Highlights

Henri de CASTRIES
Chairman & CEO

Our earnings for the first half of 2010 were strong in spite of the persistence of a relatively volatile environment. The fact that there was virtually no change in our revenues should not cause us to overlook the positive changes that came about thanks to some of the targeted actions we have undertaken, and which have resulted in significant development in the geographic regions where we have chosen to focus our efforts. At the same time, this phenomenon was offset by lower growth in the regions where margins have been more limited.

Underlying earnings were unchanged, while adjusted earnings for the period rose by around 30%. Net income for the period was marked by an exceptional loss of 1.5 billion euros due to the sale of part of our life business in the United Kingdom. Excluding this one-off item, net income rose by more than 80% compared with the same period in 2009. These figures thus attest to sound trends, both in life and savings, where new business value was up by 20%, and in the property-casualty segment, where the current year combined ratio improved by 1.5 points.

These items contributed to maintaining an equally strong balance sheet. Our capital management over the period was particularly active, and our solvency level returned to pre-crisis levels. In addition, the sale of part of our UK life operations generated just over 3 billion euros, which the Group plans to redeploy as opportunities arise in geographic regions or business lines where we intend to focus our energies.

Looking beyond these numbers, we can see that the Group remained very active during the first six months of the current year.

We also made acquisitions of a smaller scale over the period in emerging markets such as Serbia and Rumania, with the aim of capturing profitable growth wherever we happen to find it. In property-casualty, the strength of our brand helped us to break new ground: we added almost 700 000 additional policies to our portfolio between January 1 and June 30 of this year. During a period where, for technical reasons, we have had to raise our rates, this demonstrates the appeal of our products and the quality of the services delivered by AXA.

With regard to management changes, François PIERSON will now be devoting all of his time and energy to the property-casualty insurance business line. Nicolas MOREAU leaves the helm in the United Kingdom to head up operations in AXA France.

I would also like to stress the extent of the Group’s involvement in the area of corporate responsibility. I am particularly proud of the action undertaken by the AXA Research Fund, which has allowed us to fund the work of researchers in a number of countries.
Financial performance
Denis DUVERNE
Deputy CEO

Business over the first six months of the year was marked by the resilience of our revenues across the board. These performances reflect the strong growth that was observed in certain emerging countries and a slowdown in growth in countries where we decided to concentrate on our margins. The life and savings line resumed growth, albeit modest (+1.5% overall), with positive revenue growth in the Mediterranean, Asia and Northern Europe. The property-casualty line showed little change in revenues over the period (+0.4%), reflecting the combined impact of growth in personal lines and a decline in commercial lines. Revenues from the asset management segment grew by 10%, attesting to appreciation in the markets and on the part of the US dollar.

The NBV margin improved to 19% for the period. In the United States, France and Japan, new business declined substantially, although it is noteworthy that the newly released Retirement Cornerstone product in the United States accounted for 40% of new business in the second quarter of 2010. Because this product is less capital intensive and generates higher margins, we find the launch satisfactory even if we still saw a global decline in new business for the United States over the six-month period (-13%). In France, we decided to be less on the offensive and take a more selective approach to large contracts in individual life lines, for which competition is fierce. In addition, regulatory changes led to some stagnation in group insurance lines. In Italy, our joint venture with the Monte Paschi bank gave us a certain boost, with new business up by 64%. Last but not least, strong growth in new business was reported for the emerging countries, Southeast Asia in particular.

Trends were mixed for the property-casualty segment. Revenues from personal lines grew by 3.6%, reflecting a net gain of almost 700,000 policies over the period despite past rate increases. Several phenomena combined impacted results in the commercial lines portfolio. First of all, we significantly raised our rates. Secondly, the total sum insured was lower over the first six months of 2010. In addition, because we chose to focus on profitability rather than competitive pricing, we lost some of the business generated via non-proprietary channels (including brokers). Lastly, we decided to be more selective in terms of our commercial lines underwriting policy.

Despite the 10% rebound in asset management revenues, which was related to the rise in average assets under management, our asset managers continue to post a net outflow (24 billion euros). However, the situation has improved considerably since 2009 (38 billion euros). The net outflow reported by AXA Investment Managers (AXA IM) is exclusively due to the situation encountered by AXA Rosenberg, which saw a sharp net outflow over the first six months. Excluding this item, AXA IM ended the first half of the year with a positive net inflow. So we are feeling fairly optimistic about the future.

The improvement in Life & Savings underlying earnings (+6%) is the result of several phenomena, including the 21% increase in the investment margin. Moreover, fees on assets and premiums rose by 9% over the period. The negative technical margin (-0.6 billion euros) was primarily due to the non-recurrence of certain positive exceptional one-offs recorded in the first half of 2009. Finally, the lower DAC amortization led to a reduction in general expenses.
Underlying earnings from our property-casualty business declined by 9%, while the combined ratio for this segment deteriorated very slightly over the period. However, the current year combined ratio actually improved by 1.5 points, which gives us reason for optimism looking ahead. The level of expenses on natural events was largely unchanged over last year. Investment income declined due to a lower average return on assets, which was attributable to relatively low interest rates over the first six months of the year.

Asset management underlying earnings fell by 15%, linked primarily to the non-recurrence of a tax one-off for AllianceBernstein. At the same time, revenues grew by 10% and general expenses rose by just 5%, which is also a pretty encouraging development for the future.

Taken together, these items generated a 3% decline in underlying earnings for the segment, which reflects a contrasting environment. International insurance underlying earnings were up by 17% thanks to the excellent performance of AXA Corporate Solutions.

Adjusted earnings rose sharply (+29%) following a significant decline in impairment for the first six months of this year, which now amount to just 200 million euros, and higher realized gains, in line with our annual targets.

Net income was reduced by the sale of some UK life operations, which generated a one-off loss. Excluding this non-recurring item, net income would have risen by 80%.

Shareholders’ equity rose by 2.4 billion euros, to 48.6 billion euros. This rise was mainly due to an increase in unrealized capital gains, with balance sheet net capital gains totaling around 6 billion euros.

Net financial debt increased over the period, to 16 billion euros at June 30, 2010. This increase was mainly due to the issue of 1.3 billion euros of subordinated debt in April, in anticipation of the refinancing of upcoming calls of roughly the same amount in December 2010. In addition, the US dollar’s appreciation over the period had an impact on our net financial debt. Our debt gearing ratio remains satisfactory, however, at 29%. This percentage does not reflect the proceeds of the sale of our business in the UK, which will bring the ratio back down to 27% before the end of the third quarter of this year. Our interest cover has risen to 9.3x.

Fixed income investments account for around 81% of the total assets in the general account. This account appreciated over the first half of the year due to lower interest rates, the impact of which turned out to be stronger than the impact of higher spreads. In addition, our exposure to countries in crisis was relatively low in the first half of the year. Assets invested in real estate rose slightly, as did alternative investments. The rest of the portfolio is stable and of good quality.

Our Solvency I ratio for the period was 188%, which is where it was before the crisis.
Conclusion

Henri de CASTRIES
Chairman & CEO

This solid earnings performance will encourage us to pursue our efforts to strengthen our growth profile and optimize our capital allocation while maintaining a robust balance sheet. This in turn will encourage us to remain active in our capital allocation, in terms of both geographic regions and products, and selective in the new business we choose to underwrite. In the life and savings segment, we will make efforts to further deploy in high potential businesses as well as in the geographic regions that present the same profile. In so doing, we intend to focus on health and personal protection products, perhaps more than on the more traditional general account savings products—which doesn’t mean that we will be pulling out of these lines. In the property-casualty segment, we will respond to the growth of risks in personal lines by playing up our competitive strengths, which include the power of our brand. It may convince some of our clients and business partners to do business with us.
Question/answer session

Imen HAZGUI (EasyBourse.com)

How do you read the decline in life insurance inflows observed by the FFSA (Fédération Française des Sociétés d’Assurance) and the reform in guaranteed rates around these products? What is your analysis of the possible competition between the Livret A savings passbook and life insurance?

Henri de CASTRIES

Despite the decline in net inflows, life insurance remains one of the most popular investment and savings options for French households, in both absolute and trend terms. Life insurance is a significant source of long-term savings that is also necessary for financing the economy.

In spite of current talks about the taxation of life insurance products, I do not think it is appropriate to speak of a tax niche: the tax break offered on this product is subject to long-term holding requirements that support business funding and public debt over the long term.

The slowdown in inflows observed over the first six months of the year is partly due to our clients’ increased aversion to risk in this uncertain financial environment. Long-term investments are particularly vulnerable to this uncertainty. Accordingly, it is important not to come to overly hasty conclusions. In addition, some kinds of business generate high premium volume but low margins. We have taken a step back from this kind of business because it is not consistent with our strategy.

Lastly, although interest on savings passbooks is expected to rise, the rates will nonetheless remain relatively low.

François PIERSON

The new guaranteed rates are capped at 3.75% for the entire French market, which is double the Livret A. I would like to add that we have not avoided “normal” business—we have just stayed away from business where the guaranteed rate is excessive.

A participant (Bloomberg)

Where do things stand with AXA APH? Can you talk about businesses that could be for sale, in particular AXA Rosenberg?

Henri de CASTRIES

There is nothing new to report with respect to AXA APH these past few days. The Australian bank NAB is in talks with the local competition regulator with the aim of overcoming its objections.

In addition, we don’t have plans to sell AXA Rosenberg.
We don’t generally announce our intentions to sell a business. But we remain pragmatic when it comes to the allocation of our capital: certain product lines and geographic regions show substantial potential for growth. There is nothing new to announce from this perspective.

Denis DUVERNE

Despite the sale of some of our life business in the United Kingdom, our property-casualty and health businesses there remain satisfactory.

Géraldine VIAL (Les Echos)

Can you provide some details about the new outflow situation for your asset management business and say a bit more about the situation of AXA Rosenberg?

Denis DUVERNE

Although AllianceBernstein continues to experience outflows, these have declined and come mainly from the bad asset management performance in 2008, which affects performance over a three-year horizon. There is always a lagging effect between recovery in inflows and recovery in the manager’s rating, which has a direct impact on inflows. In June, we returned to a positive net inflow position.

Similarly, the investment performance of AXA IM excluding AXA Rosenberg is recovering. As for AXA Rosenberg, the announcement in April of a program error led to outflows of 15 billion over the second quarter. This error has since been corrected. For the period ended June 30, 2010, a net provision of 64 million euros was recorded for this error, which is the current estimate of the direction of the net impact on AXA, according to the information in our possession at this time.

The same participant

Can you be a bit more specific about your position on variable annuities in the United States?

Denis DUVERNE

We have very positive signals on the product mix and market share, which went from 4.7% to 5% in the second quarter. Highly volatile markets and spread levels nonetheless led to a negative result for our hedging activities. Overall, our life and variable annuities businesses were profitable in the first six months of 2010, while our hedging activities over the same period generated a loss.
A participant

Are you hoping for a return to balance for your asset management segment?

Henri de CASTRIES

It is true that we are in a net outflow position in asset management. The total value of assets under management has risen, but some of our clients have withdrawn their money; more clients have withdrawn money than have put fresh money in. The return to balance will be gradual, as Denis DUVERNE indicated a while ago.

Séverine SOLLIER (La Tribune)

You have announced some executive level changes for the month of September. What is your assessment of the last decade? Does the return to France of Nicolas Moreau signal significant strategic changes?

Henri de CASTRIES

The achievements of François PIERSON in France have been among the most remarkable. In the course of the past decade, we have considerably strengthened both our position and our margins. François and I assumed our duties at the same time—when the combined ratio for the Group was 114%. 98% seemed like a long way off. I asked François to focus on our entire property-casualty business line because I feel he will allow us to take an additional leap forward.

The arrival of Nicolas MOREAU does not signal a significant change in strategy. It is simply a natural change in the business of a Group, not a sharp break.

A participant (from Bloomberg)

Earlier, you announced exposure to Greece of 500 million euros, which is now down to 300 million euros. What happened?

Gérald HARLIN

A due date arrived in the meantime. In the future, we will be looking at whether or not to renew our investments in this country.

Henri de CASTRIES

Our insurance business in Greece is satisfactory and we wish to continue in this direction.
Séverine SOLLIER (La Tribune)

Do you have any comments on the draft accounting standard presented by the IASB and its possible impacts on AXA?

Denis DUVERNE

It is still too early to talk about it, but the draft appears to be relatively in line with forecasts. Via the various industry groups we are part of, we will make constructive comments on this draft. But we can already say that it is significantly better than its predecessor.