Half year 2012 earnings

I. Highlights

Henri de CASTRIES, Chairman & CEO

Hello everyone. Welcome to the presentation of our half-year earnings, which we consider to be solid in a rather agitated environment. The first thing that stands out if we compare this first half-year with the same period last year is that the operating environment has deteriorated rather profoundly. Economic growth is down worldwide, but especially in the developed countries, which remain the core of our business even though we are stepping up the pace of growth in the emerging countries. Interest rates have fallen sharply in the world’s leading economies – the United States, Germany, the United Kingdom and France. The equity markets are down sharply.

In spite of these macroeconomic headwinds, the Group’s earnings are solid. Revenues are up—albeit modestly—and underlying earnings have also risen slightly. Our balance sheet is extremely solid: shareholders’ equity has increased, to just below 50 billion euros, and our solvency ratios are at high levels. Thanks to this situation, we look to the future with confidence even though the risk environment remains turbulent. With each passing quarter and half-year, the AXA business model demonstrates its solidity and its adaptability to the environment.

Our businesses are diversified geographically and segmentally. Three-fourths of our underlying earnings for the period are attributable to business lines that are less sensitive to the financial markets – Protection/Health and Property/Casualty. Savings and asset management account for one-fourth of total earnings. Boosted by a strong dynamic prior to the financial crisis, they have been harder hit in recent years but continue to provide significant earnings. So the aircraft has three motors, two of which are working full throttle and one of which is more affected by the competitive environment.

As for the balance sheet, our Solvency I ratio has reached a record high. The Solvency II ratio, which will perhaps go into effect in the near future, is still being discussed at the European regulatory level. These discussions have led to progress on some points, including the benefit of equivalency for businesses outside Europe: the European commissioner has made some clear commitments on this subject. Conversely, no real progress has been made in other areas in recent weeks. If equivalency is assumed, which seems to be a reasonable assumption at this point, our Solvency ratio falls slightly due to the decline in both interest rates and the equity markets, though it remains at a very comfortable level (174%).

We are progressing in line with our strategic plan, Ambition AXA, whose three main pillars are greater selectivity; acceleration in markets, products and distribution channels that show significant potential for revenue and margin growth; and efforts in terms of productivity and efficiency across the board geographically and in our businesses.

First, we would like to accelerate the penetration and development of our protection and health businesses. From the first half of 2010 through the first half of 2012, their share of all Life &

Paris, le 3 août 2012
Savings new business went from 30% to more than 40%, an increase in business of almost one-third. These businesses have high margins and are de-correlated from the markets.

We would like to maintain, and possibly develop, our mutual fund and unit-linked business. It has not lost ground in two years despite the fact that markets have not been positive for unit-linked business. Margins are satisfactory and these products are attractive for clients: the equity markets have on average been at low levels, which offers good points of entry over the long term. Businesses that we think are less promising for our customers and for us—i.e., general account savings—have declined by about 10 percentage points in the overall total.

Secondly, one of the goals of Ambition AXA is to increase the Group’s property-casualty revenues while also improving its performance. We managed to do this in the first half of 2012: revenues rose by 4%. This increase breaks down as follows: 15 to 20% in the emerging countries, very significant growth in the commercial lines business in mature markets, and reasonable, controlled growth in personal lines – we now have 600 000 more insureds than at the beginning of the year.

This solid performance has not come at the expense of our earnings: the combined ratio has improved by nearly one point, though it is still above our 2015 objective. However, we have three more years to reach the ultimate goal. This ratio was just above 97% last year; it is 96.4% this year.

We continue to work on improving our efficiency. The entire Group continues to invest in productivity gains, accelerating in the areas of multi-access and digitization. We are perfectly aligned with our target savings of 1.5 billion euros by 2015. We are at about the one-third point already, and have about one billion euros in savings left to achieve over 2012, 2013, 2014 and 2015. We are confident in our ability to achieve this global objective; operational and global business line efforts are making a significant contribution.

Acceleration is not just a slogan; it is a reality. Revenues from both the Life & Savings and Property & Casualty segments rose in Asia—by almost 10% for Life & Savings and by 17% for Property & Casualty. These results come with certain changes in scope which we think will be drivers of acceleration in the future. A few days ago, we officially launched our joint venture with the major Chinese bank ICBC. We own 30% of the equity capital, versus 60% for ICBC. The uptick in sales from the outset has been nothing short of spectacular. We have also extended our reach in Asia and in Mexico with the acquisition of HSBC’s property-casualty business. So we are pursuing the redeployment of our capital into economies and distribution channels that we see as capable of providing significant growth in the future.

II. Life & Savings

Denis DUVERNE, Deputy CEO

Hello everyone.

Sales were unchanged over the course of the first half of this year, but the commercial dynamic is consistent with the level of selectivity we are seeking. Protection and health business was up by 5%. In France, we successfully launched Entour’Age, a long-term care product. G/A Savings business fell by 6%, in line with our strategy. These savings products are often sold with unit-linked products that offer a higher margin. Unit-linked business fell by 3%, while mutual fund business rose by 2%, attributable in particular to our Elevate wrap platform in the UK. The 43% margin on
Protection and Health business may seem quite high, but it is calculated on the basis of the value of future profits divided by the first-year payment of a periodic premium. It is therefore not a margin on revenues.

84% of our sales are made in the mature markets and 16% in the emerging markets. Two years ago, it was 10% for the emerging countries and 90% for the mature markets. The change in the geographic mix continues. For Southeast Asia, China and India, revenue growth was 18%. Revenue growth was particularly strong in Thailand, where sales of our protection product rose by 54%. Sales were flat in Hong Kong, reflecting dynamic growth in the protection business but no change in the sales of unit-linked products. Last but not least, we observed a 36% decline in business in Central Europe, attributable to a change in pension fund regulations in Poland that put a damper on inflows. We had to redeploy our sales forces into traditional life insurance products. We thus saw a decline in business that hurt our global emerging market growth for the first half of the year.

Now I’d like to make a few remarks on the mature countries. The first half of the year saw growth of 36% for unit-linked products and 11% growth in protection and savings business in Japan. In France, our highly selective approach led to satisfactory growth in protection and savings, while sales fell for euro-based funds. For us, net inflow was balanced, while the French market as a whole has been in a net outflow situation since the first of the year.

For the first half of the year, the general account investment yield for the Group was 3.8%, compared with a guaranteed rate of 2.2%: the margin is 160 basis points. The guaranteed rate on new business was just 0.7%; even if rates remain low for several years, we will be able to turn a profit while also crediting a decent interest rate to our clients. Our investment policy is both cautious and dynamic; it attests to the strength of our business management. The AXA Group has reserves of around 10 billion euros for policyholder profit-sharing.

In our three main segments, underlying earnings for the period were good. Pre-tax underlying earnings rose by 9% in protection and health and by 3% in G/A Savings, attesting to our ability to maintain our margins in this area despite the decline in rates. Unit-linked underlying earnings were up by 28%, due both to higher loadings in Italy with MPS and higher positive prior year reserve developments on protection riders in France. The only disappointing segment was variable annuities in the United States, which reported a slight loss for the period. However, the contribution of the United States to life insurance underlying earnings was substantially positive, reaching more than 200 million euros.

Underlying earnings from Life & Savings business rose by 3% on a comparable exchange rate basis and by 7% on a reported basis. This performance is attributable to an improved business mix and a decline in expenses thanks to the rollout of efficiency programs. The earnings increase in Japan, more than 100% over the same period last year, results from a favorable tax impact and from the fact that 2011 earnings were adversely impacted by the earthquake and the tsunami. Switzerland and the high-growth markets of Asia also showed significant earnings growth.

III. Property & Casualty Insurance

Property & Casualty Insurance business rose by around 4%. Growth in revenues was virtually across the board, with the exception of direct insurance in the United Kingdom, where we began pruning the portfolio after a period of very rapid growth, and in the Spanish market, which is in the throes of an economic crisis: new car purchases are at a standstill and drivers are looking for less
costly insurance coverage. In most of our markets, property and casualty rates have continued to rise, and we continue to attract many new personal lines customers – we picked up just over 600,000 new customers in the first half of this year, compared with 700,000 last year – which proves that our products remain competitive and responsive to needs. The overall increase was boosted by growth of 17% in the high-growth markets and the increase in AXA Global Direct business (excluding the UK) of around 10%.

Commercial insurance business was up by 5% on a comparable basis and by 8% on a reported basis. The high-growth markets were particularly dynamic, and pricing conditions have improved in the mature markets.

We also posted a very slight decline in the loss ratio, from 72.4% to 72.2%. It was impacted by the 0.4 point increase in natural catastrophes, as well as the 0.9 point deterioration due to the cost of the European cold spell and severe winter. The fact that the loss ratio declined in spite of severe natural and weather events attests to the excellent quality of our underwriting. The expense ratio decreased by 0.5 point, from 26.8% to 26.3%, as the productivity and efficiency effort continues. The current year combined ratio, which corresponds to the current year’s underwriting, improved by 0.7 point, while our all-year combined ratio improved by 0.8 point, going from 97.2% to 96.4%. We are getting close to our objective of 96%, which we set for 2015.

Underlying earnings were up by 6% on a reported basis and by 4% on a comparable basis. Investment income was unchanged, reflecting the good investment performance of France, which alone contributed almost one-quarter of the total result, and of Belgium, whose combined ratio has fallen by more than 7 points.

**IV. Asset management**

Assets under management grew by 40 billion euros compared with year-end 2011, thanks mainly to the decline in interest rates, which led to the automatic appreciation of fixed-income assets. AXA IM and AllianceBernstein manage assets for Group insurance companies as well as for third parties. For details, see the right-hand side of page 23. The Group manages 1,100 billion euros in assets overall, a slight increase over last year, and remains one of the world’s top asset managers.

Asset management revenues fell for both of the Group’s asset managers, mainly due to lower management fees at AllianceBernstein and lower performance fees and commissions on real estate transactions at AXA IM. Net outflow was 8 billion euros, an improvement over the previous two years. The asset management business is improving, boosted by very good investment performances at AXA IM and more mixed but still good for numerous management specialists at AllianceBernstein. The diversification strategy conducted by Peter Kraus and his teams is beginning to pay off.

Underlying earnings from asset management business rose by 2% on a reported basis and fell by 4% on a comparable basis. Growth was driven by AllianceBernstein, whose underlying earnings rose by 19% and are generated in US dollars, while AXA IM’s underlying earnings fell by 17%. The improvement posted by AllianceBernstein is attributable to a positive tax impact and a sharp reduction in expenses, in line with the reduction in management fees due to outflows.
V. Global performance

Revenues increased by 1.4% on a comparable basis, reaching 48.4 billion euros.

Underlying earnings were up by 3% on a reported basis and were unchanged on a comparable Forex basis. International insurance fell by 18%. Underlying earnings from AXA Corporate Solutions, which insures large corporate and industrial risks, and AXA Assistance were unchanged at 80 million euros and 11 million euros, respectively. The decline in earnings was attributable solely to the entity that was set up to manage run-off portfolios. These run-off insurance and reinsurance portfolios provided excellent results in prior years. We are seeing declines as the liabilities on these policies decrease over time.

Adjusted earnings were boosted by the satisfactory level of underlying earnings, but also reflected the situation in the financial markets in the first six months of 2012, increasing by 1%. We recorded lower realized capital gains but also lower impairment: we began depreciating our Greek securities in early 2011, and did not repeat this impairment in 2012. But the financial markets remain challenging, leading to provisions for other than temporary impairment. Net income was marked last year by the sale of our minority interest in Taikang in China, as well as businesses in Australia and New Zealand. The sale of these two businesses generated a capital gain of 1.4 billion euros. Net income would have been unchanged if the impact of these non-recurring items were eliminated.

VI. Balance sheet indicators

The Group maintained and even improved its financial strength. Shareholders’ equity rose by around 2 billion euros, which reflects the rise in net unrealized capital gains. A change in accounting methods for deferred acquisition costs as of January 1, 2012 led to a decline in shareholders’ equity of 2 billion euros, a decline that was more than offset by earnings and the improvement in unrealized gains. The Solvency I ratio remains very strong at 207% thanks to underlying earnings and the increase in unrealized capital gains. The economic solvency ratio fell slightly to 174%, due to falling interest rates over the first six months, but the level remains very comfortable. The gearing ratio, which is 27%, is mechanically penalized by the impact of the change in the method of accounting for deferred acquisition costs (DAC) on the balance sheet, but remains at a good level. Net financial debt fell thanks to ongoing efforts to pursue very conservative financial management.

Total insurance invested assets amounted to 479 billion euros marked to market on June 30. These assets are matched to our policyholder obligations and thus should reflect their nature: their average duration is more than 8 years. Bonds continue to account for 83% of the total (government bonds, corporate bonds and other fixed-income assets). In the course of the first six months, we invested around a quarter of our new investments, i.e., 25 billion euros, in government bonds, and half in corporate bonds. The rest was invested in other asset classes. Exposure to the government bonds issued by the peripheral countries of the eurozone decreased slightly, by 3 billion euros, and now represents less than 5% of total invested assets.

Net unrealized capital gains stood at 10.4 billion euros on June 30: 7 billion euros on the balance sheet and 3.4 billion in off-balance sheet items related to real estate and loans. Unrealized capital gains on government bonds increased by 2 billion euros in the first six months of 2012 due to lower
interest rates and after the impact of policyholder participation and taxes. This is the result of AXA’s diversification and our very conservative investment policy.

Thanks for your attention.

VII. Conclusion

Henri de CASTRIES

Thank you, Denis.

In a challenging environment, these results are solid.

We will continue to implement the Ambition AXA priorities in the quarters and years to come. We think they are essential to satisfying our customers and creating value for our shareholders.

We are ready to answer your questions.
Questions from the audience

Thomas HANKE, Handelsblatt

Can you return to the development of your business activities in Germany? Secondly, what is your central scenario for the Eurozone? Under what conditions would you be ready to increase your exposure to the sovereign debt of the peripheral countries?

Henri de CASTRIES

I’ll begin by answering your second question. It is important to distinguish between short- and long-term turbulence in trends for the Eurozone. The situation may remain relatively volatile over the short term, but we are more confident with respect to the long term. The current challenge is to correct the errors or inadequacies that resulted from a series of decisions accumulated over nearly a generation: first, spending excesses on the part of governments and a lack of structural reforms on the part of certain of the Eurozone’s economies; second, inadequacies in the construction of the euro—in particular with respect to defining crisis resolution processes. Both governments and the European Central Bank have been working to remedy these weaknesses for two or three years now. It would be naive to hope that all of these problems can be resolved in just a few quarters. We must examine the measures taken and see if they ultimately bear fruit.

We see that serious structural reforms are now being rolled out in some of the Eurozone’s key countries, such as Spain and Italy. The expected result is better budget management and better economic performances once the reforms have started to bear their first fruits. Crisis resolution processes are slowly being put into place, though such processes are naturally more difficult to implement when things are tough. In the Eurozone, we see the ESF, the FSF, or the progression towards a banking union. Within this context, Germany figures as a constructive pillar of stability. Germany led the way with structural reforms and conducted a reasonable budgetary policy. It has been very firm with its partners, but has also shown itself to be capable of the flexibility needed to avoid unhappy accidents. Things are pretty much headed in the right direction over the long term. This will be completely the case only when the Eurozone’s second largest country—i.e., France—will undertake genuine structural reforms and will have shown that it is really capable of reducing its public expenditure level.

The situation remains turbulent over the short term because the markets are impatient. After having given credence to the intention of European construction and the euro between 2000 and 2008, they are now persecuting them: every movement is tarnished by doubt and cynicism. Both of these attitudes are excessive. It seems to me that the long-term trend is good. The principal risk is of an accident along the way—that the member states get discouraged because their interest rates remain very high in spite of their deep structural reforms. It is therefore essential to help these states put these reforms into practice so that they can reap the benefits as quickly as possible. A certain degree of pragmatism is in the process of emerging. In particular, we are beginning to know how to distinguish between the structural and the situational in the return to budgetary equilibrium: the important thing being to bring the structural deficit back to zero with a certain degree of flexibility acceptable for the situational portion of the deficit.

We are substantial investors in Eurozone debt. And our capital gains very widely exceed the capital losses we are expected to record. We no longer hold any Greek debt, but we do own both Spanish
and Italian debt securities, which is entirely legitimate because we do business in both of these countries. The capital losses recorded on these securities represent 800 million euros, compared with Group capital gains totaling 110 billion euros, and capital gains on the sovereign debt of other countries in the Eurozone. Capital gains on French debt are worth twice as much as capital losses on Italy and Spain together. We think this situation is both reasonable and comfortable.

Our German businesses continue to develop under satisfactory conditions, although Germany is one of the countries where we need to improve our productivity. Thomas Buberl, our new CEO in Germany, has taken on the challenge with a lot of energy and determination. We have no doubt that the efforts undertaken, which include discussions we have started with our social partners, will bear their fruits and enable us to further increase our efficiency and profitability in Germany.

Fabio BENEDETTI, Bloomberg

Have you resumed purchases of Italian and Spanish debt securities following the European Council meeting in late June? What is the status of your strategic review of AXA Private Equity?

Henri de CASTRIES

With respect to AXA Private Equity, we announced that we were thinking of selling a portion of our capital stake. However, we are not reducing our commitment to private equity as an appropriate asset class for an insurance company. We don’t need to own 100% of AXA Private Equity in order to maintain a good balance in the Group’s business portfolio and it is not the best way to develop this business. Within the Group as a whole, AXA Private Equity represents a very marginal contribution to business. Things are moving ahead and we expect a reasonable conclusion within a reasonable period of time.

Denis DUVERNE

To return to Italy and Spain for a moment, we hadn’t resumed buying their sovereign debt in the first half of the year and have not done so since, because the cash flows in our P&C business and our G/A savings business do not require that we do so.

Chiara RANCATI, ANSA agency

What is your opinion of the Monte dei Paschi di Siena recovery plan? Do you think it will help boost its currently very low stock price? The bank has asked for government aid in the form of a loan which, if it is not fully repaid, would give the government an equity stake in MPS. Does this kind of situation worry you?

Henri de CASTRIES

The economic heart of our activities in Italy with MPS is our joint life and property-casualty subsidiaries, AXA MPS Vita and AXA MPS Assicurazioni Danni. These businesses are doing well and continue to grow. We are satisfied with their performance. Jean-Laurent Granier, who is sitting in the front row, will be able to give you more details.

We are also MPS shareholders. This retail bank has good market positioning in Italy and seeks profitability, though there are efforts to be made in the short term to turn things around. The new
management team seems to be doing what is necessary to bring this about. We are convinced that their efforts will pay off. The bank also has to recapitalize to meet European obligations, and is currently working on that.

**Denis DUVERNE**

The strategy conducted for AXA MPS is totally consistent with Group strategy, i.e., the focus is on protection. In its strategic plan, the bank says it should be the place for protection and property-casualty insurance. The business dynamic remains very good.

**Anne de GUIGNE, Le Figaro**

Do you have an interest rate trend scenario for life insurance in France? Do you think rates will remain low over the medium term? If so, what impact will this have on your business? What do you think of the idea of doubling the cap on the Livret A? Have you done any capital flow projections?

**Nicolas MOREAU, CEO of AXA France**

It is a bit premature to talk about life insurance rates. The market paid around 3% in 2011. French rates have fallen since then and the rate of rollover is lower than it has been in other years. So it is likely that the interest rate will be lower in 2012.

The FFSA projects a decline of around 10 to 20 billion euros as a result of doubling the cap on the Livret A. But this needs to be put into perspective: the new cap is 30,000 euros, while some clients pay in much higher amounts. In addition, life insurance helps people prepare for retirement, organize their estate and fund projects. The Livret A is not necessarily well-suited to these goals. It is also possible that this higher interest rate will be subject to the CSG-CRDS tax. The Livret A is designed for two types of investors: those with not much to invest, who use it as a checking account; and those who saturate their savings passbook. The measure will favor the most favored to the detriment of the others.

The French government is still kicking this measure around. The new head of the Caisse des Dépôts feels it is necessary, and opinion surveys are being conducted on the subject. If this decision is made, it would take between 10 to 20 billion euros of the 1,400 billion total — so it would not imperil the life insurance business. In a low interest rate environment, investing in assets with a higher risk profile could really pay off.

**Henri de CASTRIES**

Restarting growth in France means promoting long-term investment. The Livret A, a short-term vehicle with tax advantages, does not meet this objective. Life insurance is a long tail product whose benefits do not materialize until after eight years. This diversified product allows savers to invest in long-term assets in the economy. It offers all of the features of a vehicle that encourages investment. If the government draws the most logical conclusions, the life insurance environment should remain stable and the competition from the Livret A should be marginal.
Denis DUVERNE

France managed a balanced net inflow thanks to our strong presence in the group insurance market and to the development of protection and long-term care insurance. We are well equipped to continue to rise to the challenges of this environment.

Lionel GARNIER, Le Revenu

Your agreement with ICBC is finally operational. When will it begin to have a positive impact on AXA’s underlying earnings?

With respect to your banking pipeline, what are your targets 18 to 24 months out? What is your yield spread compared with loans to traditional businesses?

The return on the portfolio was 3.8% on June 30. What are your hypotheses for 2012? What should we expect over the next two years given how low the yield is on government bonds?

Henri de CASTRIES

We started to do business with ICBC before the change in the shareholder base was made. Sales volumes are way up since the regulatory go-ahead was given. As with any life insurance start-up, revenues rise immediately but earnings lag behind as acquisition costs are absorbed. I don’t think we will see an impact on underlying earnings before 2015. On the other hand, value creation is already happening.

The challenge in the Chinese market is to convince our partners to adopt a good product mix: it is very tempting to go for volume in the hope of generating margins. Single premiums are not as profitable as recurring premiums; they are just more spectacular in volume terms. We are confident about this: ICBC is an extremely powerful bank, China’s top bank, and the world’s biggest bank with 230 to 240 million customers. The chairman of ICBC has reiterated the ambition of making this company the top foreign life insurer in the Chinese market and the third or fourth largest life insurance company. So we are confident. The capital investment that the two partners expect to make over four years comes to 1.5 billion euros, which is 500 million euros for us. This substantial investment should lead to major business growth.

Denis DUVERNE

As for the banking pipeline, i.e., loans to mid-sized and large corporations, this results from an agreement with Société Générale. A press release came out this week to celebrate the first rollout of these loans. We are also being asked by banks in other European countries, and we are reasonably optimistic about our ability to seal several deals of the same nature. This business should bring in around 500 million euros in loans outstanding by the end of the year and could reach 2 billion euros within two years if we manage to forge agreements with three or four banks. However, it will remain limited by our general account of 480 billion euros. Spreads are the equivalent of those for a debt with the same rating.

The yield is 3.8% for life insurance and 4% for property & casualty insurance over the first half of the year, which reflects the rather long duration of these portfolios. The presentation to analysts shows that the yield on the 25 billion invested in the first half is 2.9%. New investments thus have a
dilutive effect on the evolution of the portfolio’s yield. Guaranteed rates on new business are nonetheless lower than those of the portfolio: we are confident in our ability to conserve an investment margin of 70 to 80 basis points.

Anne de GUIGNE, Le Figaro

Several French insurers announced rather low solvency levels. Do you think that the next few years could see some consolidation and would you be a participant if this happened?

Henri de CASTRIES

We don’t need to make acquisitions in France: our network dynamic is such that we are winning new customers every day.

Denis DUVERNE

The more difficult situation of some players should lead to rationalized margins and rates rather than to mergers.

Nicolas MOREAU

We are seeing an uptick in activity in the area of long-term risks like retirement and employee benefits because AXA has the best credit in the market.

Henri de CASTRIES

We are satisfied with the dynamic of our businesses in France. In addition, corporate income taxes and employer charges are much higher in France than elsewhere. In an open economy where we have other options for developing business, the injection of additional capital in this area is not a priority.

Fabio BENEDETTI, Bloomberg

Property & Casualty earnings rose by 60% in Belgium but fell by 10% in Switzerland. Are these recurrent trends? I also have a question on the composition of underlying earnings from life insurance business. You mention more than one billion for protection and health, which is a huge percentage of your total underlying earnings of 1.4 billion euros.

Henri de CASTRIES

You are confusing the pretax and after-tax figures.

Fabio BENEDETTI, Bloomberg

Protection and health nonetheless account for two-thirds of total earnings. This was not the case before.
Henri de CASTRIES

It’s obvious: we have opted to focus on health and protection because these businesses show great potential for revenue and margin growth. They already account for the bulk of our new business in life insurance, as the first slides in our presentation indicate.

This does not mean that savings is not profitable, but the equity markets have declined and interest rates are low. In comparison, the savings business was more dynamic in 2003-2007 because the equity markets were appreciating and interest rates were high. This growth driver has not been not working as well since 2008; protection and health are taking up the slack. This is nothing new. The growth in their share of Group revenues merely demonstrates that the efforts made to develop these businesses have paid off.

Denis DUVERNE

In Belgium, the recovery in rates and the decline in natural catastrophes in the first half of the year led to an improvement in earnings from the property & casualty segment. In Switzerland, where our business is extremely profitable and well managed, earnings remain good but were hurt by the hailstorms on June 23 and 30. The result was a higher than usual natural catastrophe cost.

Henri de CASTRIES

In Switzerland, the combined ratio is 89.

Séverine SOLLIER, la Tribune

We hear a lot about European businesses getting back on the growth track thanks to innovation. Is it still possible to innovate in insurance? You noted that margins were particularly attractive in protection and health. Is there a growth pipeline in these businesses and if so, what is in it? Last but not least, are you planning to revert to mixed savings-protection, savings-health or retirement-health products, which some of your competitors are doing?

Henri de CASTRIES

The priority is to respond to customer needs. Are these needs evolving? Will demand for this sector’s products remain high? The turbulence in the short-term macroeconomic outlook is hiding an extremely promising landscape. Demographic aging is clearly creating a growing set of needs. GDP growth is particularly strong in the emerging countries, and it is not nil in the non-emerging countries: there is more and more wealth to insure.

So the demand fundamentals are indeed present. Competition from governments is receding: the welfare state model is declining as states either reduce the scope of coverage granted or can no longer finance it. The appetite for the kinds of products we should be able to offer our customers is increasing. Not every player will be able to capture this growing demand: to succeed it is necessary to correctly analyze customer needs, correctly manage distribution and correctly manufacture products. This is the case for AXA. Our model draws strength from its geographic and technical diversification. The world’s number one life insurer and its third provider of property-casualty insurance, we have the critical mass needed to concentrate some of the best specialists in the world at inventing the products that meet evolving demand. We are multi-distribution and are innovating...
to make this distribution multi-access. Marketing has long been an underdeveloped area, and we are continuing to acquire the capacities needed to analyze demand.

All of this will produce results. The success of long-term care products in the French market over the past year is proof. Long-term care is already an old subject, but in France it has taken fifteen years and as many reports to become aware of the issue. Those who know how to react more quickly than the others benefit. Nicolas Moreau’s teams put modernized LTC products on the market and beat every sales target they set. They respond to a clearly expressed societal need. In France, several million women take care of a dependent spouse or older relative. The economic issue has not been resolved: the government does not have the means. We are able to offer products that help families.

Take the example of distribution. Our network of traditional agents is doing very well. We are helping the network become multi-access. We are also developing new forms of distribution. Today, we lead the direct market, with businesses in several countries. Revenue growth for this business exceeds 10% a year: this distribution channel has been upgraded. Commercial insurance is another example: everywhere in the world, small and mid-sized companies are under-insured and growing quickly. Insurers that know how to devise products that allow the heads of SMEs to manage their risks are seeing higher revenue growth. The development of our property and casualty business over the first six months of the year illustrates the point.

Errors also occur. The first generation of variable annuity products failed to accurately calibrate certain risks, and we saw what that led to in 2009-2010. The problem has since been corrected.

Innovation plays a very special role. And it is not limited to products: it is a daily combat that we are doing a good job of leading, even if there is always room for improvement.

**Denis DUVERNE**

Across the Group, we are placing the accent on services in particular, especially in France, where AXA France has introduced the online comparison tool quialemeilleurservice.com. Innovation also comes from information and communication technologies. We are conducting experimental pilot projects involving onboard equipment in vehicles as a factor in differentiation, safety and risk prevention. Lots of projects are underway to improve the service we deliver to our customers and also capitalize on the newfound interest in services and the new information and communication technologies.

**Noémie BISSERBE, Wall Street Journal, Dow Jones**

Can you say a word about your variable annuities business in the United States?

**Denis DUVERNE**

This business struggled between 2008 and 2011. Our market share fell considerably, from 9% to 4%. We are once again back on the growth track, with products that are far less risky. We showed substantial improvement in the first half of the year. The market has become more streamlined, but the falling interest rate environment remains problematic for the legacy portfolio. We have also seen a shift in the behavior of our insureds in the first half of this year. They made fewer partial surrenders, which led to higher provisions on our part.
Noémie BISSERBE, Wall Street Journal, Dow Jones

I read that you posted an underwriting loss of 740 million euros on this business.

Denis DUVERNE

No, the variable annuities business posted a loss of 10 million euros: the increase in provisions that you are referring to was offset by the revenues from this business and other items, such as suspending the option offered to clients to reverse premiums on new policies.

Henri de CASTRIES

It is necessary to take costs into account, but don’t forget revenues!

If there are no further questions, I’d like to thank you for your attention. Have a great vacation, everyone.