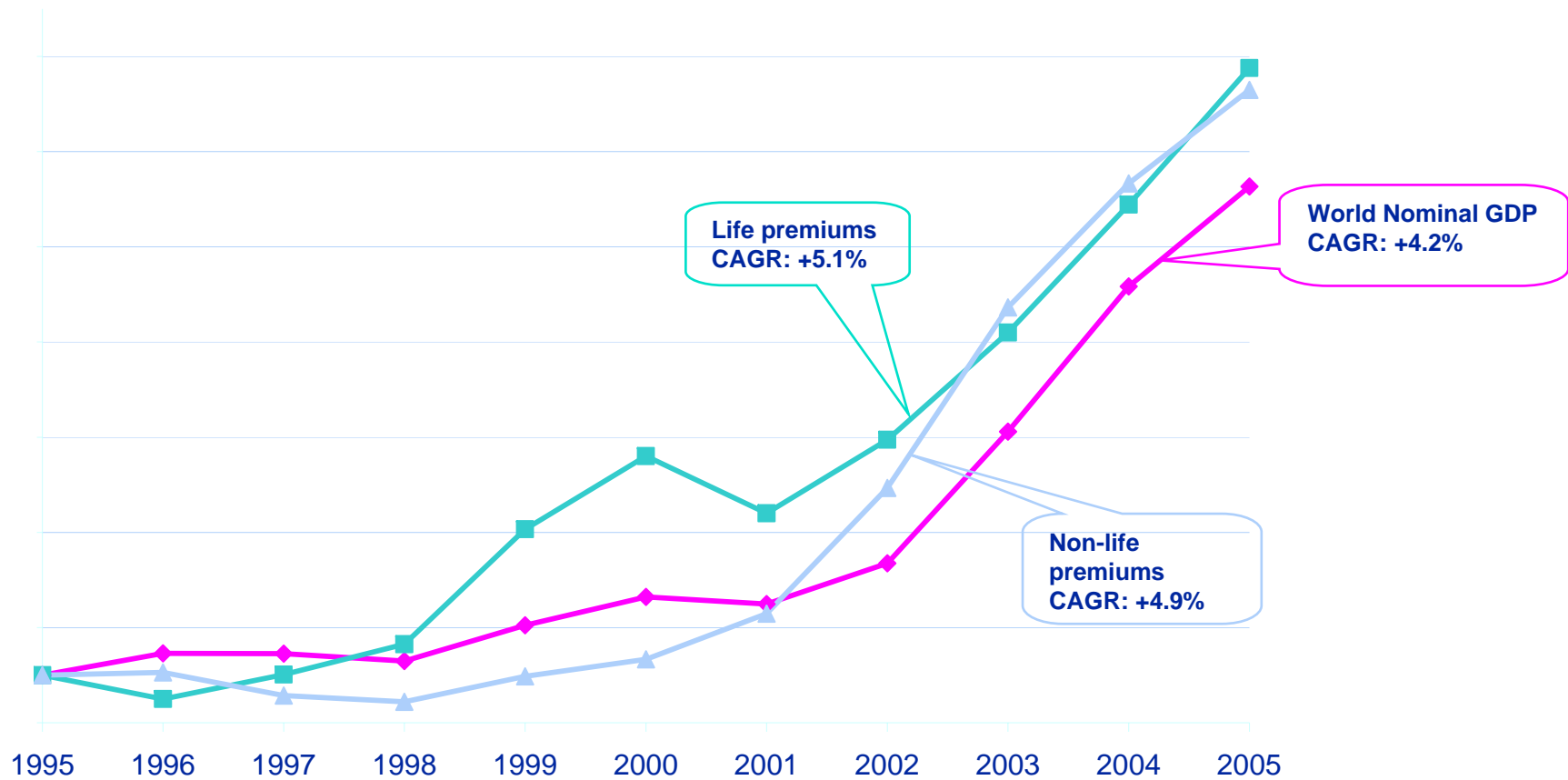
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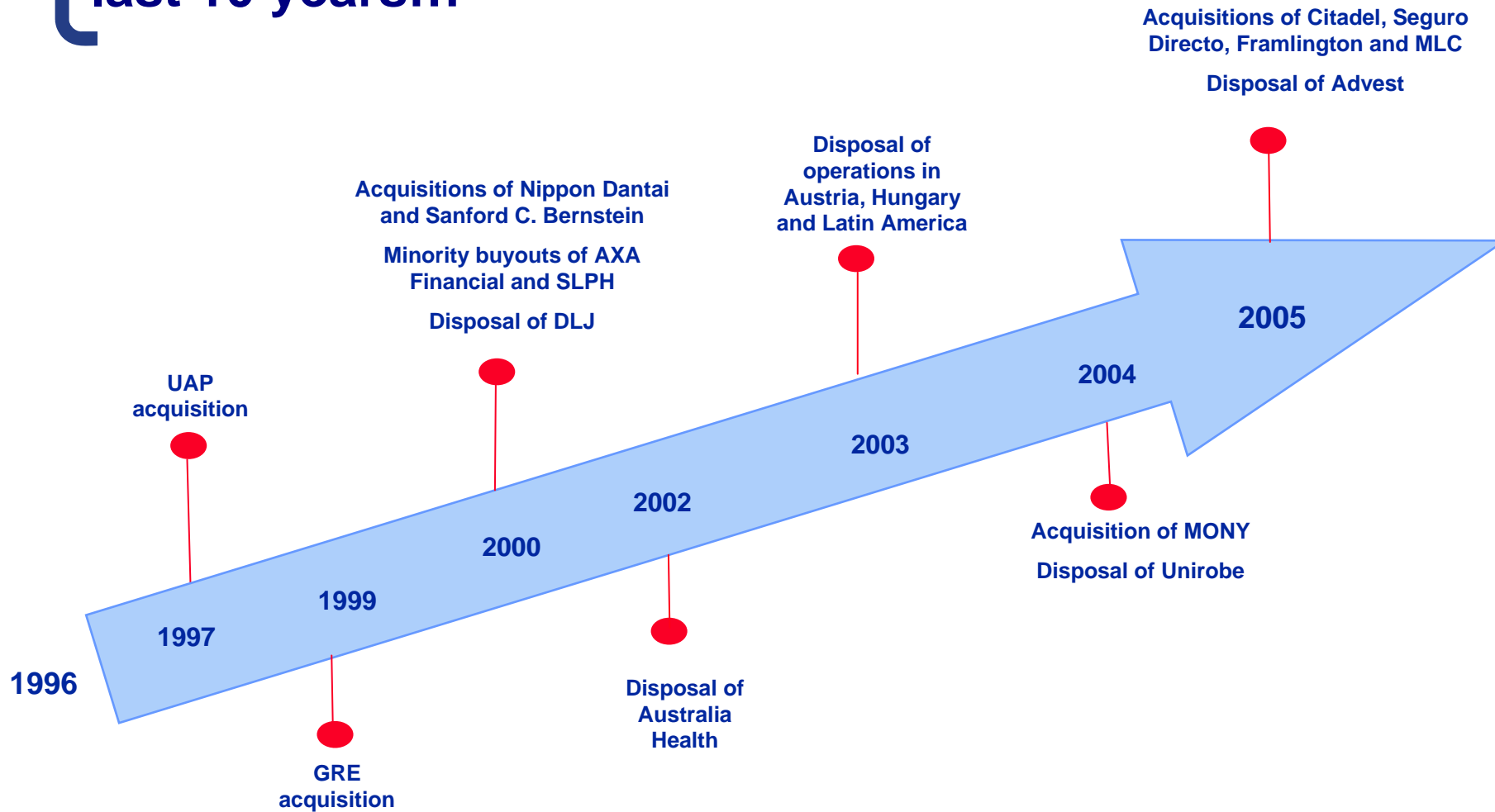
# Insurance industry has been growing faster than the World economy for the last 10 years



Source : Datastream / Swiss Re Sigma surveys



# AXA has been delivering strong top line growth for the last 10 years...



**SALES x 3**



**[ ...but the market does not give credit to the sector and AXA for this growth potential**

	<b>P/E 2005A</b>
<b>AXA</b>	<b>10.6x</b>
<b>MSCI Europe Insurance</b>	<b>12.1x</b>
<b>MSCI Europe</b>	<b>14.8x</b>

Source : Consensus IBES / Datastream as of May 22, 2006



## What would justify a discount?

Too much  
risk ?

Low return on  
capital ?

Lack of  
transparency ?

Less  
growth ?

**This view does not take into account the dramatic restructuring performed by the sector in general and AXA in particular**

Too much risk ?

## 2001 perfect storm on the insurance sector is still fresh in investors' mind

### An insurance turmoil

- Pricing at historical low
- Claims at historical high

### A macroeconomic turmoil

- Brutal end of the bull market
- End of sustained disinflation

**As a result, financial markets give limited credit to the cultural revolution that has taken place since then**

## In 2001, AXA acted earlier than the rest of the industry

- We had a better knowledge of our balance sheet thanks to risk modeling
- We launched early a major expense reduction program
- We changed management and restructured poorly performing entities
- We showed that we also knew how to sell non core units while remaining focused on our financial protection model

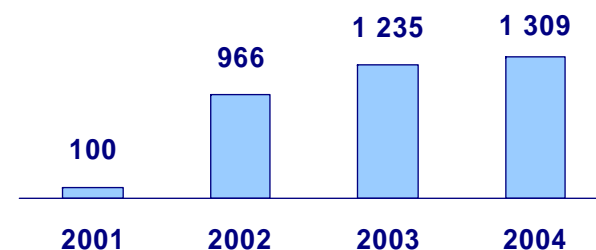
### ▶ ...which made us take the right strategic decisions

- No capital increase at the trough of the markets
- No dumping of the equity portfolio
- Ability to be back on the growth path early and seize opportunities



**First public disclosure of Group economic capital in September 2002**

**Cumulative expense savings**  
(Euro million)



**2000-04 disposals: DLJ, Australia health, Austria & Hungary, Latin America, Unirobe**

**Restructuring of the international insurance segment**

**MONY acquisition**

# AXA today: a well controlled risk exposure (1/2)

## Financial market risks:

- ALM strategy → conservative duration management:

	Assets*	Liabilities*
Life non UL	6.9 years	7.9 years
P&C	5.5 years	6.1 years
Group	6.7 years	7.6 years

- Hedged USD Exposure both in terms of 2006 underlying earnings (@1.25) and net asset value (USD denominated debt)
- Strong solvency ratio → 216% at the end of 2005
- Strong liquidity: €6bn available credit lines
- Gearing ratio: 38%
- Measured and monitored equity exposure:
  - 10% lower value of equity markets → - €1.77bn on L&S EEV (-6%), - €90m on L&S NBV (-8%)
- Interest rate sensitivity:
  - Estimated upward parallel shift of 50bp in risk free rates → +€0.6bn on L&S EEV (+2%), €0.25bn favorable effect on debt



\* Unaudited internal measures (as of H2 2005)

## AXA today: a well controlled risk exposure (2/2)

### ■ Insurance risks

- Disposal of the more volatile AXA RE business
- Optimization of reinsurance ceded through AXA Cessions
- Natural hedge mortality/longevity
- Use of cat bonds against extreme risks (e.g. European storms)
- Product Approval Process → systematic assessment of risk adjusted profitability for every product launch
- Strong<sup>1</sup> 10 year track record in terms of reserving policy → no mali over the last 10 years

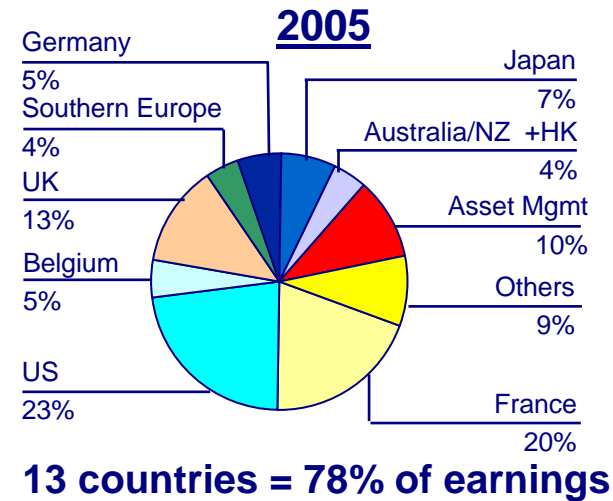
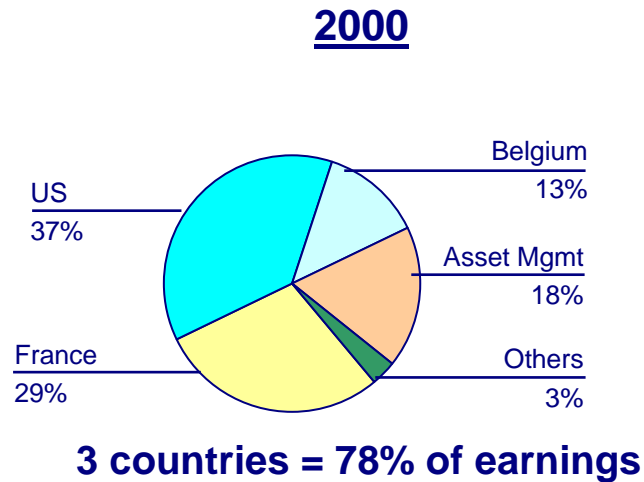
### ■ Credit risks

- Assets → Very strict concentration limit by issuers & groups of issuers which we closely monitor group wide, on a monthly basis, allowing for limited counterparty risk



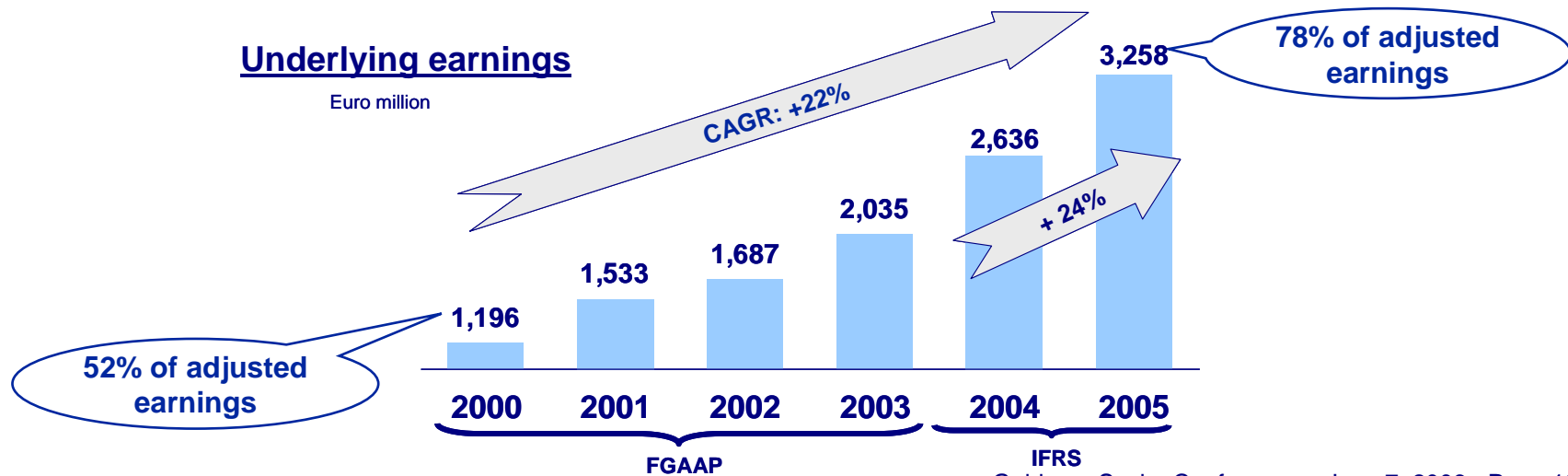
<sup>1</sup>/ Net claims reserves/ net claims paid

# And AXA's earnings are uniquely diversified and increasingly based on underlying performance



## Underlying earnings

Euro million



**Lack of  
transparency ?**

# Recent evolutions in standards and principles, especially the EEV adoption, are improving the level of transparency of insurance companies

- IFRS, though perfectible, foster accounting harmonization across the world, making comparisons between companies easier
- The CFO forum has adopted the European Embedded Value principles with the aim of:
  - Further increasing the level of transparency in terms of the elements of value
  - Quantifying the impact of financial risk
- Starting 2005, AXA has adopted EEV on 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



**AXA's disclosures are intrinsically aligned with key management processes**

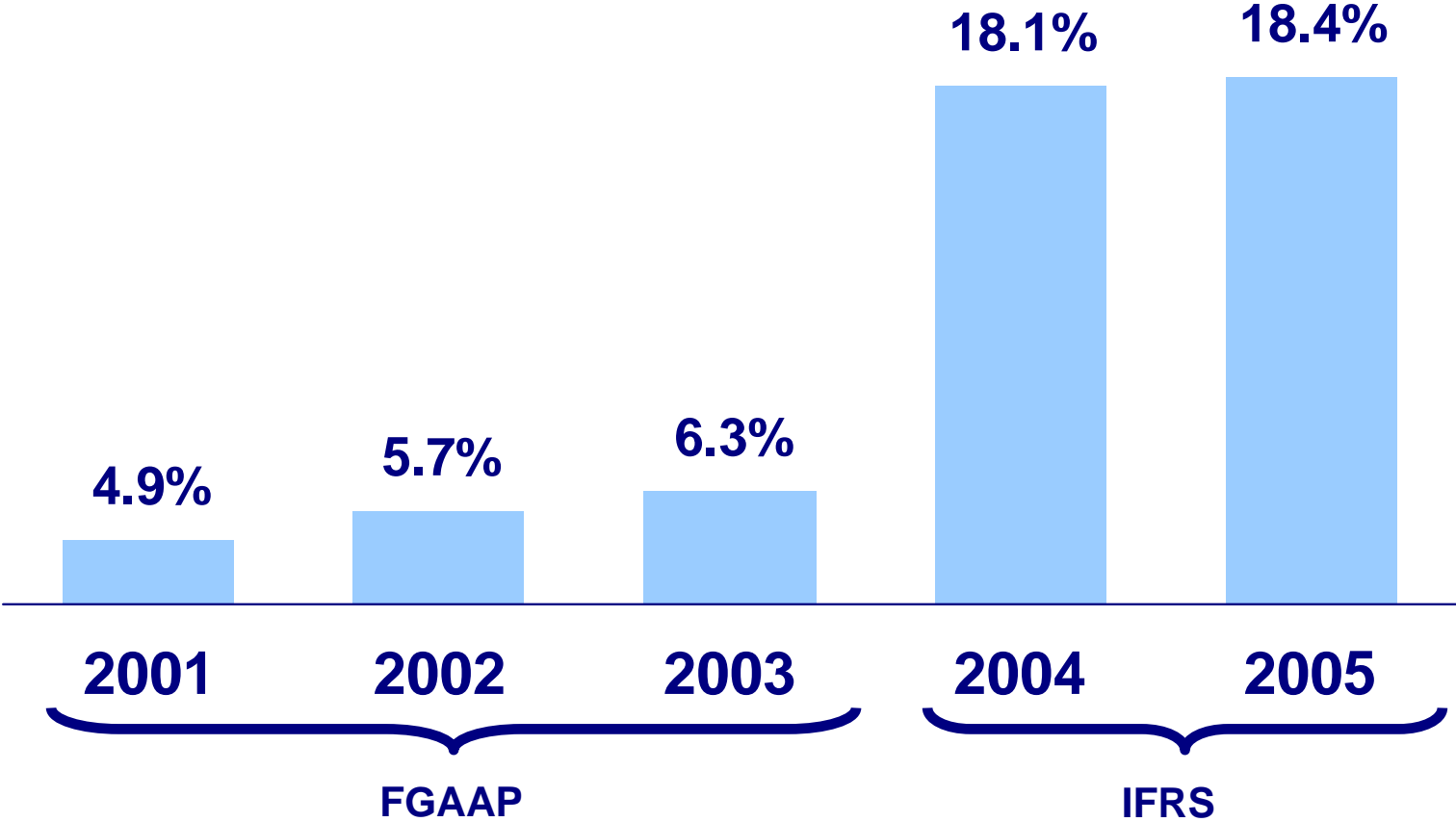
**EEV disclosure is only the tip of the iceberg as this common framework is used in most of AXA's internal processes**



**Low return on  
capital ?**

AXA has continuously improved its return on equity over the recent years...

Adjusted ROE



# [ ... and keeps on working on required capital optimization

- On the path to Solvency II, regulators, rating agencies and financial markets should increasingly give us credit for diversification, based on the results of our economic capital analysis
- Similarly to what the banking sector has performed, AXA keeps working on required capital optimization:

1/ We have closed in 2005 the first securitization of a motor insurance portfolio

- Securitization of the risk of deviation of the cost of claims of AXA France IARD's motor insurance portfolio (approx. 3 million contracts, around 800k claims p.a, high frequency, low severity and low volatility)

2/ We intend to securitize other insurance portfolios in the coming years

3/ S&P has already announced that it will recognize a capital relief in its capital adequacy model for AXA's innovative securitization of its French motor insurance business



Less  
growth ?

# Insurance is intrinsically a growth business boosted by demographic and consumer trends...

- P&C growth is fueled by growing risk aversion
- Life & Savings insurance will benefit from demographic trends as:
  - Retirees are living longer
    - Example of a married couple aged 60 → There is a 62% chance that one individual will live to age 90 !
  - Retirees can no longer rely on government or employer
    - Future of government provided benefits in question
    - Corporate defined benefit plans are becoming rare
  - Individual savings will not be enough to fill the gap
    - U.S. Example → 77 million worried Baby Boomers are entering retirement

**... and we believe we have the ability to outperform this naturally growing sector**



**2005-2012**

**Economic Growth (volume)**

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OCDE	2% per year
Emerging Countries	4% to 7% per year

**2005-2012**

**GWP Growth (value)**

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LIFE	5% per year
P&C	3% per year
Asset Mgmt fees	>5% per year

**2005-2012**

**Activity indicators**

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L&S APE	5% to 10% per year
P&C premiums	3% to 5% per year
Asset Mgmt fees	>10% per year



# Going forward, AXA teams are focused on an organic growth challenge: Ambition 2012

Ambition 2012 is about becoming « the preferred company » in the industry

As part of the Ambition 2012, we set ourselves challenging organic growth target over the 2004-2012 period:

LT growth target for activity indicators		➔	Underlying earnings
L&S APE	+5 / + 10%		X 3
P&C revenues	+3 / + 5%		
AM revenues	> + 10%		

2005 performance marked a first successful milestone on AXA's path towards reaching Ambition 2012...



**2012 began in 2005, with growth in line with long-term targets...**

**Activity Indicators Growth<sup>(1)</sup>**

<b>Life &amp; Savings APE</b>	<b>+11%</b>	<b>P&amp;C revenues</b>	<b>+3%</b>
<b>Life &amp; Savings NBV</b>	<b>+27%</b>	<b>Int'l Insurance revenues</b>	<b>+10%</b>
<b>Asset Mgt revenues</b>	<b>+14%</b>		

**...and profitability improving in all segments**

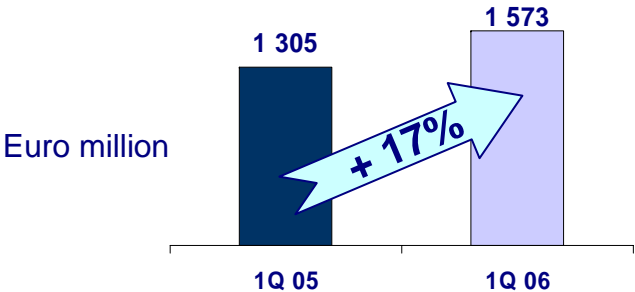
	<b>FY05</b>	<b>Var. 2004-2005</b>
<b>Life &amp; Savings NBV<sup>(1)</sup></b>	<b>€1,138m</b>	<b>+27 %</b>
<b>L&amp;S NBV/APE margin<sup>(1)</sup></b>	<b>20.8 %</b>	<b>+2.8 pt</b>
<b>P&amp;C combined ratio</b>	<b>97.7 %</b>	<b>-0.8 pt</b>
<b>Asset Management Net inflows</b>	<b>€56 bn</b>	<b>+€20bn</b>



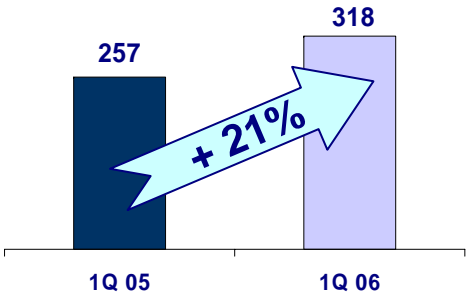
(1) On a comparable basis (constant exchange rates and scope).

... and 2006 is off to a good start, with strong 1Q06 performance

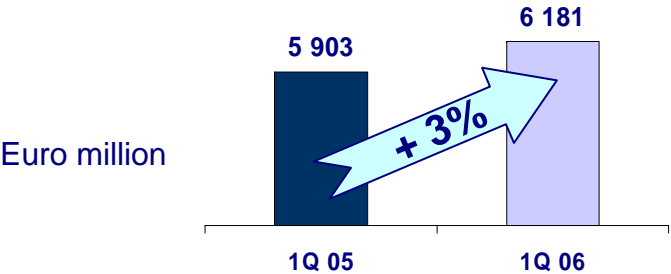
**L&S APE**



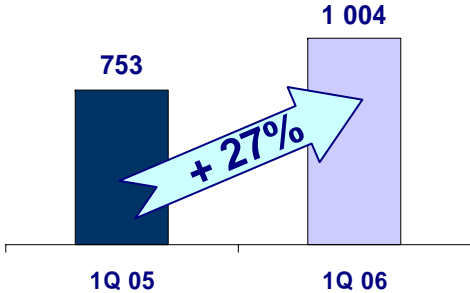
**L&S NBV**



**P&C Revenues**



**Asset Management Revenues**



**Net inflows of Euro 19bn**



# Conclusion

**More  
growth**

**Less  
risk**

**Capital  
optimization**

**Increased  
transparency**

**→ Leading to superior value creation**



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