

Autumn Investor
Seminar

November 24, 2009

Risk & Capital Management

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CFO, member of the Management Board

redefining / standards



Cautionary note

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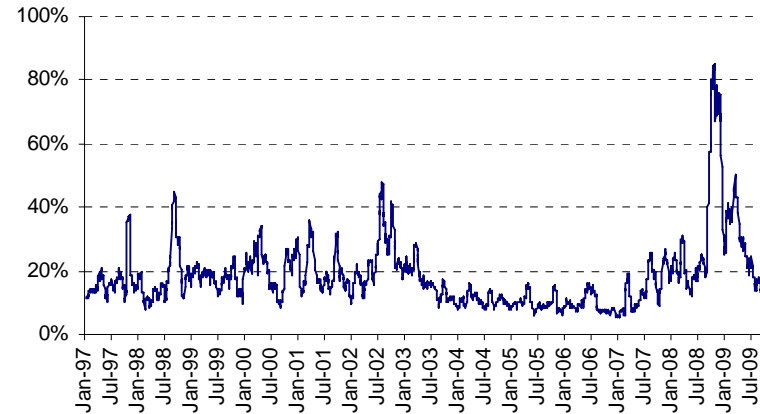
The calm after the storm?

Stock markets have partially recovered

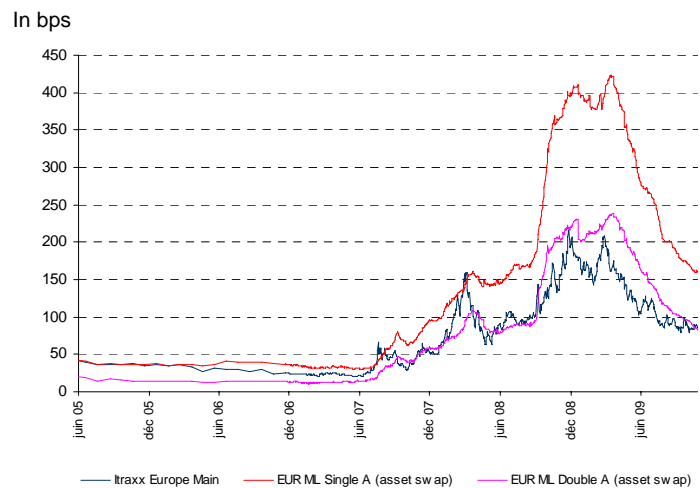


Equity volatility stabilizing

Daily volatility over 20 days on the S&P 500



Spreads stabilizing above historical average



Low interest rates levels

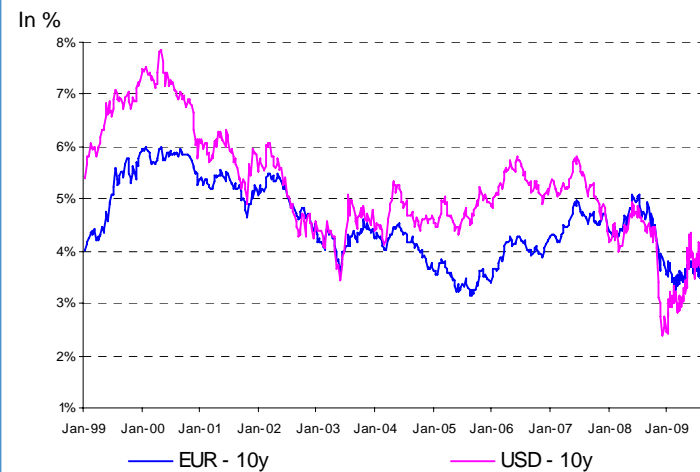


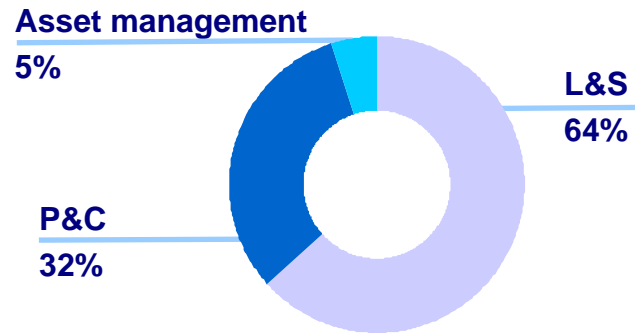
Table of content

■ What went well?	Page 5
■ Diversification benefits were real	Page 5
■ Risk management actions worked	Page 7
■ Lessons from the crisis	Page 9
■ Keeping market risk under control	Page 12
■ New key performance indicators	Page 20

We experienced diversification benefits

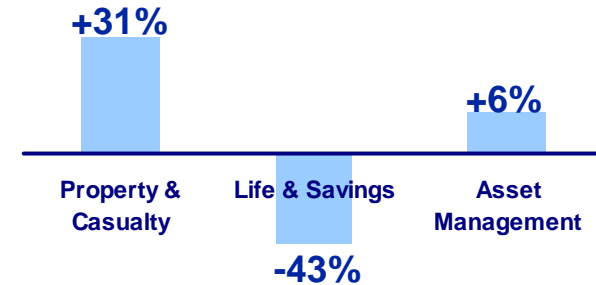
— 2008 Revenues Mix —

Business



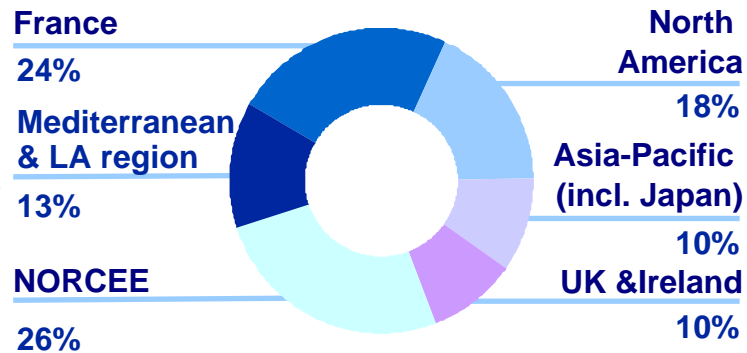
— Financial crisis —

FY08 Underlying earnings growth



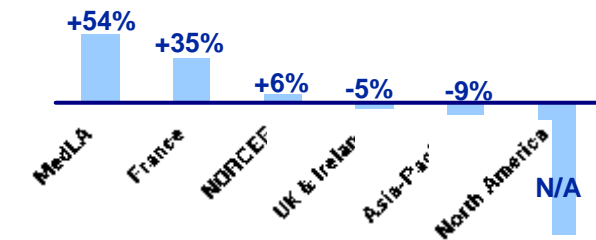
— 2008 Revenues Mix —

Geography



— Financial crisis —

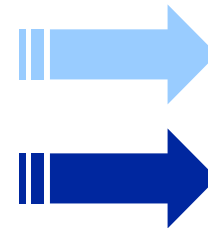
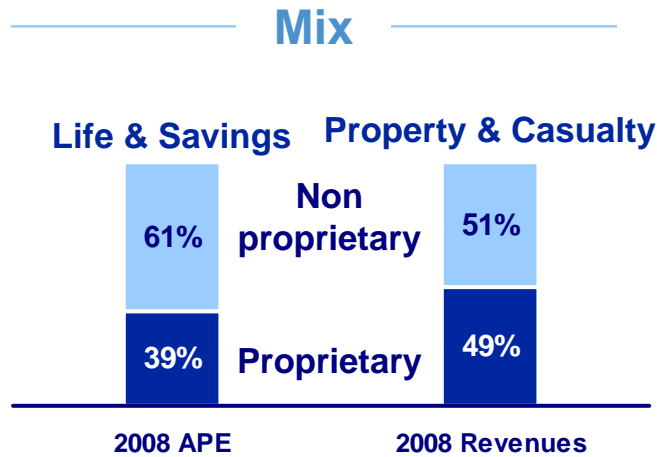
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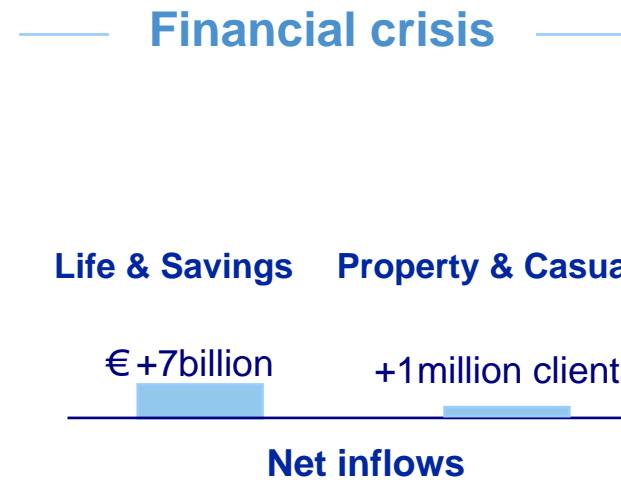
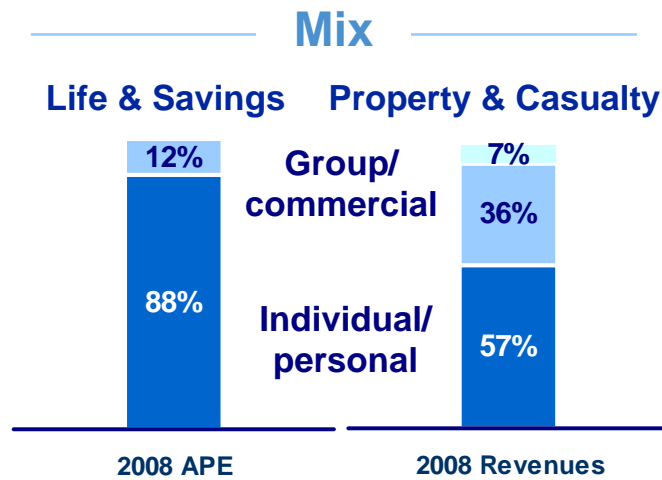
* Excluding International Insurance, Asset Management, Banking & Holdings

We experienced diversification benefits

Distribution



Clients



Risk management actions were effective

Assets

- Efficient equity hedge: **€1.6 billion gain**
- No credit default **above €300 million**
- Systematic collateralization of derivatives

Asset Liability Management (ALM)

- Limited duration gap: **less than 1 year**
- Gain versus 2 years gap:
 - **14 pts** in Solvency II
 - **10 pts** in Rating Agency models

Liabilities

- **No** liquidity issues
- **No** credit enhancement activity

Solvency & ratings

- Rating remained in **AA range**
 - Average rating of the sector down 1 notch
- Solvency II ratio (QIS4) > **155%**
- Solvency I ratio > **140%**

Table of contents

■ What went well?	Page 5
■ Lessons from the crisis	Page 9
■ The unthinkable can happen	Page 9
■ Higher proportion of market risk	Page 10
■ Keeping market risk under control	Page 12
■ New key performance indicators	Page 20

The unthinkable can happen: more weight on stress test scenarios

Our internal framework based on stochastic calculations was in place and embedded in business decision...

VALUE

CAPITAL

EARNINGS

LIQUIDITY

...still, we have changed
calculation frequency (quarterly basis) &
tail risk scenarios on corporate spreads and correlations

Adverse events (1/20 years)

- Equities -25%
- Interest rates -100bps/+100bps
- Credit spreads (corp) +75bps
- Credit defaults (corp) 1%
- Other: ABS, real estate, private equity, hedge funds, volatility...

Combined scenarios

Extreme events (1/200 years)

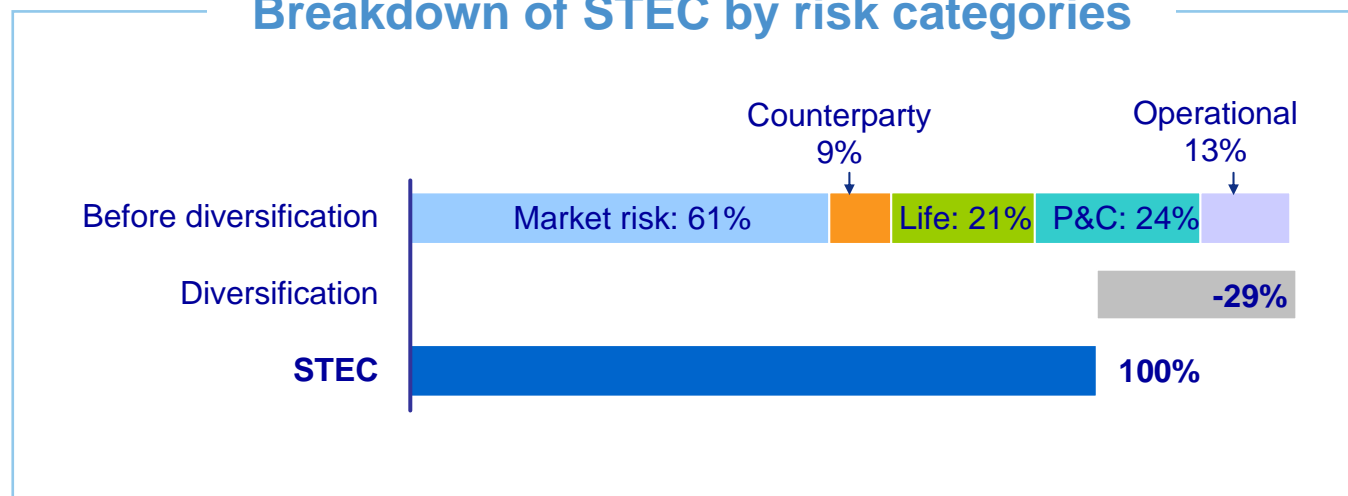
- Equities -40%
- Interest rates -150bps/+250bps
- Credit spreads (corp) +150bps
- Credit defaults (corp) 2%
- Other: ABS, real estate, private equity, hedge funds, volatility...

A high proportion of financial risk

Extreme financial scenarios in light of the crisis



Breakdown of STEC by risk categories



- ▶ **Market risk represents 61% of total Internal STEC before diversification: how to maintain it at a reasonable level?**
- ▶ **How does this measure of Internal STEC impact our key performance indicators?**

Table of contents

■ What went well?	Page 5
■ Lessons from the crisis	Page 9
■ Keeping market risk under control	Page 12
■ Refining our asset allocation	Page 12
■ Evolution of Variable Annuities	Page 16
■ New key performance indicators	Page 20

We have target limits to monitor our asset allocation

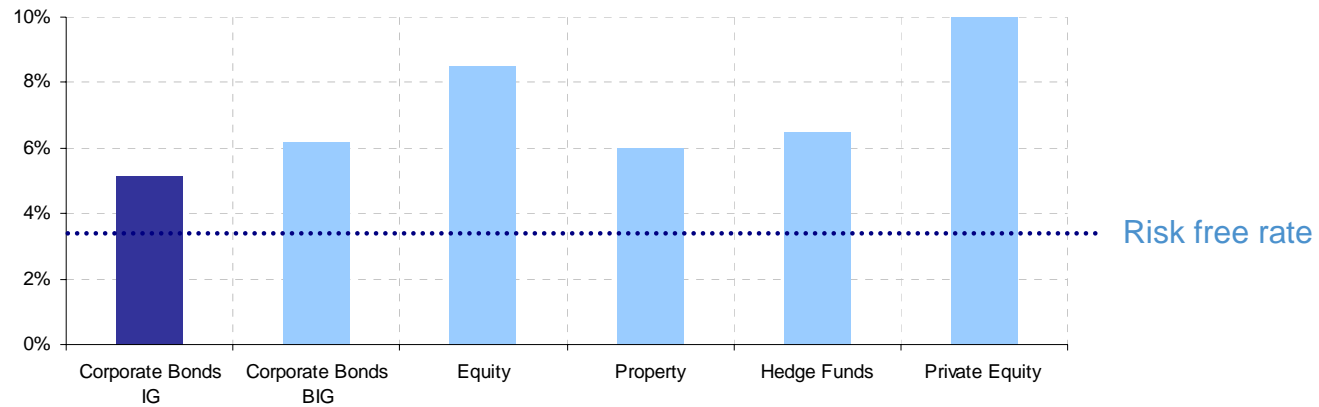


Invested assets (100%) In Euro billion	%
Fixed income	79%
<i>o/w Govies</i>	37%
<i>o/w Corporate bonds</i>	36%
<i>o/w Asset backed securities</i>	3%
<i>o/w Mortgage loans & other</i>	4%
Cash	7%
Listed equities	4%
Real Estate	5%
Alternative Investments	2%
Policy loans	2%
Total G/A and Bank Assets	100%

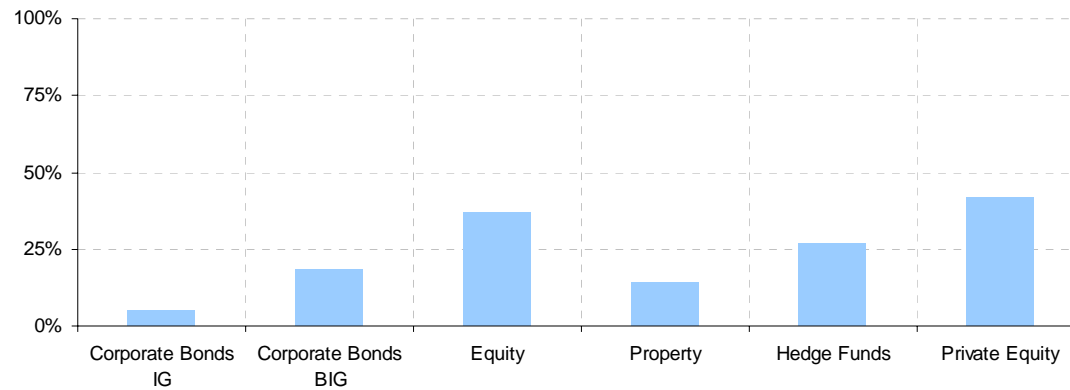
Our asset allocation is in line with our risk limits guidance with some potential for further optimization ...

Illustrative expected return by asset class & internal STEC requirements

Expected return by asset class



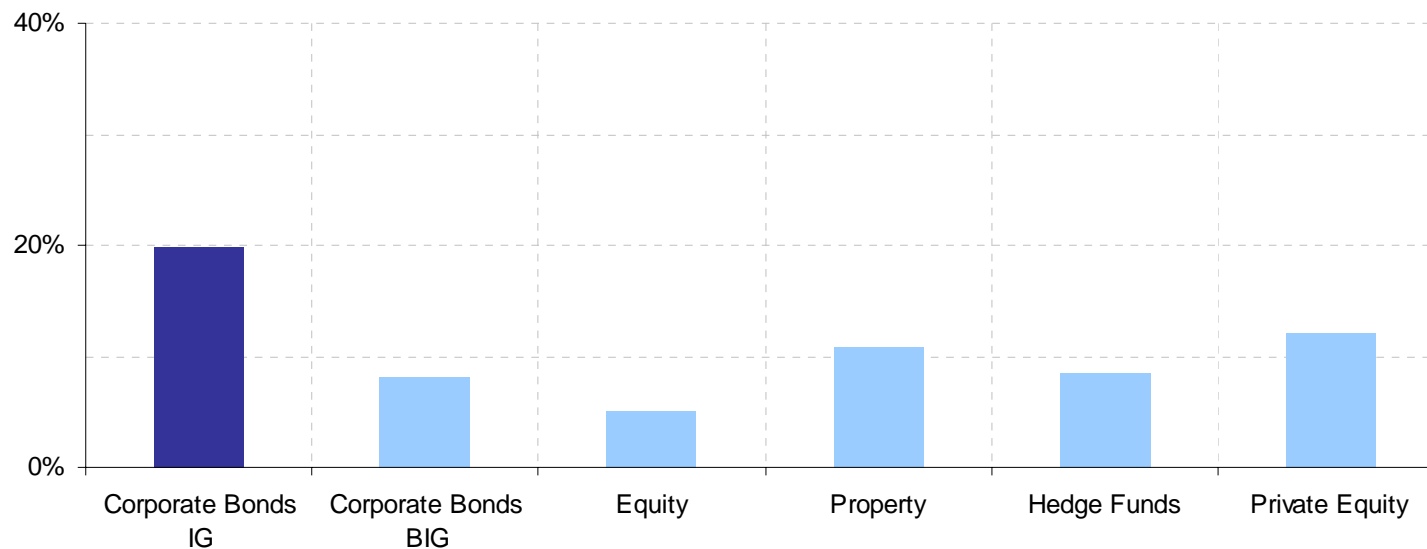
Internal STEC requirements*



* STEC calibration is more conservative than QIS4 but less conservative than QIS5 (third consultation paper)

Corporate bonds: relatively attractive assets

— Expected risk premium on required Internal STEC capital* —



▶ **Under Solvency II, corporate bonds have a better risk / return trade off than all other asset classes.**

* Shareholders' share net of cost of capital and diversification benefits

Managing corporate bond risk

■ Underwriting:

- Selection process based on a dual credit analysis (Asset Management analyst + Insurance company analyst)
- Second opinion from risk management
- Group Chief Investment Officer review/approval

■ Risk management:

- Diversification at Group level (country, issuer, sector...)
- Corporate bonds portfolio duration limited to 4/5 years

Evolution of Variable Annuities

Improved hedging efficiency
across the board

- ✓ Basis risk action plan
- ✓ Volatility action plan

Japan developments

- Very limited involvement in the under priced Variable Annuities market expansion until 2008
- First mover in 2009 to reduce commissions and reprice GMIB products
- Market share gains since 2009 with a double digit NBV margin

US developments

November 2008

- Reduced rollup rate (6.5% to 6%)
- Eliminated GWBL
- Increased pricing
- Lowered annuitization rate

February 2009

- Reduced rollup rate (5%)
- Limit fund lineup

February 2009

- New Accumulator 9.0
- Allocation funds & guided architecture

November 2009

- Retirement Cornerstone

Germany developments

Early 2009

- Stopped parts of “Twinstar Invest” new business
- Optimized swaption strategy on Inforce books to reduce exposure to long term interest rates convexity

Going forward

- Redesigning “Twinstar Invest” with a launch expected early 2010

Allocation funds

■ New business systematically invested in:

- Allocation funds
- Guided architecture

■ Customer benefits

- Simple for investors to adopt a strategy that matches their risk-tolerance profile and their investment time horizon
- Capacity to invest in a thoughtfully constructed, professionally allocated portfolio of investment funds diversified across domestic and international as well as equity and fixed income asset classes

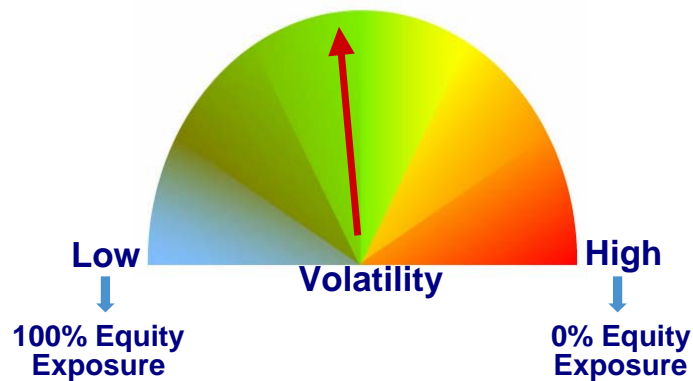
■ AXA's benefits

- Diversification of assets, and limits on equity allocation
- Capacity to apply ATM process to mitigate equity volatility
- Permanent flexibility on selection of asset managers

Action plan on equity volatility

Introducing AXA Tactical Manager (“ATM”) strategy...

Tactically Managed Portion of an ATM Portfolio



Implementation of a new tactical strategy designed to reduce equity weightings during periods of high volatility (above ca. 30%) for all funds under guided allocation

...should allow to improve funds performance

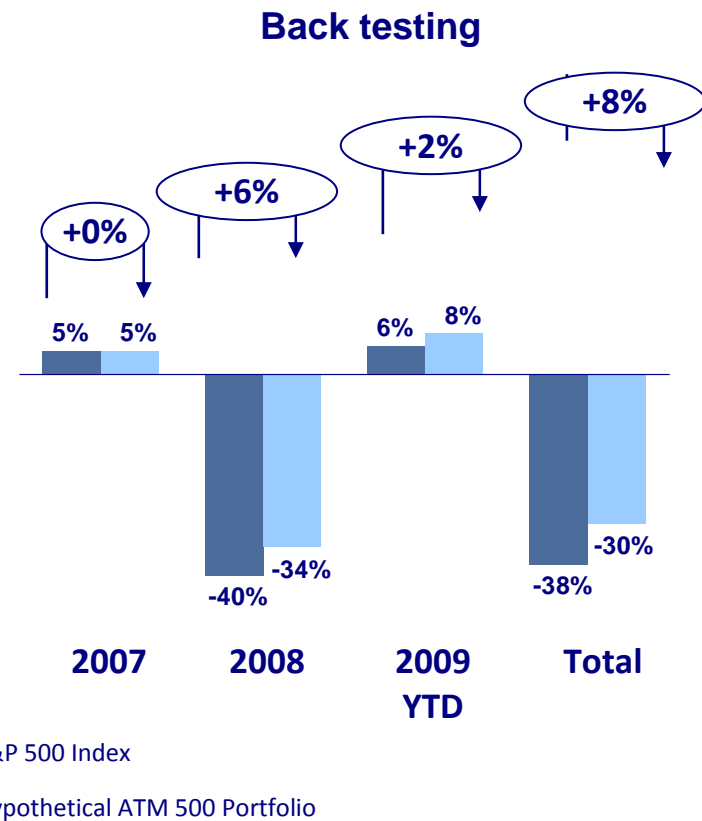


Table of contents

- What went well? Page 5
- Lessons from the crisis Page 9
- Keeping market risk under control Page 12
- **New key performance indicators** **Page 20**
 - **New KPIs using Internal Short Term Economic Capital (STEC)**
 - **Developments on the P&C front: New Combined Ratio & key findings**

New KPIs using Internal Short Term Economic Capital (STEC)

■ Systematic measure of return on risk adjusted capital

- Definition:
$$\frac{\text{Net Income}}{\text{STEC}}$$

- Granularity:

Life & Savings



- Protection, investment & savings, mixed
- Individual, Group

Property & Casualty



- Motor, property, liability, health
- Personal, Commercial

■ Systematic measure of Value creation

- Definition:
$$\frac{\Delta \text{AFR}^*}{\text{STEC}}$$

* Available Financial Resources

Developments on the P&C front

A new Combined Ratio

■ Economic Combined Ratio (ECR) has become one of our KPI's, reflecting:

- Current year experience
- Cost of risk
- Business duration
- Normalized Natural Catastrophe costs

▶ Making Combined Ratios comparable across the various business lines and across the years

■ Calculation



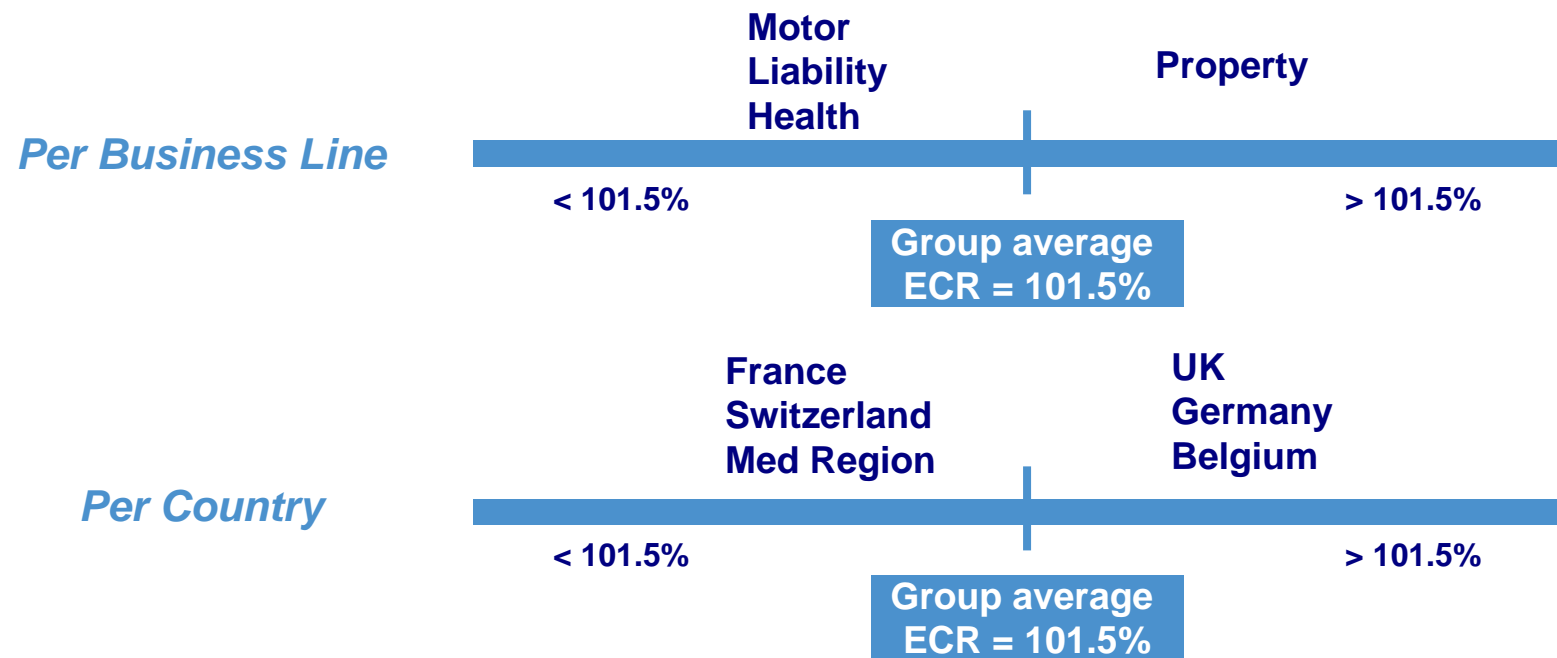
■ Objective: ECR ≤ 100%

- ECR = 100% → return/STEC = 10% (RFR + Equity risk premium)
- ECR < 100% → return/STEC > 10%

Developments on the P&C front

Key findings 2008

■ Most business lines are profitable but necessity to decrease ECR in some cases



■ Impact on 2009/2010 action plan

- Repricing actions on Inforce business, taking into account price elasticity and market cycle
- Moderating new business activity in soft countries

Conclusion

- **Life & Savings business has gone in 2008 through a crisis comparable to P&C in 2000/2002.**

- **Risk management allowed us, as in 2000/2002, to navigate well through the storm.**

- **The combination of:**
 - normalized Solvency II rules across the sector,
 - upgraded risk management in Life & Savings,
 - key performance indicators to measure economic return of all business lines,**should lead to lower equity risk premium for the insurance sector and for AXA.**

