

Half Year 2013 earnings presentation

This document is the transcript of the Half Year 2013 Earnings presentation held on August 2, 2013. The podcast and the webcast of this presentation are available on <http://www.axa.com/en/press/financialresults/>. In the event of any inconsistency between the transcript and the podcast or webcast, the podcast and webcast will prevail. In addition, the following transcript is unedited, and statements and figures therein are accordingly in all cases subject to those set forth in AXA's most recently published quarterly, half year or annual results.

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Key highlights of the first semester

Henri de CASTRIES

Chairman and CEO

Hello. I am delighted to comment today on AXA's performance for this first half-year period. As the highlights for the first six months of this year demonstrate, we are capable of combining growth and performance across our businesses and across the geographic regions in which we operate. The Group's three core business lines – life and savings, property and casualty and asset management – all made a significant contribution to growth. New business sales in life and savings rose by 9%, a jump that we had not achieved for some time. Growth in property and casualty revenues was reasonable and sustained, with operational performances showing improvement. Asset management, a business that has suffered a bit in recent years, has returned to positive net inflow territory and, by the same token, we have seen an increase in the volume of our assets under management.

The development of asset management business was accompanied by a 16% increase in underlying earnings and an 11% increase in earnings per share, which puts us in the upper range of our long-term objectives, since Ambition AXA calls for a 5 to 10% increase in EPS each year.

These numbers also reflect AXA's unflagging support for our customers and our strong presence in the business. We are the world's number one brand, with more than 100 million customers. We paid out just under 6 billion euros in benefits to our customers in protection and health. Via AXA Assistance, we came to the aid of nearly 2 million customers. In property and casualty insurance, we paid out 9 billion euros in compensation to settle claims. Our business is not only to settle claims but also and above all to prevent losses from occurring and, when they do occur, to try and minimize the economic fallout. These numbers illustrate the role that insurers play as a stabilizer, both in the economy and in the financial system. Lastly, in our General Account, the value of our customers' invested savings rose by 2.4 billion euros.

We are making efforts to bolster our leadership position in three areas. First, the successful exploitation of digital is of even greater strategic importance in service-driven businesses than it is in other sectors. It enables us to improve and simplify the customer relationship. From an operational and strategic perspective, we need to successfully complete this project in the years to come and we are poised to do just that. The second area is AXA's brand awareness, where we have launched a corporate campaign for the first time since 2008. Third and last, we have rebranded 400 insurance agencies in France to both illustrate this network transformation and demonstrate that "going digital" is not incompatible with traditional networks at all and in fact offers them support as they seek to become even more efficient and effective.

We are fully playing our long-term role. As economic stabilizers, insurers also constitute a vital instrument in the long-term financing of the economy. We had announced that we would be working to finance mid-cap corporates alongside certain banks, whose role has been somewhat altered due to changes brought about by Basel III regulations. We have forged agreements with Crédit Agricole, Commerzbank and Société Générale that will enable us to finance several dozen projects in a way that benefits all parties – the enterprises seeking the funds and AXA's required return on assets. We also plan to increase our investments in infrastructure. Needs in this area are growing around the world. It is only natural that an insurer in possession of long-term liabilities would increase its role in the financing of assets of this kind.

In the area of corporate social responsibility, we have also adopted a long-term outlook. In the first half of 2013, we announced our decision to strengthen our support of science by increasing the resources made available to the AXA Research Fund, bringing our total funding for research to 200 million euros. This effort in support of long-term research in areas related to natural events, longevity, health, and social and financial risks constitutes a characteristic trait that sets AXA apart from many businesses.

We have achieved the right balance among our three core businesses. Protection and health account for one-fourth of our total revenues, savings and asset management for a third, and our property and casualty business for around 40 %. This balance and diversification in our revenues allows us to grow at a good pace and adequately diversify our risks. Our balance sheet is strong and our solvency ratios have reached very high levels. Our economic solvency is above 200 %. This means we are fully leveraging the strategy that was put in place with Ambition AXA.

For the life and savings business mix, the proportion of unit-linked new business sales continues to increase. Today, they account for more than one-third of our total revenues. General account savings business, less appealing to our customers in this period of low and less attractive interest rates for our shareholders, is trending – as we have been hoping – downward again. It went from 26 % of new business in the first half of 2010 to 13 % for this six-month period. Lastly, in protection and health, revenues have risen by one-third since 2010 and now account for just over 40 % of the total. So our business mix is evolving in line with our long-term strategy. Margins have improved substantially since 2010, while the combined ratio for our property-casualty business is 95.7%, which is the best it has been since 2000. Compound annual revenue growth for this segment is 4 % since 2010, with a good balance between commercial lines, personal lines and motor insurance lines.

We are stepping up our presence in the emerging countries. In life and savings, new business sales have been progressing at a rate of more than 20 % per annum or per half year since 2010, and the contribution from emerging countries to the Group's new life and savings business has gone from 10 to 16 % of the total since 2010. The same is true for our property-casualty business, where, for the six months ended June 30, 2010, this region accounted for 16 % of the Group's total property-casualty business and today accounts for more than 20 %, with a compound annual growth rate of 13 %. The business growth dynamic we see in this part of the world reflects the broader economic growth in these countries and should continue in the years to come, with very satisfying margins. The third pillar of Ambition AXA is to become more competitive. In 2010, we announced a goal of 1.5 billion euros in savings for the period 2010-2015. We raised the bar to 1.7 billion euros. For the six months just ended, we have achieved another 200 million euros in additional savings. So we think the higher goal has been met, thanks in particular to investment efforts made in digital platforms in Asia and in the digital domain in general.

At the same time, we continue to pursue programs we started with the goal of decreasing the volume of capital we allocate to traditional businesses, where margins are lower, and channeling the funds to markets with significant margin and growth prospects. In the first half of this year, we closed the MONY portfolio in the United States acquired in 2005-2006. While profitable, it did not have development potential. We sold it for just under 1 billion euros. In parallel, we reinvested roughly the same amount in the development of a direct property-casualty business in China, acquiring a 50 % interest in Tianping. In the Chinese automobile market, which has become the world's largest, there is no significant player in the direct insurance business. We are number one in the world in this business, with ten companies operating in diverse countries. So we are poised to take advantage of very significant development opportunities.

First half earnings

Denis DUVERNE

Deputy CEO

I) Life & Savings

New business sales rose by 9 % in the first half of 2013, most strikingly in protection and health, where we observed record net inflows of 4.4 billion euros. New business sales in G/A savings were down by 17 % and net inflows were a negative 2.7 billion euros. The decline is attributable primarily to Belgium and Germany, while in protection and health Switzerland, Asia and France all reported higher growth.

New unit-linked business sales increased by 21 % and net inflows were positive (+2.1 billion euros). The increase was driven in particular by sales in the United Kingdom, the United States and France. Lastly, mutual fund new business sales were up by 19 %, with net inflows reaching 100 million euros.

These outcomes are in line with Ambition AXA objectives.

In the mature markets, new business sales growth reached 8 %, marking a clean break with earlier periods, particularly in the United States, the United Kingdom and Switzerland. In France, sales rose by 5 % and net inflows were positive. The new business margin was 31 %. In the high-growth markets, our new business sales grew by 15 %, and by 250 % for ICBC in China. New business margin growth was 3 percentage points, reaching 44 %.

More than half of underlying earnings was attributable to protection and health, despite a slight decline (-6 %) due to slightly higher mortality in the United States and France. Underlying earnings for G/A savings rose by 15 %, while the increase for UL was 100 %, in line with the return to profit for our American operations.

Globally, life insurance underlying earnings were up by 12 %, with the increase primarily attributable to the United States and to the earnings contribution of the Mediterranean and Latin America, Japan and Asia, where underlying earnings rose by 60 %.

II) Property & Casualty

Revenues were up by 2 % for the first half of the year underway. Growth for personal lines was 1 %, while commercial lines reported a 4 % increase in revenues, in line with our Ambition AXA strategy. The improvement was particularly visible in the Mediterranean and Latin American region (10 %), the United Kingdom and Ireland (9 %), Asia (13 %) and France, where a 3 % increase was reported for commercial lines.

Revenues were unchanged in the mature markets, for a combined ratio of 95 %. They rose by 15 % in the high-growth markets, where the combined ratio was 97.6 %, and by 7 % for direct business, where the combined ratio fell for the first time below 100 %, a performance all the more remarkable in that it accompanies strong growth.

The Group continues to acquire new customers in the direct segment and in high-growth markets and has lost some in the mature markets, a development that turns out to be necessary in countries like Belgium and Germany, in order to improve the combined ratio more quickly.

The all-year combined ratio improved by 0.8 point, falling to 95.7 %. We had set a medium-term objective of 96 % by 2015 but we are already doing slightly better than that

and the combined ratio has been falling steadily for several years now, which is one of our strategic aims. The current-year combined ratio improved by 1.1 points (97.5 %) despite a rise in the cost of natural catastrophes, which represent 0.7 point of the total. The flooding in Germany cost us 73 million euros for the six months just ended. The favorable prior year reserve development contributed 1.8 points to the overall improvement in the combined ratio, compared with 2.1 points last year.

Property & Casualty underlying earnings rose by 10 %, a solid performance that was driven by France, where underlying earnings were up by 18 %, but also by the United Kingdom and Belgium, where underlying earnings were up by more than 20 %. Underlying earnings were well-balanced geographically.

III) Asset management

Assets under management of our asset managers, AXA Investment Managers and AllianceBernstein, increased slightly thanks to positive net inflows of 12 billion euros (10 billion for AXA IM and 2 billion for AllianceBernstein) and a positive market effect (12 billion euros), slightly offset by a negative forex impact. Overall, the Group manages a little over 1 100 billion euros in assets, of which 922 billion euros are managed by its asset managers.

Revenues rose by 12 % and net flow development was particularly favorable for AXA IM (10 billion euros for the first six months, versus 5 billion for the second half of 2012) and more modest for AllianceBernstein (2 billion euros, versus 1 billion for the second half of 2012). Both asset managers reported two consecutive half-year periods of positive inflows after four very challenging years, reflecting good sales performances and a recovery in investment performance. We have put the difficulties of 2008-2009 behind us.

Underlying earnings were up by 24 %, driven by revenue growth and moderation in expenses, which increased by just 6 %.

IV) Global performance

Total revenues rose by 4 %, reaching a little over 50 billion euros and reflecting a good level of diversification. The Group's underlying earnings rose by 12 % in life and savings, by 10 % in property and casualty, and by 24 % in asset management. Globally, the increase was 16 %, an excellent performance for the first half of the year. Adjusted earnings increased by 26 %, boosted by 375 million euros in realized capital gains, including 151 million euros generated by the capital gain on the partial sale of AXA's equity stake in BNP Paribas, which brought our ownership from 5.3 % to 2.9 %. Net income fell by 1 %, reflecting the impact of capital market volatility and certain hedging instruments not being considered as such from an accounting perspective. Net income includes a 30 million euro capital loss on the sale of MONY. Conversely, net income does not include the capital gain of 200 million euros realized on the sale of AXA Private Equity.

V) Balance sheet indicators

The solidity of our balance sheet is reflected in shareholders' equity. At 51.5 billion euros, shareholders' equity is down slightly due to higher interest rates. The Solvency I ratio remains very high (218 %) and the slight decline is due to unrealized capital gains in the bond portfolio. Economic solvency is 204 %, down by 2 percentage points compared with year-end 2012. This ratio would be 208 % if we factored in the impact of the MONY sale, effective in the second half of this year. Our debt gearing remains virtually unchanged at 26 % and does not yet reflect the positive impact of transactions announced during the first half. If they had been included, debt gearing would be 25 %.

General Account invested assets total 476 billion euros for the six months ended June 30, 2013. Government bonds still represent 45 % of the total. The percentage of listed

equity increased slightly, from 3 to 4 %. Our fixed income portfolio declined due to higher interest rates but on the June 30, 2013 reporting date unrealized capital gains (after interest credited to policyholders and after taxes) totaled more than 8 billion euros.

In the first six months of 2013, we invested 29 billion euros to take advantage of investment opportunities. We moved back into government bonds in a more pronounced way and made more investments in some of the euro zone's peripheral countries (Italy and Spain). In all, 10 % of our investments are in loans. The impact of Basel III on the banks has opened up new investment opportunities. So we granted more commercial real estate loans. We plan to develop our platform for business loans to mid-caps and are investing in alternative credit funds.

We are a long-term investor in the economy and we demonstrate it daily.

Conclusion

Henri de CASTRIES
Chairman and CEO

Our performance was strong in the first half of 2013, demonstrating both growth in revenues and higher margins and encouraging us to focus on the key elements of the strategy we have been developing via Ambition AXA and beyond—over the very long term. Today, we remain cautious. In Europe, the economic landscape is still relatively uncertain but we are confident that the strategic choices we have made will allow us to improve the quality of service we deliver and generate satisfactory levels of profitability.

Q&A Session

Lionel GARNIER, *Le Revenu*

Given your commitments to your customers and the levels of profitability generated, what is the margin on the General Account? How is it evolving? ICBC reported growth of 250 % for the first half of 2013. What does that translate into as an absolute value? When should the breakeven point be reached? Is the increase in rates raising concerns about unrealized capital gains? Will this cause you to change your investment policy in the quarters to come?

Denis DUVERNE

The margin on new General Account business has recovered, reaching 10 % as opposed to 5 % a year ago. For several years now, we have said we could maintain a margin between 90 and 100 basis points, since we manage asset and liability durations very closely. For the six months just ended, we were at 77 basis points, like the previous year.

On the question of unrealized capital gains, I'd like to clear up a misunderstanding. Higher rates are a good thing for insurers. They have a positive impact on underlying earnings in the long run. The same is true for Embedded Value. Since we are exposed to higher interest rates in the United States, our Embedded Value has increased by close to 50 %. As for economic solvency, a 100-bp increase plays positively for around 9 points. The only negative aspect of higher interest rates is for net income, with certain hedging instruments not recognized as such.

Henri de CASTRIES

ICBC is the life insurance joint venture we have forged in China with that country's top bank. Revenues grew by 250 % because the joint venture is in the ramp-up phase. It breaks down as 39 million euros in new business APE. We were one among several foreign insurers present in China. We have become number one as measured by market share and we are now number ten among all insurers, domestic and foreign. Both our business mix and our margins are satisfactory, confirming the potential of the Chinese market and the validity of the model we have chosen. Our partner has an extraordinarily strong distribution network that spans all of China.

Denis DUVERNE

The expected time frame is 2015.

Henri de CASTRIES

In principle, in the more traditional countries we would have to wait for 5 years, or even for 7-8 years, before seeing positive results.

Christian PLUMB, *Reuters*

Do you consider your designation as systemic financial institution SIFI positive or negative? Are you worried there is no final agreement to date on Solvency II?

Henri de CASTRIES

The SIFIs were undoubtedly inevitable, even if our industry as a whole is convinced that these businesses are not systemic in nature. During the crisis, only one insurer went under, for reasons that had nothing to do with its insurance business. We understand the

desire to regulate our business in favor of transparency. We are one of the nine insurers on this list, given our size and geographic diversity. We are looking at this with interest and vigilance. We do not want to see it turn into an avalanche of additional bureaucracy, but it would be great if these efforts reinforce the idea that insurers represent elements of stability in the financial system.

Discussion on Solvency II is ongoing. A Trilogue will be held in early September. At AXA, like all of Europe's big insurers, we think it's important to find a compromise on this issue. If Solvency II were to end in failure, we could see the emergence of 28 different solvency regimes – a situation that runs counter to the desire for greater simplicity and transparency. The proposed system is far from perfect. We have formulated a certain number of observations we hope will be taken on board.

Ivan BEST, *La Tribune*

What do you expect of the future “euro-croissance” contract in France? What do you think of the creation of a centralized file, an idea defended by the French Ministry of the Economy?

Henri DE CASTRIES

I think very well of the prospect of offering a “euro-croissance” contract and very poorly of the idea of a file. French life insurers are perfectly well aware of the role they play in the long-term financing of the economy

It is the savings of the French we need to defend. A very significant portion of this savings is invested over the long term. It is in the interest of our customers to build up their long-term savings portfolio and, in particular, their investment in equities. The “euro-croissance” contract was initiated by our industry to support the efforts of the French government in encouraging the French to invest in long-term saving vehicles. Life insurance can be an ideal vehicle provided that we don't scare people by threatening to adopt shifting taxation. Otherwise, they will protect themselves by choosing other forms of savings.

Conversely, we think the idea of a centralized file represents an attempt at bureaucratic harassment. Tracking 11 million people in order to nab a few frauds does not seem reasonable to us and does not create a climate that is conducive to employment or growth.

Imen HAZGUI, *Easybourse*

Are you worried about the multiplication of natural disasters around the world? What is your take on this phenomenon?

Henri de CASTRIES

Our vision of the issue is professional, not emotional. The multiplication of natural catastrophes is, for the most part, linked to the behavior of human beings. This is one of the reasons we have decided to finance fundamental research in this area. We also think that insurers have a major role to play in prevention. We need to convince the financial markets and our customers that insurance is about much more than indemnifying people for losses. It is also and above all necessary to prepare for and prevent them.

Imen HAZGUI, *Easybourse*

In asset management, how much is due to good sales work and how much to investment performance? How do you see the future of this business?

Henri de CASTRIES

These factors are the twin engines driving good investment performance at both AXA Investment Managers and AllianceBernstein, and good investment performance is a

powerful sales tool for convincing our clients. We have a number of products and management styles that suit the needs of our clients and they are gradually starting to show a renewed appetite for risk.

Imen HAZGUI, *Easybourse*

The weight of equities in the General Account went from 3 to 4 %. Are you considering raising it further? What is your feeling about how the financial markets will evolve between now and the end of the year?

Denis DUVERNE

We don't plan to increase the weight of equities much beyond 4 %. The bond markets experienced a reversal which, due to the uncertainty over the attitude of the central banks, that should engender a lot of volatility. So vigilance is still called for in the management of our portfolio. We should also encourage our customers to increase their investment in equities, as we ourselves have done.

Fabien Bulliard, *Insurance Day*

What are your thoughts on the report published by Moody's on the level and quality of AXA's capital compared with its European peers?

Denis DUVERNE

We feel that Moody's is doing good quality work on the issue. This work does not call for any particular commentary. We are among the very well capitalized insurers in Europe. We are cooperating with the rating agencies. They know us inside out.

Matthieu PROTARD, *Reuters*

You have gained strength in Asia with the acquisition of a 50 % equity stake in Tian Ping. Could you set your sights on other geographic regions as targets for external growth transactions?

Henri de CASTRIES

We are being pragmatic and looking at all the emerging markets with interest, whether they are in Latin America, the Gulf or the Mediterranean (Northern Africa, Turkey). The fact that we are paying attention to the emerging countries does not mean we are no longer interested in the developed markets. There are segments of our business where development with satisfactory margins and growth rates are possible. Direct insurance is just one example.

Fabio Benedetti, *Bloomberg*

What is the reason for the slight deterioration in the economic solvency ratio in the first half of the year? Considering its current economic situation, is Brazil still a priority?

Denis DUVERNE

The economic solvency ratio varies over decimals that are not particularly important. It is negatively affected by the payment of dividends and by the fact that equities have gone from 3 to 4 % in our allocation but slightly positive due to higher interest rates.

Henri de CASTRIES

We are interested in Brazil but also reasonable. We are looking at this market, the only emerging market where we are not present. Growth has slowed down there, which in the future could offer us opportunities at more reasonable prices. We are thinking about it. This market is interesting but we are not going to jump on the first opportunity that comes along.

Fabio Benedetti, *Bloomberg*

The government is talking about a possible 5 % cap on investments in corporate bonds. How much could you invest this year and next?

Denis DUVERNE

This is a purely French regulation. The Group is present in 57 countries governed by diverse and varied regulations. Investing in unlisted corporate bonds is nothing new for AXA. We have been doing this for a long time in the United States. The government is in fact correcting an anomaly, since the insurance code says these assets are not admissible as representatives of insurance provisions. The 5 % cap, if it existed, would not pose any particular problem for us.

Laurent Flallo, *Les Echos*

Can you specify the weight of Unit-Linked products in your New Business Sales in France today as opposed to three years ago?

Henri de CASTRIES

Today, they account for 30 %. The low point was 11-12 %.

Laurent Flallo, *Les Echos*

What was the total for unrealized capital gains in the bond portfolio at the start of this year? What is the total amount of unrealized capital gains in your portfolio?

Denis DUVERNE

They represent an additional 3 billion euros.

Henri DE CASTRIES

Capital gains went from 11.2 to 8.3.

Denis DUVERNE

They are down 2.5 billion euros for the first six months of 2013.

Someone from *Les Echos*

In the short term, what are the impacts of an overly rapid rise in interest rates?

Denis DUVERNE

Higher rates are positive, except if they rise extremely quickly. If long and short rates go from 2 to 5 % in one month, some customers might choose between their life insurance policy and short-term bank deposits, which could lead to a massive exit. We are arming ourselves against this type of situation, which has never occurred in economic history. We are very well prepared.

Amélie LAURIN, *AGEFI*

How much has AXA already committed to business lending? In France, how were inflows divided between UL and euro funds during the first six months of the year?

Denis DUVERNE

Business loans represent between 1.5 and 2 billion euros to date.

Nicolas MOREAU, *Chairman and CEO of AXA France*

Net inflows were negative on the euro but positive for UL and protection. Group savings, which were heavily invested in UL during this six-month period, contributed very substantially to these net inflows.

Ninon RENAUD, *Les Echos*

Can you give us an update on your banking business? What are your plans for the new brand, Soon?

Nicolas MOREAU

Soon is a bank for young people that we plan to launch internally in early September in order to test the tool before introducing it externally at the end of September. This launch will target the 6 000 people who registered on the site. We expect to open a thousand accounts at a time. For now, we have no media plan. We are focused on a viral approach.

Henri de CASTRIES

Thank you for coming at the beginning of August and have a great vacation.

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