Q2 2017 Earnings Call

Company Participants

- Amanda Blanc, Chief Executive Officer of AXA UK & Ireland
- Andrew Wallace-Barnett, Senior Vice President & Head-Investor Relations
- Bertrand Poupart-Lafarge, Group Chief Financial Officer, AXA UK
- Gaëlle Olivier, Chief Executive Officer of AXA Global P&C
- Gérald Harlin, Group Chief Financial Officer
- Paul Evans, Group Chief Executive Officer for AXA Global Life & Savings and AXA Global Health and Chief Executive Officer of AXA Global Asset Management
- Thomas Buberl, Group Chief Executive Officer & Director

Other Participants

- Andrew J. Crean, Analyst
- Andy Hughes, Analyst
- Farooq Hanif, Analyst
- James A. Shuck, Analyst
- Johnny Vo, Analyst
- Jon M. Hocking, Analyst
- Niccolo C. Dalla Palma, Analyst
- Nick Holmes, Analyst
- Paul De'Ath, Analyst
- Peter D. Eliot, Analyst

MANAGEMENT DISCUSSION SECTION

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Well, good afternoon, everybody. Welcome to AXA's 2017 Half Year Earnings Presentation. Welcome to those of you here in the room with us. Welcome to those of you on the telephone and welcome to those of you on the webcast.

If you would like to ask questions, if you're on the telephone or the webcast, that's very simple, just follow the instructions that you've been given. And of course, we will give preference, as per usual, to questions from here in the room.

Here in the room we have with us Thomas Buberl, Gérald Harlin, Gaëlle Olivier, and Paul Evans. We also have Amanda Blanc, the CEO of the UK in the room with us as well, would be happy to answer any UK-related questions.

And without any further ado, it's my pleasure to hand over to Thomas for an introduction.

Thomas Buberl {BIO 16182457 <GO>}

Thank you, Andrew, and good afternoon, everybody. It's a great pleasure to be here with you and present the half year result 2017 to you. And I'm looking even more forward to your questions.

If we go and start with the overall, we can look back on a very strong first half year, with a underlying earnings per share growth of 5%. This is in the middle of the range that we have communicated last year for the Ambition 2020, between 3% and 7%. The adjusted earnings per share are at 4%. This is being carried by a strong improvement in all lines of business. The Life & Savings business has improved by 3% underlying earnings. And I'm particularly proud that the P&C business has improved by 6% in that first half year. What is also very significant is the Asset Management improvement by 10%.

In Ambition 2020, we are not focusing on the overall volume growth, we are focusing on growth in specific segments. Those segments are segments where we are closer to our end customer, where we have a natural end customer contact, which is the commercial P&C business and the Health & Protection business. We have also followed that logic in the first half of 2017, with a plus 2% in commercial line business and a focus of that in the non-motor business, because we believe that the future is there for us, and that is also where we have the most end customer contact.

The same is true for the Health business where we have increased our growth from last year of 4% to this year of 6%. We further said that we want to improve the business mix on the Life side. Today, we are one of the very few companies who have drastically changed their business mix in Life to Protection, to Unit-Linked and Mutual Fund, and I'm very happy to see that the APE in Unit-Linked has increased by 11%, which is driven by our two strongest markets in that area, France and the U.S. This, at the same time, where the NBV margin has increased again to 40% and also, this is in comparison to our competitors, one of the highest levels.

We also look very much onto Asia because we believe that Asia is a very important region for us. We've got a great presence in Asia. About 25% of our business is in Asia today, and I'm very happy to see that we have also been able to increase our NBV in Asia by 9%, with a very strong focus in the first half year on making sure that the business in China, which didn't used to be as profitable as we wanted to be, is now at an NBV margin of 25% versus last year of 10%.

When we go into the technical margin, which was the second pillar of Ambition 2020, as I said earlier, I'm very, very proud of the fact that we have made such progress in the Property & Casualty. And if you look at this 1.5% reduction in combined ratio, this is a great achievement. Yes, you can say that we had less nat cat, but if you look into the numbers, the natural events have been higher than last year. So we are talking about a 1.2% true reduction in the combined ratio, which is linked to the fundamentals of really improving the loss ratio and the expense ratio.

And with that combined ratio on the current year basis, we are, from what I've seen, extremely well-positioned looking at the competition, but also extremely well-positioned when I look at the track record of continuously reducing debt. This 96.1% all-year combined ratio is well in line with the Ambition 2020 of 94% to 95%. We slowly want to move ourselves there, being very prudent on our reserves. You have seen that we have reduced the prior year's, this year relative to last year, and have actually a comparatively relatively low level to our competitors, because we do believe this business has to be steered of the fundamentals of the current year and not the reserves.

If we go into the efficiency part, which is the third biggest bucket of Ambition 2020, we also see that we have made progress there. Our total aim of cost reduction and avoidance of cost increase is €2.1 billion in the Ambition 2020. We have achieved €300 million last year. We are at half year at €200 million. All entities are now in the process of really reducing their costs, and everybody has got their fair share of how this needs to happen.

We have seen and you have seen that in all major countries where a social dialogue is required to reduce the cost, we have also started that social dialogue. And in some countries, we are already in implementation after a successful closure of that social dialogue, if you look at France, if you look at Belgium, if you look at Germany. So despite the fact that in Europe, reducing cost does take a little bit time at the beginning because we want to continue the active social dialogue, the things are in rolling or as the French are saying, [au marche].

I'm, therefore, very confident that continuing this effort and with a disciplined approach, really working on all our three levers that we want to address, the administrative expenses, the claims expenses, but also the acquisition expenses, that we will reach our Ambition 2020 target.

If we look at the capital management, we can clearly say that all of these results have been realized based on a very strong balance sheet. 201% Solvency II ratio is a great result. It's even an increase compared to last year, and we have clearly signaled to the market that with the intention to list a minority stake of our U.S. business on the Life side and the Asset Management side, that we really want to accelerate the portfolio shift more towards a P&C and more towards a Health & Protection profile.

With having said this, we are obviously continuously screening the market for M&A opportunities, where can we really both grow inorganically in the Health & Protection and P&C commercial business, but also how can we deploy investments internally to really make that growth. And you have seen earlier that the organic way of growing is quite a successful way. We have managed to grow in the commercial line P&C business, both in terms of putting through the pricing power that we have and growing in terms of number of customers, and the same is true for the Health business with 6%.

AXA is also a very large insurance company worldwide, and as we not only work in the payments of claims, but we have a very clear societal role, both from an insurer perspective, but also from an investor's perspective, we've been continuing our – of acting really in the sense of a good corporate citizen and being socially responsible.

We have worked on two areas, where we have taken significant divestments decision in the last two years. One was on the coal front, where we have decided to divest from companies that are mostly exposed to the coal sector. We've gone a step further and have joined the so-called RE100 initiative, where we basically, with other large companies, commit to only use sustainable electricity. We've also continued on the divestment path on tobacco. After having announced of getting out of the tobacco industry, we've also gone a step further and have co-sponsored a very large declaration where many, many investors have followed our initial role of divesting from the coal sector.

When you look at these results in the light of Ambition 2020, I'm very happy to tell you that we are on track when it comes to all the key KPIs. We are determined to have an underlying earnings per share growth between 3% and 7% over the period from 2016 to 2020. Last year, we had 4%; this year, we have 5%. The same is true for the free cash flows. On a cumulative basis, €28 billion to €32 billion. We are today at a similar level as we were last year when we looked forward towards the end of the year, so we will also stand by this commitment.

When we look at the adjusted return on equity, we said we want to be between 12% and 14%. And I hope you don't mind that we have surpassed the upper boundary of 14% at the half year with 14.7% return on equity. And as I said earlier, Solvency II ratio, we want to be in a range between 170% and 230%. With 201%, we are almost in the pure middle of this range. A solid set of numbers, a good performance, which shows that AXA is clearly on track to deliver Ambition 2020.

And I would now like to hand over to Gérald, who goes into more detail.

Gérald Harlin

Good afternoon. Okay. So, let's go to more detail on the underlying earnings by segment.

We could say that on our main segments, across the board, we are significantly up with Life & Savings, plus 3%; Property & Casualty, plus 6%; Asset Management, plus 10%. The Banking is very small, minus 13%. It's due to lower margin and deposit in Belgium. And as far as the Holding (sic) [Holdings] are concerned, two reasons for the minus 15% decline. So, first one is higher financial charges due to the issuance of Tier 2 debts as a refinancing of a Tier 1 debt. As you know, Tier 1 debt doesn't flow through the P&L account under the IFRS principles, that's a reason why. The second reason is a non-repeat of tax one-off in 2016.

No, it's not this one...

Thomas Buberl {BIO 16182457 <GO>}

Use your finger on the screen.

Gérald Harlin

Oh, okay. On the adjusted earnings, so we are plus 3%. You can notice that we have realized capital gains at €307 million. It's exclusively equity and real estate. And you can notice as well that net impairments are much lower. We benefit from better financial markets or €3.5 billion for adjusted earnings.

Net income now, we have an increase of 1% on net income at €3.268 billion. You can notice that the gains on economic hedges are at minus €281 million. This correspond to freestanding derivatives, not benefiting from the hedge accounting. And the €127 million, it corresponds to the favorable impact of markets on IFS P&L funds, so funds which are mark-to-market, so plus 1%.

Let's move to the Life & Savings, and let's start with the top line. And I propose you to start with the mature markets. In the mature markets, APE is at plus 2%. And I would say, there are different elements that are necessary to explain, just because 2% is an average. First, we have two countries where we have an excellent performance: start with France, 7%; U.S., 13%. And beside, we have other countries like Switzerland, which suffered from a, I would say, one-off effect in 2016, because in 2016 in the first quarter, we had a very large contract, and this explains in itself 1%. That means that Switzerland is at minus 12%, and we would be positive if we would restate for this one-off. So, this Switzerland, this contract, explains 1% instead of 2%. We would have been at plus 3%.

At the same time, keep in mind that we have AXA NPS. AXA NPS is at minus 15%. The situation is significantly improving, but we started the year at NPS with top line growth at 50% of what it was one year ago. It's fairly better now. In July, we are at minus 10% only, so an improvement. And so, that's mostly it, so a contrasted situation.

As far as emerging countries are concerned, minus 2%. It's due to Hong Kong; Hong Kong, which is at minus 5% due to the closure of a G/A contract in the third quarter 2016. In line with our intention and in line with what we presented in our plan one year ago, we want to write profitable business, and that's the reason why we decided to close this contract.

In Southeast Asia, we are at minus 2%. And in the same spirit, it's a decline in Southeast Asia of 2% due to China, because in China, we wrote a smaller business. That means we wrote a smaller amount of new business, but with a profitability of 25% in term of NBV margin, where one year ago we were at 10%. It explains the 9% NBV improvements that you can see here. So, as a whole, we have an APE at plus 1%; NBV, plus 2%, with a very strong NBV margin, the strongest among our peers at 40%.

Moving to the segments now. I would like to start first with Unit-Linked. You can see that we have an APE growth of 11%, with an NBV margin of 32%. Again, France, which is at 25%growth in Unit-Linked in the first half of the year, which is a strong performance. Just to give more color around this performance, expressed in term of revenues, the savings products, we write 43% in Unit-Linked today when selling savings product, and the rest is in general account. The average of the market in France is at 30% only, so we are far above our competitors, and it's something which is still improving. This is due to the fact that we can propose to our clients very attractive products, including real estate products. So, plus 11% in Unit-Linked.

Next is Protection & Health. So, Protection & Health, plus 1%, and of which, France, 7%. If I would exclude the contract I mentioned before in Switzerland, we would have been at 2.7% growth in Protection & Health, quite in line with what we shared with you one year ago.

On G/A Savings, minus 16%. This is all the reasons I explained, the combination of Hong Kong, the closure of G/A contract with Italy as well. So, as a whole, minus 16%, but as you can see as well, it's the lowest NBV margin. So, in a nutshell, I would say that the new business has been extremely selective with high-quality and a very disciplined approach fully in line with the one we described one year ago.

Let's move to underlying earnings by business. This is on a pre-tax basis on the right-hand side, post-tax on the left-hand side. Let's start first with Unit-Linked, plus 35%, with higher management fees. I should remind you that the average reserves increased by 7%. We benefited from the favorable equity markets. And at the same time, we have higher GMxB margin, which is in line with the market improvement.

In the middle, G/A Savings, minus 4%. I would say that it's due to the lower investment margin, pretty in line with our own expectation and in line with the guidelines that we shared with you when we presented our plan. Protection & Health, minus 10%, and this is due to mortality model changes in the U.S., of which correction of a model error of policies after at planned age of 100. In other words, we stopped modeling after 100 years old and we had to correct this because, indeed, it doesn't correspond to the reality, and that's the reason why we were at minus 10%.

I should add that taking into account this correction, we have a combined ratio of 96.1%. You can see it in the appendices as usual, and we still maintained the target, as presented in our plan, at the end of the period of the plan between 93% and 94%. So as a whole, I would say on the post-tax basis, total Life & Savings at plus 3%.

Property & Casualty now, and the total revenues are plus 1.4%, and you can see in the bubble, plus 2.3%, excluding Turkey. As you may know, Turkey has been hit by a 30% price decrease of third-party liability, following a regulation change since April 2017. It's a price cap, and this price cap translates into the top line. And that's the reason why we are at 1.4%, and excluding this, we would have been at 2.3%.

We are quite proud also, on the right-hand side, to show you that non-motor for personal lines as well as for commercial lines are plus 3%, absolutely in line with our – this correspond to our priority segments. Last, you can notice that the price effect are quite still very strong, 2.7%, and 1.7% for commercial lines.

Let's move to underlying earnings. Underlying earnings at plus 6%, which is an excellent performance, and this is explained by two elements. First the combined ratio, as explained by Thomas, we have a decrease of the current year combined ratio by 1.5%, from 98.4% to 96.9%. We could add that we had natural catastrophes at a low level, 0.1% instead of 0.7% a year before, but the smaller natural events have been stronger than they were one year ago.

If we combine lower nat cat and higher smaller natural events, we could say that the improvement is 0.3 points only. So we should have a global view of the natural events like this. So it confirms at the same time that the attritional losses improved by 1.2 points.

Prior reserve development, as explained by Thomas, we have a strong decrease of 1.2 points. We should say that we had a cautious approach. And I can tell you that we are still expecting for the full year to be between 1% and 2%. So as a whole, 96.1% versus 96.4% one year ago, minus 0.3 points, and I still confirm that we are confident in our 2020 targets between 94% and 95%.

Asset Management now. On Asset Management, strong performance, plus 10% in underlying earnings with, I would say, average AUM at plus 7% for AXA IM, with almost the same, plus 6% in revenues; and for AB, plus 2% in average AUM, plus 6% in revenues because the net inflows had been concentrated on the retail segments with higher fees. As a whole, 6% of revenues versus underlying earnings at 10%, confirming our capacity to benefit from operational leverage.

Balance sheet now. I would say that nothing very different from what we explained and commented over the past sessions, 82% of assets are invested in fixed income. Long asset duration, we didn't change. I remind you that we are managing a duration gap close to one year. And we have a slow yield dilution. We moved in Life & Savings from 3.3% to 3.1%. For Property & Casualty, we are flat, but you should take into account this compares to the full year 2016, and you know that in the first half, we have always the benefit of the dividend. So we can expect, in line with what we told you before, we can expect to be slightly lower for the full year.

Let's move to the ratings. And as far as the ratings are concerned, we are still investing – we have still an average rating, which is maintained at AA for the sovereign bonds and A for the corporate bonds.

As far as new cash flows are concerned, so we invested €31 billion in the first half in fixed income. You can notice here that it's being done at 2% on average versus 1.8% for the full year 2016, so a slight improvement mostly coming from the U.S. dollar, because we have slightly higher rates on the Eurozone but spreads tightened. But we are 2%, which is a slight improvement. And you can notice on the left-hand side that we have been investing in the first half 94% in investment-grade credit and in sovereign bonds.

Let's move now to the ALM, and to the Asset & Liability Management. You can notice that we still have a significant buffer between yield on assets at 3.1% on the inforce, the average guaranteed rate at 1.9%. So we still have 120 basis points. Even more relevant for new business because we have only on average guaranteed rates at 0.3%, so on average, we are we are at 170 basis points, but I should add in line with my comments on the

French business that across the board, the new business is sold in combination with higher margin Unit-Linked business.

As far as the shareholders equity, we have a decline from €70.6 billion to €68 billion, explained mostly by the dividend of €1.16 that we paid in May, €2.8 billion. Second, the net income for the period, €3.3 billion, and the forex and others, but mostly the forex, minus €2.3 billion. The euro versus U.S. dollar moved from $1.05 to $1.14.

Let's have a look at the debt ratio. So the debt is going down from €18.3 billion to €16.9 billion. We reimbursed €1.8 billion of Tier 2 debt and we issued in January €1 billion of Tier 2 debt, so a slight decline. Debt gearing is stable at 26%, interest cover at 15.6 times, and the rating across the board is AA- stable.

Solvency II ratio, we increased from 197% to 201%. Not a big change, you can see on the numerator and the denominator. Key sensitivities are not very different from what we shared with you in December. My only comment is that the operating return is quite strong, 9 points. And for the six months-end dividend, based on the last year's paid dividends is a minus 5 points. That mostly explains the increase from 197% to 201%.

Now I will hand over to Thomas for the conclusion.

Thomas Buberl {BIO 16182457 <GO>}

Thank you very much, Gérald. To conclude, three key statements. Number one, these half year earnings show a very strong underlying earnings per share growth of 5%, which is supported in a improvement of the performance in each of the business lines. We have clearly seen that the focused top line growth in Health & Protection and in the P&C commercial has been fully followed through, and that certainly on the Life business, where we would have expected more, we have very clear remediation plans, be it in Italy, be it in Japan, be it in Hong Kong.

The strong technical improvement is absolutely key for that improved performance and I would particularly highlight again the P&C business, where the minus 1.5% improvement in the combined ratio is a great achievement, all of this based on a continued strong balance sheet.

Thank you very much for your attention, and we would now like to come to your questions and our answers. And for that, Gérald and I will be joined by Gaëlle Olivier, who is responsible for the P&C business globally, and Paul Evans, who is responsible for the Life/Saving, and Health business.

Farooq?

Q&A

Q - Farooq Hanif {BIO 4780978 <GO>}

Firstly...

A - Thomas Buberl {BIO 16182457 <GO>}

Does it work?

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, can you hear me? Testing 1, 2, 3.

A - Thomas Buberl {BIO 16182457 <GO>}

Yes, perfect.

Q - Farooq Hanif {BIO 4780978 <GO>}

So, I can't believe I just said that. So firstly, on the P&C business, so I noticed that AXA Corporate Solutions has been one of the strongest growth areas, and that's obviously slightly different from your message that you're looking at more of the small or medium sized type of commercial business. But I'm just kind of wondering what's going on there and what you see as a growth rate of that business because it seems fairly profitable. So that's question one.

Question two is on the cost-cutting. So quite a lot left to deliver. You seem to be talking recently about reduction in head count. Just wondering what are the levers sort of going forward over 2018. Which are the areas that you really now need to work on? Is it just geographical or is it your acquisition costs and various other legals? Thanks very much.

A - Thomas Buberl {BIO 16182457 <GO>}

So I suggest that, Gaëlle, you take the first question on AXA Corporate Solutions. I think it's important that we explain again what is in the commercial business bucket, and I will take the second one on the costs. Gaëlle?

A - Gaëlle Olivier

Absolutely. So thank you, Farooq. And indeed one of you or yourself, you had asked a similar question at the full year 2016, when we presented the progress of our 2020 Ambition. We have disclosed in our 2020 plan that we want to work our – overall our Commercial lines book to 3% to 5% CAGR by 2020, between 2016 and 2020, and at the same time deliver a 94% to 95% combined ratio by 2020.

And if you remember, what we had said in 2016 was that this includes as well the International segment, meaning including AXA Corporate Solutions. And at that time, you had change of, looking at where the profitability is today on AXA Corporate Solutions, are you going to make your target? And my answer at that time was twofold. One is yes, we are reinforcing our target of 94%, 95%. And two, part of our Commercial line development will come from the development of what we have started to do in the past years, including the large accounts, but also a strong acceleration on notably the SME part of our business, which will be supported by the strong hold we have on our proprietary distribution, notably in the European market.

And what we see today is we see the combination of two things. One, we see AXA Corporate Solutions growing extremely strongly in the half year, supported both by European market but also new territories. Brazil being very strong accelerator of our growth in Commercial and in the AXA Corporate Solutions business, together with a strong improvement of our profitability in AXA Corporate Solutions.

And if you look at our SME business, we have a growth of our SME business which is at roughly 3% with an overall combined ratio which is below 95%. So we are extremely solid and disciplined on where we want to grow business. Our first objective is really to get back to a stronger underlying profitability base, and once we have this, accelerate our business development, and that's exactly what you start to see in the numbers in 2017.

A - Thomas Buberl {BIO 16182457 <GO>}

So let's come to the cost savings. Again, the €2.1 billion is a combination of cost avoidance. So if my salary is at €100 and today's inflation every year, if I avoid the inflation, if it stays at €100, it counts for the €2.1 billion, and it's a reduction in actual cost. When you look at the numbers and make the math, we are at €200 million this half year. If we assume that the first half is equal to the second half and you make the math, you will almost get, until 2020, to the €2.1 billion.

As I said to you earlier, it always takes a bit of time to get the machine rolling, but these cost reductions and cost avoidance are, on the one hand, fully implemented in the local plans, and if you wanted to, you could do a field test now and ask our two representatives of the UK market, Amanda Blanc, who is the CEO; and Bertrand Poupart-Lafarge who is the CFO, what it means for their country. Every country has their package. So, the €2.1 billion is divided amongst the countries. And we can obviously not only expect that the countries are saving all of the €2.1 billion, we also, as a group, need to contribute to it and show a positive example.

And if you were an employee of AXA, you would have seen that a couple weeks ago, we have launched an internal project to look at our overall set up when it comes to group, the regions, and the countries and to see how can we simplify the model and get to a model, where you have a clearer base of accountability. So, I'm personally very convinced that we will get to those €2.1 billion.

And, again, if you look in the newspaper and see the announcements that have been done, in Belgium, reduction of 600 people; that have been done in Germany, agreement of reducing the staff by 800 through 2020. Look in the French newspaper, where you see that AXA has gone from five insurers in France to one. By putting it all together, you have very clear and tangible proofs that this is moving ahead, and that I'm very confident that we will make it.

Jon? Make it easy. We go through the end there.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Thank you. Jon Hocking from Morgan Stanley. I've got three questions, please. Firstly, just to come back on the cost piece. If I understand correctly, what you're saying is that you've already basically achieved sufficient initiatives that if you assume you can maintain that run rate over the next period, you'll actually achieve the €2.1 billion. Does that not suggest that there's further upside of costs over the plan period if you identify additional initiatives over that period? That's the first question.

Second question is just to come back on what you mentioned in terms of P&C combined ratio. You said you wanted to focus on current-year profitability. I just wondered what sort of reserve margin you're building in, and presumably, there's an expectation that some, albeit maybe small, positive run-off over time?

And then just finally, I wonder if you could just comment on what you think the impact of Macron will be on the business, particularly, in terms of tax, life insurance, and anything else you might think is relevant for the group? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Good. So, I suggest that I'll answer one and three, and Gérald would do question two. We'll start with Gérald.

A - Gérald Harlin

Okay.

A - Thomas Buberl {BIO 16182457 <GO>}

I won't have to think then.

A - Gérald Harlin

So, Jon, on the P&C, current year. Yes, we have an improvement, and we are focusing – we fix objectives. The way we manage it is that we fix some objective in term of current-year combined ratio towards the entities. And the prior year is something which is managed in collaboration with the different entities. If you ask me, did you have some positive run-off? Yes, we have some positive run-off, and you can easily – if you go to the SFCR, you can see that there is some positive run-off. And that's the reason why I said, we are a relatively low level at 0.7% in the first half. And I was quite relaxed to tell you that we'll be between 1% and 2%, in line with the guidance that we gave before for the full year, yes. So, no worry on that side.

A - Thomas Buberl {BIO 16182457 <GO>}

So, on your first question, Jon. I mean, the €2.1 billion need to be positioned in the line of history. They don't come as the first-ever cost savings of AXA. If you look back at the plan, 2010 to 2015, we have already achieved €1.9 billion cost reductions. And as you know yourself, the first savings are always much more easy than the second and the third.

Getting to those €2.1 billion requires a lot of rolling up your sleeves. So, I do believe that there is hardly any further potential.

If there was further potential, I would most likely come to the conclusion with my management team to reinvest it in the business and to transform the business even further. Because if you look at this €2.1 billion, it's a net number after investment. We need to make sure that we keep the steam engine running, and this requires, on the one hand, being more efficient but also to invest into the future.

Your second question on Macron – or your third question is a very interesting one in the current French environment. Obviously, as you can imagine, after the election of Macron, there's a lot of enthusiasm in France. And Macron has very much kept very tight to his program. One of the points in his program was the simplification of the taxation of life insurance, which in general, we all welcome.

Where the details now need to be worked out is the question, how do you simplify, and how do you make sure that another goal, which is very important for him and his government, which is achieving growth and investing into the real economy is being achieved. And I believe there is a very positive way of combining it and saying, look, we need to, as an industry, move more towards capital-light and towards products, where you have a better combination for the customer between upside and guarantee, which also means that you have to go in more productive assets, be it private equity, be it infrastructure, or be it equities.

And you have seen that he himself in one of his last action as Minister of Economy at the time was to launch a new law with a life insurance and private equity after real estate has become a subject. So, the next logical step for me would be to extend the same to infrastructure. And I do believe that the simplification could go quite well with our own view of how the industry needs to move in a better balance between upside and guarantee.

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes of SocGen.

A - Thomas Buberl {BIO 16182457 <GO>}

It's very difficult to see you, Nick, because the light is – okay, now I see you.

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you. First question is on Unit-Linked sustainability. A lot of people are very skeptical about Unit-Linked. It's a very volatile product. I wonder if you could reassure us that maybe things are changing and that Unit-Linked is more here to stay in terms of interest rates or guarantees not being existent, and more bonds, et cetera. I wondered if you could share your thoughts on Unit-Linked sustainability.

The second area is Asia. And I wondered two aspects. I wondered if you could talk about what's happening in Hong Kong. Clearly, there is a real product focus here on Protection & Health as opposed to Savings. And this is not what many of your competitors are doing. I wondered if you could talk us through that. And then health insurance in the context of Asia. You are conspicuous in being underwriter, I think, in health insurance in Asia versus Europe. What are your plans for health insurance in Asia? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Nick. The best person to answer all these three questions in a brilliant way is called, Paul Evans.

A - Paul Evans {BIO 20793138 <GO>}

Thank you, Nick. You're very kind. Let me take those in the order that you asked them. So, Unit-Linked sustainability. So, it is true that Unit-Linked can be more volatile in terms of consumer sentiment, so that where markets are volatile, it's natural for investors to be more hesitant, even if, frankly, the best time to invest is often after a crash. Natural behavior is that it is more volatile. However, if you counter that with a view on general accounts, so in today's environment, the returns that we can offer on general account are now very low. And we're not prepared to offer uneconomic returns to generate top line, because they're very capital-consumptive.

So, the reality is more and more competitors are now seeing the reality of the G/A return on equity equation. So, more and more are offering Unit-Linked, and therefore, customers are being driven towards that as a long-term investment solution. If you're saving for a pension, don't save in G/A, save in Unit-Linked over the longer term. So, I would say it is sustainable. There will be some volatility from year to year. You have seen a very strong period, during which we've seen relatively stable markets.

Asia markets, and Hong Kong, in particular. So, yes, we are focused indeed on Protection & Health. And indeed, in Protection Hong Kong, APE was up 25% in the first half of the year. That isn't to say, however, that we aren't prepared to also offer Savings solutions. So, we did withdraw a product in the third quarter of last year, because interest rates had moved to a point where it was no longer doing an adequate return on capital. So, we have seen the impact of that loss of volume in the first half of this year, and that's why revenues are down 5%.

However, with interest rates now moving back up, that product can be redesigned and made profitable again. And we do intend to relaunch into the G/A Savings market in the second half of this year, because we can make money again, and because fundamentally, there is no Unit-Linked market in Hong Kong, because the regulation GN 15 and GN 16 effectively rendered it impossible to compete in Unit-Linked. So, it isn't to say that we don't like it, we're just very determined to only distribute profitable products, but we will be seeking to move back into this market in the second half.

Health in Asia. Yeah, health in Asia is relatively small, obviously, it's stronger in Hong Kong. And we do have businesses in other Asia markets, and it is an area of focus. Indeed, the team are currently seeking to lift the management team for health in Asia. And we do expect to see growth in that market. Nothing to say right now, but it is an area of focus.

A - Thomas Buberl {BIO 16182457 <GO>}

So, we do one more question here, and then we move over here.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you. Peter Eliot from Kepler Cheuvreux. Can I just come back on the prior developments? Because I was quite interested, Gérald, by your comfort that you can get to 1% to 2% for the full year. And if I just look at the sort of the moving parts, I mean, okay, we had Turkey in the first half, but that was only 0.3%, otherwise the deterioration seems to have been quite uniform. And when I look historically, most of your reserve releases always come in the first half of the year. So, I'm just wondering, what's giving you the confidence that we can sort of buck that trend, as it were in the second half?

The second question was on the life running yield, which, again, I'm a little bit confused on the moving parts, because it's come down 50 basis points over the last 18 months from 3.6% to 3.1%. Given the duration of that portfolio and the reinvestment rates that you've been doing of sort of around 2%, I'm sort of struggling to see how it come down so quickly and the spread falling 20 basis points. But then when I looked at the individual countries, it doesn't seem to have moved very much. So, I don't know, I'm struggling to understand those different moving parts.

And perhaps, finally, if I can just ask on the Solvency sensitivities, as you said, they haven't moved very much, but you have made the interest rate one more symmetric. So, the upside has increased without the downside increasing, and just wondering what's happened there. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald?

A - Gérald Harlin

Yes. I propose you to move to Page B38, to answer your first question. And just have a look, and we can assess that the level of the reserving ratio remains pretty high. And we are 2%, 3% at the end of June 2017. So, that's it, and that confirms what I told you. That means that we are not at all in a situation where we could forecast any decrease in this capacity to release some reserves.

On your second point, you should keep in mind that first of all, there are some situation, depending on the type of investments, so it's relatively difficult first-half-to-first-half to make a really reliable comparison in term of investment income. But when I told you that what is relevant is just to look at the 71 basis points, which is the investment margin, and the investment margin is absolutely in line with what I told you. And you remember that on June 21, 2016, we said, again, that we would be between 65 basis points and 75 basis points. So, to be at 71 basis points in the third semester of this period gives me a lot of comfort. So, that means that I confirm this objective, and I don't have any fears.

There could be some situation. And the other argument, which at least partially will answer your last question, is the fact that we have more and more flexibility vis-à-vis our policyholders to decrease the remuneration. When rates are at such a low level, we have flexibility, look at what's preferred that I showed in inforce business. It's quite strong. So, no, it's not at all, for us, a matter of uncertainty, I would say.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's move over to this side.

Q - James A. Shuck {BIO 3680082 <GO>}

Thank you. It's James Shuck from Citi. I had three questions, please. Firstly, on the underlying growth you showed at H1. See 5%, H1, great result. But I think at the Investor Day you kind of suggested that it takes some time for some of these initiatives to actually start biting, and that the profit profile might be a little bit more back-end loaded than we might expect. So my question's really what's going better than you expected at H1? You have talked about those digital initiatives that you're investing in, that it's time for some of those to start paying back. Are you able to give any specific examples about those that actually contributed towards profitability? That's my first question.

Secondly, around the central liquidity, you stopped disclosing the cash level of the HoldCo. I'm just interested in what is the level of cash liquidity and how do you actually want to manage that balance. Do you actually have a set target that you want to manage around? And kind of connected to that, is there any surplus over to the SFCRs? Germany seems to have quite a high level of Solvency II ratio, is there surplus in any of the operating units that you would want to upstream to the HoldCo?

And then finally, around the debt optimization plans, the Ambition 2020 points to 10 points of debt optimization coming, I think, from basically not rolling over – well, rolling over the maturing hybrids into senior debt as opposed into qualifying capital. It doesn't seem like you actually rolled that over into senior debt, it seems like it's gone into Tier 2. So are you still intending on setting aside 10 points to Solvency II capital by – as part of Ambition 2020? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you. I suggest, Gérald, you answer all the questions except for the digital ones, which I would.

A - Gérald Harlin

Okay.

A - Thomas Buberl {BIO 16182457 <GO>}

Unless you want.

A - Gérald Harlin

Your first question was about what is going better, Unit-Linked. Remember, when we presented our plan, we said that it was assuming that the equity market would be flat and we are benefiting from higher equity market. So this obviously, it's a matter of improvement.

Cash level at HoldCo, it's not because we don't want to present the cash level in the holding company, it's only because before, maybe you remember, we were netting the net debt from the cash that we had at the holding company, which meant that we were not consistent with some of our peers. And many of you asked us to be more consistent with our peers. That's why.

Yes, we have some cash. We have a comfortable level of cash, I would say, at the holding company. You remember, we said that we have the capacity to invest €1 billion in M&A per year. So that means that we had €1 billion available that we got last year. This year we should get one. We did some share buybacks, 36 million, 37 million shares. It's €1 billion less, so we have as a whole something like sufficient in order to face quite a significant acquisition.

But at the same time, I would say that the surplus, which was the third part of your question, the surplus in these subsidiaries, you remember that we have a remittance ratio commitment between 75% and 85%. We have effectively some surpluses that we intend to upstream this year. But you noticed also that on the 10th of May, we said that we would recapitalize by €1 billion, the U.S. So on a net basis, what I can tell you is that we will remain – also, we will have to do this recapitalization, we'll stay within this 75% to 85% of remittance ratio. So we are comfortable on this side, and we have some capacity to reduce the excess capital as we explained two years ago.

The debt, it's very simple. When you have such an opportunity and when the spreads are at such low level, you prefer in this time to borrow and to issue some sub debt rather than senior debt. Because the difference between look at the spreads two years ago compared with today on sub debt and senior debt, from an opportunistic point of view, I can tell you that I prefer to issue sub debt. That's what we did. And within the next years, when it will be much more normalized, I anticipate that it will be much more some senior debt. But for the time being, it's purely opportunistic.

Q - James A. Shuck {BIO 3680082 <GO>}

If I may just clarify, so are you still expecting for the Solvency II ratio to fall by 10 points by 2020 as you roll over that debt?

A - Gérald Harlin

Yeah, that means that nothing is changed on that side. Nothing is changed on that side, but again, it's – you can issue sub debt today with a spread of 160 basis points, something like this, which is clearly low.

A - Thomas Buberl {BIO 16182457 <GO>}

Quickly on the...

A - Gérald Harlin

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A - Thomas Buberl {BIO 16182457 <GO>}

Sorry.

A - Gérald Harlin

No, no. Go ahead.

A - Thomas Buberl {BIO 16182457 <GO>}

On the digital investments, I think you have to differentiate it between three different types of investments and they all come into play in a different timeframe. The first investment area is around the question, how can we improve the customer journey? Improving the customer journey means how can we automate processes where you don't need people anymore, where you can automate and streamline. The second one is the question, how can you better play the interplay with direct and agent, with the aim as well to reduce the commission. And the third one is the question, how can you be more transparent towards the customer and also push self-service with the customer, which again, you then don't need people to do it.

If we take a simple example, AXA France. In AXA France, which is one of our biggest markets, this is already in implementation. So we are working and have achieved – and this, as one example of many – a significant increase in the automation way of the business, simplifying the business, centralizing it. We have achieved in AXA France a better interplay between direct and agents. If you want to buy a motor insurance in AXA France today, you will most likely be focused on a product called Clic & Go, which has a much lower commission ratio than the traditional product used to have in the agent channel, with the effect that the agent sales for motor has fallen to almost 30% from a very different level.

And then when you go further and look at how have we increased transparency on the question, where does your claims payment stand? How can you also register claims online? This has also gone up significantly. Those investments have been done and have also been in other countries and will pay off relatively quickly.

You have a second category which is around data. In data, we have invested significantly in so-called Data Innovation Labs in Paris and in Asia, where we employ data scientists to be better on using the data we have. Again, this is something that I would expect over the mean term to really kick in, but we also have obviously focused area in the short term that kick in. We have been working a lot on the question of reducing claims fraud.

Gaëlle has been working a lot with her team on cat modeling. Those things are already in place but there is many, many more initiatives. We have, for example, started and rolled out in AXA France something called 360-degree. It is basically like an Amazon approach where you get to understand what is the next best product to buy with the aim of cross-selling customers. This has worked so far in the pilot very well and when it's going to be rolled out will also kick in.

And then you've got a third phase, where I would say they are more the longer term ones, where we invest in new business models, where we create new business models. We have launched a incubator called Kamet, where we have very different business models launched already that are now in the phase of growing.

Again, to take a very classic example and real example, we are in London here, one of these startups is called Qare. It is a telemedicine service for foreigners in London to have local doctors connecting to them. This has been founded but is obviously now with very few customers already working but needs to grow now. And there I would expect those things do come longer term.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Andy Hughes from Macquarie. Two questions. First of all, it's about kind of the growth in Life & Savings. I mean the business that seems to be growing the fastest at the moment within AXA is actually the U.S. Life & Savings variable annuity business, which is kind of a little bit strange because that's the business you want to get rid and take capital out of.

So why the strategy to grow rapidly in the U.S. ahead of a disposal, where it appears, if you look at, for example, Brighthouse are trading at very low P/E ratios. So have you, for example, looked at what's happened to that one, post-IPO, and does that color you a picture as to whether you're going to proceed with this strategy?

And when you get the proceeds back, presumably the €1 billion you're paying into the U.S., does that change the Solvency II recognition of your surplus in the U.S.? And will you have to write down a chunk of the surplus capital in the U.S. or will it still count towards the group solvency, because presumably you can't get that back? And is that to unwind the guarantee applying to AXA Arizona at the moment?

And, sorry, the proceeds question, the bit that seems to be lacking in Asia particularly, as highlighted by Paul, was you don't have a with-profit business in Hong Kong, which I think is probably a massive handicap for the moment compared to [AA] in Peru. Is that something you could buy or build using the proceeds from the disposal? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So I suggest question one and three is answered by Paul, which is one being on the why and where is the U.S. growing so fast and what about the with-profit in Hong Kong. And Gérald will take the middle question of your whole array of questions around the U.S.

A - Paul Evans {BIO 20793138 <GO>}

So looking at the contribution of growth of APE from the U.S., I think we need to also understand the factors which are depressing growth in APE elsewhere in the group. Because many of those are, if you like, the step-change factors which are disguising true underlying growth. So we've touched on some of them already.

So in Switzerland, for example, where we're reporting minus 12%, actually that would have been plus 1%, but for the large group life contract this time last year. Japan is down 10% but that's entirely due to a change in fiduciary regulations in Japan. The Australian dollar bond product that we used to sell, which is now pretty much closed to business, that's a step change in volumes. Underlying business is still minus 1% in Japan, but that's due to the of our Health product and we're launching a new product in the – late the third quarter.

Belgium is minus 5%, but minus 5% in the context as it enclosed our retail business, and focusing on core group pension business, which is plus 27%. Spain, we decided to move out of G/A Protection, so Spain's down 28% but the underlying business is up almost 80%.

And Hong Kong, we touch on the second part, is down 5% and that's because we closed the business, the Fortune Goal Saver product. If I had – and I'm not going to say you should correct for those things, but the underlying business, including the U.S., is growing at 5%. If I take all of the U.S. out, it's still growing at 3%. So come back then to the U.S., I think the story really is there is underlying growth in the rest of the group, but it's been constrained by actions we have taken to hold back the business in G/A. And, of course, I didn't mention Italy by the impact of BMPS on Italian volumes. That will start to unwind as the core businesses restore their growth in Q3, Q4 and into next year.

I look at U.S., U.S., clearly we've seen very strong growth of the Structured Capital Strategies, which is an alternative to the GMxB in the variable annuity product space, very compelling product. I made the same comment to you at the full year results, it was very strong last year also. And I think that that is simply a very strong offer in the context of the market, which is performing strongly, post Trump, frankly and pre-DOL.

Now we don't yet know what the impact of DOL will be, so DOL came into place, in part, in the middle of June. So we'll start to see in Q3 and Q4 what the outlook of volumes is. We are expecting some contraction of VA in the U.S. in the context of DOL. We haven't changed our estimate, which we said to you was a potential impact of 10% of APE in the U.S. but we'll have to wait and see what that impact might be. But nevertheless, for the first half of this year, the U.S. performed very strongly in the context of strong underlying markets and a very strong product, which is very compelling to advisors and to customers.

Do I think that, that business should constrain growth or adapt its strategy in response to its IPO when looking at [Bright trade]? No, I don't. I think it's performing exactly as I would expect it to in the best interests of shareholders today and, frankly, in the future.

Asia. Does having no with-profit business constrain us? Well, I think what constrains us in Hong Kong, in particular, was A, we were market leaders in unit-linked and, of course, GN15 regulation effectively stopped unit-linked market. So we had to rebuild our general account presence. Secondly, we are very disciplined in our general account profitability standards. So, therefore, we come in and out to the market when those, as you say, with-profit funds have more, if you like, off-balance sheet capital and can afford to stay in the market during the highs and lows of interest rates.

That is a disadvantage, but nevertheless, we believe that through product R&D work, which we're doing at the moment, we can introduce satisfactory products for our clients in Hong Kong. And we intend to do that in the third and the fourth quarter of this year. So I think we can compete in Hong Kong without having with-profit business, and I certainly wouldn't be saying that we should acquire one with the proceeds of the IPO.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Paul. Let's go to the question that concerns Gérald.

A - Gérald Harlin

Yeah. But the U.S. I would like to remind you that we are in a quiet period. Nevertheless, what I can tell you is that you cannot say you will dispose, that means that it's an IPO. And an IPO means that we will remain, as you can imagine, shareholder, and that we have a direct interest in this company performing well.

The second part of your question was about what will be the impact on the solvency. So long as – and we clearly said when we announced in our press release on May 10, that we would intend to reinvest it, and to reinvest the proceeds in acquisition. And we said that whatever would happen, we were confirming our objective of 3% to 7% underlying earnings per share growth of the plan period, which confirms that we would prefer to invest in our business. If not, it's quite clear that we would do share buybacks. So that means that in term of solvency, because it was your question Solvency II, it should be neutral. So you should expect that in the end, it will be neutral.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's move down here, and then we go over to Andrew.

Q - Johnny Vo {BIO 5509843 <GO>}

Hi. It's Johnny Vo from Goldman Sachs. Just a couple of questions. Just the first question is just on the prior year releases, is there any relationship between nat cats – low level of nat cats and prior year reserve releases? And to that point then, if we have another half year of a very benign period of nat cats, would we get the 1.3% minimum release from the prior year? Is that what you're saying Gérald? That's the first question.

The second question just relates to the sensitivity to Solvency II. Clearly, it looks like your Solvency II ratio is very stable. But you haven't given us sensitivity to sovereign, so can you provide the sovereign sensitivity? And the second thing is can you provide the sensitivity to rate increases post the 20-year point, where the UFR kicks in only? That's the second question.

And the third question just relates to the elephant in the room, and I think you partially answered this question. The problem with the 2020 ambition, I guess, is the use of proceeds to meet the 3% to 7% target. So can you give us more of a split potentially between acquisitions and buybacks, or whatnot? So we can feel more comfortable that the group can actually reach the 3% to 7% with effectively a sixth of the earnings disappearing over the period or potentially moving down. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald?

A - Gérald Harlin

So I would say that the prior year release has nothing to do with the current year level of nat cat. It's completely independent. You know how it works. That means that we have an experience and it's only after a few years that we can say, okay, we have an excess of reserves or not. So honestly, it's completely independent.

The second question, it was the impact of sovereign on Solvency II. Look at the – we can take it offline, but look at the Solvency sensitivity. You can make your own math through sensitivity on the interest rates. So that means that if you have – you can make pro ratas and so on, but so long as you have a sensitivity to a 50 basis points move, taking into account the sovereigns and the percentage of sovereigns that we have in our own balance sheet, the €575 billion of general account. You can make your own math, but you can do it together after, but it's very simple.

Last is the – yes, the UFR. UFR, roughly speaking, we can expect next year to have an impact of around 3 basis points. So that's not something huge, 3, 4 basis points, something like that. And the use of proceed for 2020. Remember, we had different boxes when we presented our plan and we said that €1 billion investment per year corresponded to 1% additional growth. So that means that out of the 3% to 7% compounded growth of underlying earnings per share, 1% was due to this. We have absolutely no commitment and we didn't give any percentage or any guidance on any kind of share buyback.

We committed only, remember, on share buyback for the reinvestment – eventually, for the reinvestment of the proceed of the IPO; and secondly, for the dilutive impact – for the dilutive instruments, which are much smaller, so I put this aside. So we didn't give any guidance but it's 1%. It's 1% which is at stake. But you can imagine that many times during this session we confirmed that we had an objective to stick to this 3% to 7%, so we'll do it.

A - Thomas Buberl {BIO 16182457 <GO>}

We go down here and then move over.

Q - Johnny Vo {BIO 5509843 <GO>}

On the Non-Life, so – this is from memory and I may be wrong – I thought Turkey was actually a positive in terms of combined ratio when premiums were capped, and I just wonder if you can explain what happened there and what's going to happen going forward. In the cost cuts, the 0.2% of claims handling cost reduction, is that included in the €200 million cost cuts? Would that come on top?

And then one question, I think, Gérald, you've already answered, but maybe if I put it slightly differently. So your debt is coming down €18 billion to €16 billion, does this mean that you've got more comfort now to raise the payout towards the 55% end of the scale? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So, Gaëlle, you want to do the question on Turkey? I'll try again with the costs and Gérald will handle the last question.

A - Gaëlle Olivier

So on Turkey, what you see this year is an impact, negative, on the growth, on the volume development, due to the market cap. Because the cap that the regulator has set is roughly 30% below the market average. So we have, like most of our competitors, a strong drop of the revenues, driven by this cap. These are on the top line side.

Now what we have done, and we have started to do that for the past two years following the change of regulation on motor TPL back in 2015, what we have done is taking strong action on [BA's] business books in Turkey, significantly decreasing our market share in motor TPL. Back in 2015, if you remember, it was close to a 25% market share, it is now close to 6% market share.

So with significant action that we have taken like this one on our business mix but also actions on our operational efficiency, we have been able to significantly decrease our combined ratio, which is what you see today in half year 2017, where Turkey has a combined ratio which is decreasing more or less by 3 points versus last year.

Then going forward, we will continue to have a strong action on business mix, operational efficiency, so that we are not too much impacted by regulation, whatever happens on motor TPL in the coming years. And you should be reasonably comfortable about this.

A - Thomas Buberl {BIO 16182457 <GO>}

So going back to the costs, yes, the €2.1 billion includes three components: administration costs, claims handling costs, acquisition costs. And what you see in terms of numbers, we are working on all of these levers. And just to give you – I mean administration cost is simple. It's probably the most straightforward. The claims handling costs, yes, I mean going back to the example that I said earlier on being smarter about fraud. Fraud, you need less people to go and inspect fraud and follow fraud, if you can do it more digitally and more data-driven. Or take the other example that I mentioned on Clic & Go, the

French motor product, if I pay less commissions and if I have less people to follow up on the acquisition administration part, I can reduce the costs. So, yes, the €2.1 billion covers all three areas. Gérald, last question.

A - Gérald Harlin

Last question, I would say that, if I may, it's a good try in order to discuss about the payout ratio but we should not confuse solvency and liquidity, and you know this by heart. In other words, it's not because, first of all, we are not short of cash, as I had a question before connected to this, and the dividend and the payout ratio is an impact on solvency, and it's not because we have a constraint in term of cash that we don't go to the upside at 55%. So these are completely, as you know, independent factors.

A - Thomas Buberl {BIO 16182457 <GO>}

Andrew?

Q - Andrew J. Crean {BIO 16513202 <GO>}

Good afternoon. It's Andrew Crean, Autonomous. Could I ask three questions. Paul, you were discussing Unit-Linked. I just wanted to ask a question, we're eight years into a bull market, and you've got negative net flows in your Unit-Linked. Last time we were in a bull market in 2007, you had 7% positive net flows. Why is there such a structural and secular change there?

Secondly, on the Non-Life side, I think you said that the current year claims ratio has improved by 1.2 points if you adjust it for both nat cats and attritional weather. Could you also talk about large losses because they can be a volatile element, and extract those?

And then thirdly, in terms of the improvement in the Solvency II coverage ratio, I think 9 points came from the operating side. Could you just tell me how much of that was management actions and how much was underlying?

A - Thomas Buberl {BIO 16182457 <GO>}

Thanks, Andrew. Paul, for the first question, Gaëlle for the second one, and Gérald for the third.

A - Paul Evans {BIO 20793138 <GO>}

Could I take mine last? Because I don't recognize the question and the number. I've got positive €1 billion in my....

A - Thomas Buberl {BIO 16182457 <GO>}

Okay. So then let's go the other direction. Gérald starts, Gaëlle, and then Paul.

A - Gérald Harlin

I would say on the management action on the operating side, I would say not so much. That means that any time – this is really the underlying performance of our business. You remember that we said that we would be between 15% and 20% per year, and we are in the upper range. We were roughly at the same level last year, so that's it. It's really the underlying performance, nothing in this 9% concern, for example, the additional debts, the debt refinancing and so on, which are on the right-hand side of the roll forward. So that's what I can say. Paul?

A - Paul Evans {BIO 20793138 <GO>}

If you can find A20, Thomas.

A - Thomas Buberl {BIO 16182457 <GO>}

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A - Paul Evans {BIO 20793138 <GO>}

That's it. So that's what I had. Andrew, I may have misunderstood your question...

Q - Andrew J. Crean {BIO 16513202 <GO>}

Perfect. Thank you.

A - Paul Evans {BIO 20793138 <GO>}

But I had positive €1 billion net flows Unit-Linked, and that's despite negative €1.3 billion of the VA GMxB in the U.S. So it includes the €1.6 billion of SCS business I referred to earlier. So it's down very slightly on last year but it's still €1 billion.

Q - Andrew J. Crean {BIO 16513202 <GO>}

I think if you look at the financials supplement, it's negative. So there's a difference today. But the fundamentals of the question is the net flows were 7% of start year reserves in 2007. They're now either slightly minus or slightly plus. There's a secular change there.

A - Gérald Harlin

If I may, the big difference in 2007 was that at that time, the interest rates were at much higher level. Today's competition is either you invest in unit-linked with a much broader range of products where you can invest or you get 2% today and maybe 1% tomorrow.

Q - Andrew J. Crean {BIO 16513202 <GO>}

If interest rates were higher, I'd invest in a general account product.

A - Thomas Buberl {BIO 16182457 <GO>}

Yeah, but you have today a very different competitive landscape. I think if you go back 10 years, the asset managers and the banks have not been as developed as they were today.

A - Paul Evans {BIO 20793138 <GO>}

And I think the other factor might be, if you go back to that period, Andrew, of course, we owned the UK Life business in 2007. And if you look at the main unit-linked markets, they are the U.S., France, and UK. So, you've taken out a substantial proportion of what was a Unit-Linked only market in 2007. But maybe I'll take your question offline if I may, because it's clearly something that I haven't understood in your question perhaps.

A - Thomas Buberl {BIO 16182457 <GO>}

Good. But we still have a third question left for Gaëlle.

A - Gaëlle Olivier

So, let me try to bring you to towards the roll-forward. 1.5 points of current-year combined ratio improvements. We have said, we are benefiting from low level of nat cat events, 0.6. We are suffering from less favorable development of smaller nat events, 0.3 net. It's minus 0.3 positive effect on the combined ratio, positive effect on the loss ratio as well, obviously. Then we have a 0.6 improvement on frequency, which means the pricing actions that we have taken have resulted into better profile in, overall, our portfolios.

We have large losses, which are slightly improving versus last year. It's flattish to slightly improving. And we have claims of course deteriorating due mostly to spare parts entries from car manufacturers, if I make a long story short. So, to your specific question on large loss, we are not – where are we at this stage, we have the same development of large loss, as what we have had last year, slightly better, with margin and EBITDA, I would say.

A - Thomas Buberl {BIO 16182457 <GO>}

Next to Andrew?

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Niccolo Dalla Palma from Exane BNP. My first question is on health insurance. You kindly provide us with more disclosure now pulling together the bits from P&C and Health, but – and from Life, sorry. My question is the following. So, we can see there's 6% growth. So, first question, how much of this is coming from group business versus individual business? I guess individual one is more valuable longer term to your ambition.

And the second question is taking aside potential M&A opportunities, what can you actually do organically to continue to drive this. The second question I take the opportunity, as we're in the UK with management in the room, there's a little note in your report on the fact that Ogden has no impact because your reserve level is fine. By memory, no one else had, had that, so just if you could give some color on that? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Good. So, Paul, I guess, you are starting with the first question on Health. And then, Amanda, do you want to take the second one – or Bertrand will take the second one.

Good.

A - Paul Evans {BIO 20793138 <GO>}

So, the Health revenue growth, which is 6% overall is actually split: 6% growth group; 6% growth individual. So, actually both parts of the portfolio are growing equally. You're right that it is normal for the individual account to be more profitable than the group account. On inorganic, yes, it's one of our strategic growth areas, and it's something that we would have an eye to. Perhaps, Tom, if you want to comment on inorganic. But it's certainly in our horizon to do something in that space.

A - Thomas Buberl {BIO 16182457 <GO>}

Yes. So I mean, the inorganic, as Paul said, we are looking at this very carefully. Fortunately, it is an area that not so many competitors are interested in, because if you look at AXA globally, you see that obviously the very large U.S. players are the biggest, but they are very focused on their domestic market. If you take it off, you see that AXA is, with its almost €13 billion of premium hopefully by the end of the year, the number-one player internationally, very strong in six markets. So we have a very high interest, and we are looking very carefully at where can we reinforce ourselves beyond those six markets where we are already quite large.

If you take one local example, the UK with PPP, we are number two in the market. We are gaining market share. But it will be very difficult to acquire further, so we need to go beyond those six markets. And there we have a very clear plan, which are these markets, and which targets we are looking at.

Ogden, Bertrand?

A - Bertrand Poupart-Lafarge {BIO 17420807 <GO>}

On Ogden, it's very difficult, of course, to comment on our competitors' results, but as far as we are concerned, we have a very prudent reserving policy, and we've been able to absorb the change of Ogden rate without any P&L impact.

A - Thomas Buberl {BIO 16182457 <GO>}

Further questions in the room? Difficult to see.

Q - Paul De'Ath

Hi. Thanks. Paul De'Ath from RBC. Just a couple of questions, if I can, on China. So, you mentioned, obviously, the decline in the top line on the Life side in China due to a change in the product type. Going forward, is this again a step change? And then you see kind of growth going forward? And how does that compare to what your peers are also doing in the market, presumably, now your peers are the local players, rather than the other foreign-owned insurers?

And then, the second point was just on the Alibaba announcement that came last year. I think we talked about it last year. We haven't really heard anything more on that as far as I'm aware. Is there any update on what's happening there, and where that could go in the future? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Paul, do you want to take the first one? Should I take it? What would you like to do?

A - Paul Evans {BIO 20793138 <GO>}

50/50?

A - Thomas Buberl {BIO 16182457 <GO>}

50/50, it's a good deal. You do the first 50.

A - Paul Evans {BIO 20793138 <GO>}

Look, our priority in China has been to substantially reduce the loss making, is it, or the very low margin business that we were selling in China in the first part of last year, which we have seen – we saw the NBV margin improve to 25%. And that came at a cost of 3% percent lower volumes, so we have changed the mix. So, in that sense, yes, it's a step-change. Going forward, yes, we are a foreign player, therefore, we are partnering with a bank, and therefore, we are working with our bank partner to understand their growth strategies for the coming years, and where the Life & Savings propositions fit in. But we would expect to deliver strong growth from this point from China.

Thomas, your 50%?

A - Thomas Buberl {BIO 16182457 <GO>}

So, my 50%, I can give you a travel report of my last travel to China, which is about two weeks ago, where we discussed about the last strategy, which fits perfectly into what Paul has said. Both partners have a very clear understanding that the single premium business that is so popular in China around the New Year, and therefore, you always see it in the first half figures, is something that we want to de-prioritize going forward, and we want to focus more on the regular premium products, where you have already seen a first step shown in this margin improvement. So, there's a very clear understanding on both sides that this

is the way of going forward.

The second big piece that I would like to mention to you going forward is that we have relooked at what are actually the two strengths of the two companies. And with ICBC, we've got the world's largest bank as a partner. Just to give you a sheer idea of the size, their Shanghai branch makes as much profit as AXA globally.

The second thing is we have AXA as big as the Shanghai branch and that knows very well of how to manage agent networks. And if you look in China at our composition, we have a strong bancassurance channel with the 10,000 bank outlets of ICBC out of 14,000. And the second one is we have an agent channel of roughly 3,000 agents. The idea is, going forward, to bring those two closer together which is a value proposition that hardly anybody else has.

And then coming also to your question of competition, the competitors have very different models. You have agent-only models focused on regular premiums only; and at the other end of the spectrums, which is mainly, the local players, very, very heavily single-premium-driven models.

And when you look going forward, our positioning today is very unique in a way that nobody else has such a partner in the local market. So, we have unique positioning. Going to use it is extremely important. And the Chinese regulator is extremely vigilant that the practices in the Chinese market are focusing more and more on more sustainable business and more profitable business.

So, if you look at a very simple action, in the last year, the capital charge has been significantly increased forcing the premium business, which will drive the market as a whole, more into regular premium and more into regular premium plus riders. And if you look at our composition of having a bank channel with a large amount of customers, and today, we are only penetrating 2% of the ICBC customers, and a strong agency sales force, and a good partnership with a mutual understanding, I think we are quite well equipped for moving forward.

Your second question on Alibaba. The Alibaba cooperation was focused on two areas. One was the question of insuring the exports of Chinese companies outside of China; and second one was to insure traveling Chinese outside of China. We have started the cooperation. As you could imagine, this is never easy to first get to the cooperation and then get it started, but we have already signed the first insurance contracts recently, and we do hope that with a certain starting time that this will continue to grow.

Q - Andrew Wallace-Barnett {BIO 18671460 <GO>}

Thank you so much. The first question is a bit of a cheeky one. So, the impression I have is that...

A - Thomas Buberl {BIO 16182457 <GO>}

Another tricky one.

Q - Andrew Wallace-Barnett {BIO 18671460 <GO>}

No, cheeky. Cheeky, sir.

A - Thomas Buberl {BIO 16182457 <GO>}

Cheeky.

Q - Andrew Wallace-Barnett {BIO 18671460 <GO>}

Not tricky. No, no. no. Not tricky, never tricky. And so, my impression is you deliberately were more prudent than usual in the first half results, and that meant you had aimed and landed at that 5% spot, so you had there $100 million in Life in the U.S. And if I think about the reserve release, that's probably about another figure of the same magnitude. If equity markets remain strong in the second half, you'll have the same problem in the second half. Where are you going to park the money, if that continues? So, that'd be my first question.

And then the second question. On the way in, and I'm sorry I was late, I met some guys, who'd come out of your meeting. And I think they were a little bit less enthusiastic than I am. And so, what are you going to tell us to make us more interested at your Investor Day. Because you can't talk about, what the other guy said is the elephant in the room as it were. And what is there which can get people excited? I think the story is great, but we need a bit more sizzle, don't you think?

A - Thomas Buberl {BIO 16182457 <GO>}

You know what, If I tell you now what we are going to tell you at the Investor Day, I have the risk that you won't come. Gérald? On the first question, I know you are satisfied that we don't have 4% prior year, like other companies have, but Gérald, might tell you how much we've parked or not parked.

A - Gérald Harlin

No, but I honestly have no problem to file the money. So, I don't know how to answer your questions. It means that, yes, if seems to go well, so that means that we are quite optimistic on this full year, so that's it. And go back to your previous question about liquidity. So, no, earnings, it's not liquidity. Liquidity, yes, it can be managed. My first priority is to have earnings which are in line with our plan and to, if possible, if we can have – I would say, to be underway and not on the low part of our commitment, which was 3%, of course, I'll be really happy.

A - Thomas Buberl {BIO 16182457 <GO>}

So, just quickly coming back to the Investor Day, and I'm not going to show you the agenda. But if you look at the questions today, there are probably some questions that need a bit of further work and further detailing. Give you one question – there was about three or four questions about cost saving. I think it would be good to show you a little bit more in detail with concrete cases what's going to happen, where it's going to happen.

We spoke a little bit here in the front about new business models. I'm sure you want to know what is that telemedicine service, or what are the other business models that you are doing? You want to see these guys that are doing it. How many customer? What's the revenue? And so, there's quite a few things that have not been answered yet, which I do believe you should be interested in. But I'm stopping myself now.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Andy Hughes from Macquarie. Very quick follow-up question if I could on the prior-year profits. So, I noticed the prior-year profits have fallen most of all for the Direct business. Is there a reason for that and as to why? Because I assumed given the things that have been mentioned about the technology, about settling claims online, et cetera, that, that would trigger more prior-year releases from the Direct business, as you put through lower claims handling costs. So, obviously, the commercial business seems to be okay.

And the second thing was on the Direct business in the UK At the year-end, we talked about the growth areas for AXA. We highlighted the success of the UK Direct and the eTrading business, yet, there appears to be a weakness in the revenues in the Direct business now. So, could you just update on where those things are going? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So, Gaëlle, would you like to take the first question? The second question is going to Amanda.

A - Gaëlle Olivier

On the first one, I don't see any specific disbalance on prior-year reserves between Direct we did or commercial. We have a very well-diversified book of business. It's developing well. We have a underlying profitability improvement, which is very strong in most of our entities.

If I take Europe, for instance, in commercial lines, at half year, it's growing by 3% in commercial lines, decreasing its combined ratio by 3%. So, all this is very good sign, which makes both Gérald and myself reasonably confident that we should have a good full-year lending of our P&C business, including some positive news on the prior-year reserves, which we expect to be within the guidance, which we have had in the past years, between 1% and 2% of our premium development. So, we will stick to that, not specifically to one business or another.

On the UK Direct piece, I think my colleague here, Amanda, for me, is better than me to answer this. We have specific events in the UK, which can explain the trends that we see.

A - Amanda Blanc {BIO 19138679 <GO>}

So, I think from a UK Direct perspective, obviously, the business on motor is almost 100% digital, so ultra-efficient. But there are challenges in the market. We know the discount rate challenge and the challenge around accidental damage inflation, and we've been pricing for that. And therefore, we are not prepared to sacrifice profitability for volume, and so we have gone for profitable business. And actually, that business is very profitable.

A - Thomas Buberl {BIO 16182457 <GO>}

Any other questions in the room? Amanda, do you want this one to pass the mic on?

Q - Andrew Wallace-Barnett {BIO 18671460 <GO>}

I'd just like to ask about the future direction of the capital requirements, the SCR, particularly, if we look over any multiple years. So, the life businesses you're writing is capital-generative in day one. If you think about what your cap requirements might be to fund growth, whether it's in commercial lines or the Protection outside of inorganic things, it's difficult to see any particular increases in that SCR, particularly given diversification benefits.

So, if we're looking forward to the end of kind of 2020, are we looking at an SCR that's broadly stable from where we are now, or are you thinking, well, there's more we can do on the balance sheet side of things or increase your risk appetite and manage your overall Solvency ratio in that basis?

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald?

A - Gérald Harlin

No, don't expect it to be fundamentally different. There will be a – and I maybe enlarge a bit your question but I believe that, as you know, you have companies using it and the others. As far as our standard formula is concerned, there will be some adjustment that will be discussed next year. But what will be much more important will be the discussion around the internal model. And I believe that what gives with the volatility adjust will be really key, because for the time being, it's a bit detrimental to the diversification, to the long-term investment and so on and so forth. So, I believe that we could imagine an improvement on that side.

As far as the rest of the SCR is concerned, as far as we are concerned, it's based on our internal model, and so the internal model are not negotiating, correspond to a reality. And of course, there as some exchanges with the regulator, but it won't change. I don't expect it to change a lot within the next years. So, that's what I can say for the time being.

The risk appetite, which is the second part of your questions, I don't think so. We have some adjustment of our risk appetite, but if your question is on the asset side, no. It's still, a gain. And many times we have been discussing it. Today, it's more than 50% of our SCR, which is fine, sure. We don't want to increase it, because in the end, it will bring nothing. You are not investing in an insurance company in order to realize some technical profit and to invest in our hedge fund. So, that's a way I would answer. There could be some adjustment but nothing major, period.

Q - Andrew Wallace-Barnett {BIO 18671460 <GO>}

That's great. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Any more questions in the room? That doesn't seem to be the case. Then, let's go to the Web, and see if there's any questions there.

A - Andrew Wallace-Barnett {BIO 18671460 <GO>}

Hello. There's three questions that have come in from Thomas Fossard at HSBC. The first one is on Life & Savings. He says, in spite of the efforts of the group to direct news flows to the most attractive products in the line, the NBV margin is flat in the U.S. and minus 1 point in France. At 40% NBV margin for the group, are we starting to reach a ceiling, or they're still staying on a high level?

And the second is the P&C personal net new contracts on slide B33 had a rather negative momentum in the first half of 2017. Leaving aside this specific issue in Turkey, there is still a loss of 100,000 contracts in France; 100,000 in the UK; and 100,000 in Direct. Should we be fearing this negative dynamic, and should we expect this trend to continue?

And the third question is on slide B18, can you comment on why capital-light products inflows were only €0.7 billion in H1 versus €2.3 billion in the first half of 2016.

A - Thomas Buberl {BIO 16182457 <GO>}

Good. I suggest, Paul, you take question one and three; and, Gaëlle, number two.

A - Paul Evans {BIO 20793138 <GO>}

So, the first question, it was, has the new business margin now leveled out? And I would say, that's going to be a function more of geography and mix than anything else going forward. So, you look at Protection & Health, our margins there are 60% and that's a strategic area of focus. If you compare that with Unit-Linked, 32%; G/A, 18%; Mutual Funds, 8%.

Then you could see how the margin could still develop by further improvements of business mix. So, away from general account towards Unit-Linked and Protection & Health. You can also see from the detail in the patent that margins by countries do vary. In particular, the growth that we saw in the first half, which came from the U.S. The U.S. is one of our lower e-business margin geographies compared to others. So, I don't think you should see – the new business margins, I think, leveled out.

Your third question on capital light inflows. Yes, they have reduced. They reduced notably in Japan, which relates to the change of fiduciary rules in Japan, which led to the what was called Australian dollar product, which was a capital light general account savings solution, thankfully coming off the market. And there, we saw a 47% reduction in capital-light APE. We similarly saw reductions in Italy, because Italy was still selling general account, but it was capital light. And, of course, the reductions we saw following the BMPS situation has flowed through to the capital light area. And Spain, whilst the products there were capital light, we nevertheless were concerned with their profitability, and we reduced volumes there, too.

So, in each area, the capital light volume reductions are linked to individual country instances where either we have chosen to or have found ourselves in situation where there's one that's reduced. That doesn't signify in any way a reduction in the focus of shifting away from traditional G/A towards capital light G/A or even better, to Unit-Linked.

And in fact, you are seeing a substantial reduction in traditional G/A. You can see that the cash flows in the first half were minus €2.9 billion in traditional G/A. So, you're seeing a substantial reduction in our focus on traditional. And instead you're seeing the flows go to UL and to capital light, but in this first half, less capital light due to those three particular countries.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Paul. Gaëlle?

A - Gaëlle Olivier

Net new contract. So, net new contract is the retail contract that we win or lose over the period as we took focus on the retail personal lines development. It does not include the commercial lines development. So, if you remember what I said earlier on commercial lines development, we have started to experience a stronger, an accelerated business development.

On the personal lines side, what we see if you put Turkey aside is indeed a drop of the number of retail customers notably in Europe, mostly coming from UK. And it's due to the UK property actions we have taken to turn around our portfolio and to increase our prices to improve our profitability and the strong actions which Amanda and the team have taken in the UK, which we were necessary to increase the profitability of the UK household book for you, and to a less extent, in France.

Now, if you add all together in Europe the number of customers that we have lost on the personal lines front is 88,000 customers in Europe. That represents 0.3% of our customer base in Europe on the personal lines side in P&C. So, you see it's a marginal number. What we want to do and continue to do in the coming years is to continue to grow business in a profitable manner. We see a need to diversify our business beyond motor.

And that's why if you relate back to what Thomas and Gérald have said earlier, we see a growth in non-motor, which is at 43%, which is higher than the growth we are experiencing in motor. And that's part of the business mix actions that we are taking, because we still see strong opportunity to cross-sell and up-sell on our existing customer base in Europe. So, yes, net new customers going down in Europe, marginal given the size of our customer base in Europe, 0.3%, and all in all, driven by actions which we have taken to improve our profitability in some specific portfolios. So, nothing which is worrying us at this stage.

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. Are there any more questions on the Web?

A - Andrew Wallace-Barnett {BIO 18671460 <GO>}

Just one. Sorry. Firmino Morgado from GLG, who asks, what should be expected in terms of M&A? Allianz is in the credit insurance is through Euler Hermes, and why is AXA not in the credit insurance business?

A - Thomas Buberl {BIO 16182457 <GO>}

So, these are two very different questions. What should be expected in the M&A? I repeat what I have always said. You should expect us to look very carefully at all the M&A files that are in our focus areas: Health and commercial P&C. You should expect us to not look at very large deals, because we have global size today. I repeat again, AXA is most probably one of the most diversified global insurers, where 8 to 10 markets make 80% of the profit. And we will also not look at very small deals. We look at deals in the area of €1 billion to €3 billion but very selectively.

On the credit insurance, Gaëlle, would you like to answer that question?

A - Gaëlle Olivier

I can take it. Credit insurance is a commercial line business opportunity that we look at in terms of new territories, but we can get it in a very disciplined and exhaustive manner, because it is quite a capital-heavy line of business. And as you remember, we are extremely attentive at the level of financial risk that we have on our balance sheet. So, we look at it in a very selective manner, I would say.

A - Thomas Buberl {BIO 16182457 <GO>}

That's it. Another question from the Web? What about the telephone? No question? Any more question in the room?

Then, I would like to thank you for your attendance, and particularly, for your questions, and wish you a great afternoon. And hope to see you soon. Thank you.
