# Presentation of first half 2016 earnings
## Press conference call
## August 3, 2016

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# Introduction

Thomas BUBERL
*Deputy CEO of the AXA Group*

Thanks. Hello everyone. The aim of this conference call is to present AXA's earnings for the first half of 2016.

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This first half was obviously special, since Henri de Castries AXA announced his departure and the new team, represented by Gérald Harlin and me this morning, is now in place. AXA has nonetheless continued to advance during the last few months, with new partnerships (Jumia in Africa, Alibaba, etc.), and the announcement of our divestment from tobacco. All our teams remained quite active during the transition period

Today we are presenting solid results. They are strong because, in a low interest rate environment with very high volatility after Brexit and multiple natural events, our underlying earnings came to 3.1 billion euros. This outcome is stable compared to last year, which constitutes a strong performance because it means we have once again achieved one of the highest underlying earnings levels in our history.

Our net income for the period rose by 4%, to 3.2 billion euros. This solid improvement reflects the resilience of our underlying earnings and the positive impact of the sale of properties in the United States.

Furthermore, our balance sheet is extremely robust. Our Solvency II ratio is 197%, within our target range.

The results of this first half year demonstrate the good performance of the Group. The pertinence of our strategy really allows us to navigate in a difficult environment and post solid results.

We have built our plan on the basis of conservative assumptions and by identifying specific growth drivers. We are convinced that this is the right strategy for success.

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Our strategy is to focus on business lines with good growth prospects and, at the same time, sufficient profitability for the Group, by offering products that meet our customers' protection needs.

During the 1st half of 2016, this translated into:

- High sales and new business margin in life, savings, and health;
- Revenue growth of close to 4% in property-casualty insurance with a satisfactory combined ratio given the loss experience in the first six months of 2016;
- Strongly positive net inflows to our asset management businesses, which can be considered a robust performance, especially against the current high volatility backdrop. This outcome demonstrates the management and advisory talent of our two asset managers, AXA IM and AllianceBernstein.

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The strength of our balance sheet has once again been demonstrated in a highly unfavorable environment. Our solvency ratio for the period is 197% in spite of this difficult and challenging environment and well within our target range of 170 to 230%.

We indicate on the right side what this ratio would look like based on strong market fluctuations. You can see that our solvency remains strong and would be resilient in the face of these major events. This is important to remember, since we saw when Brexit happened that AXA's stock price was very impacted. While Brexit is not good news for the British and European economies, these figures do indicate AXA's strength in the face of very adverse scenarios.

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We announced our new strategic plan on June 21. It rests on two pillars.

"Focus", the first pillar, involves continuing and expanding the initiatives launched as part of our earlier Ambition AXA plan. To achieve growth in a low interest rate environment, we choose to focus our efforts on the development of some segments: commercial lines in property and casualty insurance, savings products that are capital light, and protection and health products.

Efficiency is also a prerequisite for our performance. We will make further efforts in savings that will amount to 2.1 billion euros over the period 2016-2020, while continuing with our investments.

We must also improve our margins and will benefit substantially from the growing impact of big data and smart products.

These different strategic choices should enable us to continue to grow while offsetting the impact of lower interest rates.

"Transform", the second pillar, is dedicated to our transformation as we prepare for the future and to meet the expectations and needs of our clients, which are different today. Our ambition is to become a true partner in the protection of our customers against the risks they face. In other words, we must reinvent our insurance and protection products and services in the broadest sense via innovation and certainly through prevention.

With this in mind, we are giving ourselves the resources needed to achieve our ambitions. We have decided to allocate a budget of 3 billion euros to this transformation over the next five years.

The engagement and enthusiasm of our employees and our distributors will be critical to the success of this transformation. It is very important that we support them every step of the way, enabling them to enhance their skills, particularly in the areas of digital, data, and customer relationships.

Ambition 2020 must deliver annual growth of our underlying earnings per share of 3 to 7% on average, despite an unfavorable environment, and transform AXA for our clients.

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To achieve our objectives for growth under Ambition 2020, and in spite of the adverse macroeconomic environment, represented by the impact of interest rates (on the left), we have several growth levers in our hands:

- Improved efficiency
- Improved technical margins;
- Organic growth;
- Mergers and acquisitions.

In total, these different components should offset the negative impact of low interest rates, producing average annual growth in our underlying earnings per share of between 3 and 7%, based on these conservative assumptions. It is because our strategic plan was built on the basis of cautious macroeconomic assumptions that differentiate between what is dependent on the markets and what is in our hands that we can confirm the 2020 plan objectives with confidence.

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Here are the four financial objectives that we have presented.

I have already mentioned growth in underlying earnings per share and the Solvency II ratio. We also expect to generate between 28 and 32 billion euros in cash flows and an adjusted return on equity of 12 to 14% between 2016 and 2020.

I'll hand the floor over to Gérald Harlin, who will comment on these results in more detail.

# Half year 2016 earnings

## Gérald HARLIN

*CFO, AXA Group*

Hello.

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In the first half of 2016, we paid out over 6 billion euros in benefits to our protection and health customers worldwide and 1.5 million customers benefited from health assistance services from AXA Assistance.

In property-casualty insurance, the value of all benefits paid out was 10 billion euros, 6 billion for our personal lines clients and 4 billion for our commercial lines clients.

AXA Assistance also assisted 2.2 million customers who had a problem with their vehicle.

## I) Life and Savings, Protection and Health

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In the first half, new business sales fell by 2% overall, a figure that reflects contrasting performances. In Protection & Health, sales increased by 6%, mainly due to group insurance in France, major contracts awarded in Switzerland, and higher sales in Spain. Protection and health products represent 40% of all our new business sales, in line with our strategy.

Unit linked sales fell by 18%, partly due to highly unfavorable market conditions that impacted sales in the Latin-Mediterranean-American region and in France and Belgium, as well as the non-recurrence of exceptional contracts in Hong Kong.

In France, unit-linked sales accounted for 40% of sales in savings.

General Account sales increased by 22%, thanks in particular to China - and the Chinese New Year - and Japan. General Account products, not very capital intensive, represent more than half of these sales. New business sales in emerging markets increased by 11%.

Overall, net inflows were positive and amounted to EUR 4.3 billion on the first 6 months. This is a good level considering the market conditions. I specify that it amounts to more than a billion in France.

Finally, our new business margin was stable at 37%.

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We have chosen to focus on health, a business we hope to develop strategically.

Depending on the country, this business is currently considered as part of the life insurance line, or savings, or casualty.

We already have significant market share in six markets and we also want to develop in the other five: China, the Gulf, Indonesia, Malaysia, and Thailand.

Revenues in this business grew by 3% in the first half, with good profitability: its combined ratio amounted to 95.5%.

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The breakdown in underlying earnings pre-tax for life, savings, and health shows that the activities we want to develop as a matter of priority, protection, health and unit linked, account for 78% of our life business, i.e., 50% for protection and health and 28% for unit linked.

Net underlying earnings increased by 4%.

The yield of our financial assets in Life & Savings and Health was 3.4%.

## II) Property and Casualty Insurance

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Revenues rose 4%, thanks to good performance in the mature markets, where sales increased by 2%, and also in emerging markets, where sales increased by 11%, including good performances in Mexico and Asia.

Direct insurance again recorded strong growth of 6%, with strong volume growth in Japan, the United Kingdom, France, and Poland.

Moreover, the personal insurance segment recorded growth of 4% and commercial insurance growth of 3%.

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The current combined ratio does not appear on this page. It measures the performance of the first six months of 2016, regardless of the reserves pertaining to prior years' losses. The current combined ratio increased by 1.3 points, to 98.2%. This increase is a direct result of the increased cost of natural disasters, including floods in France and storms in Germany, but also the increase in claims related to other exceptional events, such as the terrorist attacks in Belgium.

Thus, the combined ratio for all years took a slight turn for the worse, rising 0.9% to 96%, which is still a satisfactory level for the Group.

Underlying earnings decreased by 6% due to the increase in the general claims experience and a lower financial result. Compared to H1 2015, the rising cost of natural disasters had an impact of 100 million euros on underlying earnings.

The yield of our property-casualty assets is 3.5%.

## III) Asset Management

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Assets under management increased by 28% in the first half. We have a positive net inflows amounting to 19 billion euros, but also a very favorable market impact while the appreciation of the euro against other major currencies has not played in our favor.

Our average AUM decreased by 3%, mainly due to the partial withdrawal of Friends Life assets at the end of 2015 due to their acquisition by Aviva.

In total, the Group manages €1 397 billion.

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For AXA, net inflow came to 17 billion euros, thanks to the joint ventures we have in Asia.

For AB, net inflow was 2 billion euros, mainly due to bond products.

Positive net inflow in a highly volatile environment such as the one we are currently experiencing, particularly in the 2nd quarter, is already a great performance.

Lastly, underlying earnings fell by 3%, reflecting the decrease in revenues for our two managers due to lower management fees, especially related to lower average assets under management.

## IV) Earnings Overview and Financial Strength

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Underlying earnings were stable at around EUR 3.1 billion, largely driven by the good performance of Life & Savings and Health.

Half-year underlying earnings reached their highest level ever last year, surpassing the symbolic threshold of 3 billion euros. That it is at the same level for the 1st half of 2016 is a very good performance.

The breakdown in earnings by business line attests to a good balance between the insurance of property and people (life and health), less sensitive to financial market swings, and savings and asset management businesses. Protection and health account for 26% of underlying earnings, insurance 38%, and savings and asset management 36%.

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Net adjusted earnings amounted to nearly 3.4 billion euros. It decreased by 2%, mainly due to the decrease in net capital gains realized during the 1st half.

Net income rose meanwhile by 4% to EUR 3.2 billion, supported by higher underlying earnings and the positive impact of the sale of buildings in the United States, these items more than offsetting the net impact of the sale of our life and savings business in the UK and our operations in Portugal, unfavorable changes in the fair value of financial assets.

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At June 30, our shareholders' equity reached historically high levels, 74.1 billion euros, due to higher unrealized gains on bonds and the increase in net income.

Our Solvency II ratio is high, at 197%. The 8 points decline since the end of 2015 is related to the adverse impact of market conditions but, as Thomas told you, it remains very firmly rooted within our target range of between 170 and 230%.

Lastly, our gearing ratio was 28% at June 30, 2016. The 2 percentage point increase is due to a €2 billion bond issue during the 1st half in anticipation of the refinancing of part of our current debt. So this is a temporary increase which does not at all cast doubt on our policy of prudent debt management.

So our balance sheet is extremely solid.

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On this slide, we present the allocation of assets backing our balance sheet, listed at market value on June 30, 2016. These assets amounted to 598 billion euros, with strong continuity in their allocation. Indeed, our policy is guided by the objective of matching our assets with our liabilities, i.e., to our obligations to our customers. That's why we have 83% fixed income in our asset allocation of 598 billion.

The average rating of government bonds is in the AA category, while for corporate bonds it is A.

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In a low interest rate environment, we generated a margin of 74 basis points on assets that we have in our life general account. The performance of our non-life insurance assets was 3.4 % and the average yield on our reinvestment in fixed income assets was 2%.

I remind you that our strategic plan, Ambition 2020 was built using prudent assumptions, including low interest rates. Our Group is well prepared for such a scenario.

I'll hand the floor back over to Thomas.

# Conclusion

Thomas BUBERL
*Deputy CEO, AXA Group*

Thanks, Gérald.

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I want to emphasize once again that these strong results were achieved in a low interest rate environment and that we can rely on a diverse mix of activities and strict management of our assets and liabilities in order to continue to navigate in this environment difficult.

This does not distract us from our goal of continuing and accelerating the transformation of the Group with the new management team and all of our teams around the world.

Thank you for your attention. Gerald and I are at your disposal to answer your questions. Also with us are three other members of the Management Committee: Veronique Weill, in charge of asset management; Gaëlle Olivier, in charge of the Property & Casualty business and Jacques De Peretti, Head of AXA France.

# Question & Answer Session

**Olivier SUESS, Bloomberg**

What is your new profit target in terms of the figures you present for your dividends per share versus your dividends in general?

In addition, what is the status of the budget for major claims that you mentioned?

Lastly, how do you see the life insurance business in Europe, notably in France and Germany, in the future?

**Thomas BUBERL**

Thank you, Olivier, for these very interesting questions. I suggest that the first question on share buybacks be addressed by Gérald Harlin and that the second question be addressed by Gaëlle Olivier. I'll handle the third question concerning life insurance.

**Gérald HARLIN**

As far as the share buybacks are concerned, when we presented our strategy for Solvency II and our numbers at the end of December, we said that we planned to offset the dilutive effect of the share buyback plan or the exercise of stock options. This means that we do not plan to go beyond what we announced then. I remind you, at the same time, that when we presented our new strategy we said we would use our cash to pay dividends. The dividend being between 45 and 55% of adjusted earnings, I would remind you that last year the payout ratio was 47% and at the same time, we expect to have a budget for mergers and acquisitions of €1 billion per year on average.

**Gaëlle OLIVIER**

I would like to note that, in the first half of 2016, claims development was quite normal, except for natural disasters, with floods in Europe and terrorist attacks in Belgium. The development of claims is aligned with the development of our business, as in previous years, and with our current budget. Our future development is expected to continue on the same trend.

The only points over which we have no control are additional natural disasters and terrorist attacks, which are more difficult to predict and more exceptional in nature. Nevertheless, we are strong in the market. We managed to obtain a 4.5% price increase in H1 2016, which is very important for development. The development of the loss ratio is expected to remain aligned with the budget for the second half.

**Thomas BUBERL**

Concerning life insurance in Europe, we have a situation that requires more retirement savings because consumers are always looking for these solutions. On the other hand, interest rates remain extremely low, especially in Europe. The insurance industry must find new answers to these problems without going to extremes, namely a full guarantee without special advantages or the reverse.

The numbers show that the market is advancing in the direction of a controlled average. We are focusing today on this moderate response, providing products with partial guarantees or a stronger guarantee while enjoying greater development on the market.

We began this journey very early, and today our business mix is very favorable with respect to these products that better meet customer needs in this difficult environment. At the same time, they are very beneficial from the standpoint of Solvency II.

**Giuliana LICINI, *Il Sole 24 Ore***

I have a question about Monte Dei Paschi di Siena. Has your equity interest changed? Does AXA plan to take part in the capital increase announced by the bank? What is AXA's opinion on the plan that has been announced?

In addition, are you planning to take part in the Atlante II fund for Italian banks? And more generally, what is the business trend for AXA in Italy when it comes to insurance?

**Thomas BUBERL**

Thanks, Giuliana, for your question. I suggest that Gérald respond to both of these questions.

**Gérald HARLIN**

We have a life insurance business in partnership with MPS bank that has developed well in recent years. This year, we were down, in line with the decline in the financial markets, because we were selling a lot of unit-linked products.

Regarding the restructuring plan, many details remain to be settled. We have had some information, but not everything is decided at the moment. Nevertheless, we agree in principle.

As for Atlante II fund, let me remind you that as shareholders of MPS, we have participated in capital increases in the past and as such have paid in €300 million over the two last years. However, we do not intend to pay into the Atlante II fund, just as we did not paid into the Atlante I fund, for obvious reasons: we are shareholders of the bank and we have been very heavily involved in its recovery.

**Giuliana LICINI, *Il Sole 24 Ore***

You have not yet decided whether or not to take part in the capital increase.

**Gérald HARLIN**

Today, there is no offer on the table in terms of a capital increase. We don't any details about this capital increase yet. As for principles, we agree with the plan but we are waiting for more practical details before making any decision.

**Giuliana LICINI, *Il Sole 24 Ore***

Has your stake changed or are you still at 3.7%?

**Gérard HARLIN**

We are still at 3.7%. There is 0.5% in the mutuals and the rest in AXA.

**Chiara RANCATI, *ANSA***

My colleague has already asked the question I wanted to ask. So I'll pass.

**Matthieu PROTARD, *Reuters***

My first question concerns your stock price. Apparently, the results have failed to convince the market. How do you explain the fact that the market is punishing your stock price to this extent, such that it has fallen sharply since the beginning of the year, and even more since Brexit was announced?

My second question concerns the compensation for the victims of terrorism. Do you think that, following the Nice attack, France should revisit its formula for compensating victims?

**Thomas BUBERL**

Thanks for these questions. I suggest that Gérald respond to the question on the stock price and that Jacques DE PERETTI, the CEO of AXA France, address the question concerning the Nice terrorist attack.

**Gérald HARLIN**

You may have noticed that all insurance companies have suffered from the low interest rate environment. Our share price was 25 euros on 31 December 2015 and is now at around 17.40 euros. Brexit accelerated this decline because the market does not differentiate between banks and insurance companies, which is a mistake.

We constantly recall that banks have risks with respect to interest rates that are completely different from an insurance company. In our presentation at the end of June, we indicated that even in an environment where rates remain at current levels, our earnings per share should rise by 3 to 7%.

Our model is resilient, primarily because we have very good asset-liability matching. Moreover, you have probably noticed that we have, in recent years and long before our competitors, presented a policy in which we develop protection and health, which are much less sensitive than savings and that, in addition, we have mainly oriented savings products towards UL and less capital intensive products.

Lastly, the policy that allows us to reach a level of earnings per share on average of between 3 and 7% (3% if rates remain low) is a cost-cutting policy. We have announced, over the next five years, a decrease in our general expenses of €2.1 billion. We are confident. For now, the market is reacting a bit emotionally when rates drop. For example, the market reacted this week to bank stress tests, but we are confident that eventually the policy we have implemented will be recognized by the market and our share price will turn around.

**Jacques DE PERETTI**

In France, for victims of terrorist acts and offenses, the authorities set up an ad hoc guarantee fund 20 years ago. This fund is financed via a tax that is levied on all non-life insurance policies.

The upsurge in attacks the past two years has meant reviewing the financing of this fund. We already did so in the spring so as to ensure that resources are adequate in light of expenditures.

This fund is also evolving to ensure that victims and their families receive high quality service and adequate support. Today, our industry and the authorities are in regular contact to ensure 1) that the resources for this fund meets the need and 2) that the quality of service provided by the fund meets the needs of families and many people injured in the attacks.

Concerning AXA in particular, following the latest attack in Nice we mounted a very concerted response with our employees: in the earliest hours, a dedicated number and the capacity to offer psychological assistance. We received dozens of calls in the early hours and were able to comfort our clients in a situation of intense distress.

**Marco Moussanet, *Il Sole 24 Ore***

I wanted to ask the same question about MPS.

If you increase your stake in Monte dei Paschi, do you plan to play a more active role in the bank?

**Thomas BUBERL**

Thanks for your question. We do not plan to change our stake, which today stands at 3.7%.

**Alexa LIAUTAUD**

My question has been answered. Thanks.

**Olivier SUESS, *Bloomberg***

I see that your solvency ratio is 197%, which is below your earlier announcements. Do you think this will evolve during the year?

In addition, Pimko would like to undertake some mergers and acquisitions in asset management. What about you?

**Thomas BUBERL**

Thanks for these questions. The first will be answered by Gérald and the second by Véronique Weill.

**Gérard HARLIN**

We're in the range that was ours at the outset. As we have noted, we do have a dividend payment policy. If you were listening to my earlier answer, we have a great deal of flexibility within that range.

**Véronique WEILL**

When we look at the portfolio, we are very pleased with the performances of AXA IM and AllianceBernstein, our two asset managers. There is always a question of integration, which is a cultural consideration. We believe our strategy is clear: we want to continue to grow in retail in the business of alternative assets. Right now, it's all about execution.

**Laurent THEVENIN, *Les Echos***

Concerning possible reforms of the FGTI fund, what do you think are the possible avenues of reform? A tax increase?

Moreover, I wanted to know what the cost to AXA was of the terrorist attacks in Belgium.

Lastly, can you provide figures on the sale of the buildings in New York and the accounting impact on the marking to market of the assets you mention elsewhere?

**Thomas BUBERL**

For Nice, I will ask Jacques De Peretti to respond.

The cost of the Brussels attacks came to 24 million euros.

**Jacques DE PERETTI**

To date, acts of terrorism have cost a very small amount to the guarantee fund, still less than 10 million euros per year. Over the past 18 months, the fund has had to cover several hundred million euros. Up to now, the funding has been provided by charging a very small fee. Right now, our contribution is 4.3 euros per policy per year. This contribution is not sufficient to cope with the upsurge in terrorist acts. We are working with public policymakers and the industry is very committed, to see how to cope with this new funding need, through a higher tax rate and possibly other contributions that governments could generate. Reflection is ongoing. The ability to cope with its mission of guarantee funding is not being called into question. Simply, adjustments to its funding will be needed.

**Thomas BUBERL**

For the last question on the sale of buildings in New York, I turn to Gérald.

**Gérald HARLIN**

We generated a capital gain on the sale of two buildings in New York of one billion euros and we also sold our life business in the UK. Plus, we made a small gain on the sale of our business in Portugal. In total, we have €626 million worth of net capital gains attributable to the disposal of these assets.

You also asked about mark-to-market. One can deplore that accounting principles are such that we are not consistent. Our job is to match assets and liabilities. This is one of our strengths. This is why we are very resilient.

Now, when we manage 600 billion euros, it is necessary to use derivatives to match our bond portfolios. Unfortunately, when bond portfolios have a mark-to-market that is deducted from net equity, the corresponding derivatives have a mark-to-market that is recorded in the income statement and in net income. This is true for fixed income products and foreign exchange products. We have one special feature, which is that tier 1 debt is considered as shareholders' equity and all corresponding currency swaps, unfortunately, are mark-to-market. Lastly, we have a number of equity funds that are also mark-to-market.

Due to market fluctuations, the fall in equities, and foreign exchange trends, our fair value adjustments come to -647,000,000. But I want to stress one point: this is not a realized capital loss but rather a mark- to-market adjustment that may move back into positive territory tomorrow.

**Thomas BUBERL**

Thank you for your participation and your questions. Have a great vacation.

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