AXA FY16 results
Transcript

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This document is the transcript of the FY16 results release held on February 23, 2017. The podcast of this presentation is available on https://www.axa.com/en/investor/earnings-presentation.

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Andrew Wallace-Barnett, Head of Investor Relations, AXA

Good afternoon, everyone. I hope you can hear me. Welcome to AXA's 2016 Full Year Results. Welcome to those on the phone. Welcome to those on the webcast and of course, welcome to those here in London. For the Q&A, we'll be happy to take questions from those on the line or on the phone. On the webcast, just please follow the instructions that you've been given. I would be happy to have your questions, but we will give preference to questions from people who are in the room.

The presentation this afternoon will be made by our Group CEO, Thomas Buberl; and our Group CFO, Gérald Harlin. Also present and delighted to take part in the Q&A today are Gaëlle Olivier, our Group CEO for our P&C Operations; and Paul Evans, who is our Group CEO of Life, Savings, Health and Asset Management. So they'll be happy to take your questions as well this afternoon.

And it is my pleasure to hand over to Thomas.

Thomas Buberl, Group CEO, AXA

Thank you Andrew. Good afternoon to everybody. We're very happy to be here with you in London even though it was not easy to get here due to the stormy weather. Our results on the contrary are not so stormy. When we look at the key takeaways, the results have been very solid in a very challenging environment. We have managed to grow in all lines of business. We have delivered an earnings growth that was particularly well in the second half of this year, which has also led to the fact that the board of directors yesterday will go with a proposal to the AGM to increase the dividend, which is clearly supported by the earnings growth.

We have also continued to push ourselves in more innovation. As you remember, we have presented the plan last year to you based on two pillars, focus and transform, and in the transform piece of the plan, we have a very clear ambition to become global innovation leader in insurance. When you look at these earnings growth, I said the second half of the year has certainly helped us a lot to achieve an attractive earnings growth of 3% underlying earnings growth and 3% adjusted earnings growth. This is certainly much higher than we have reported at half year, where these numbers were 0% and minus 2%. When we look at the underlying earnings per share, we can also see that they have increased by 4% and the adjusted earnings per share by 3%.

This has enabled us to propose to the board, and the board has agreed to it, to propose to the Annual General Meeting, an increase of the dividend from €1.10 to €1.16, which represents a 5% increase of the dividend per share. All of this is a payout at 48%, which is well in the range that we have indicated between 45% and 55% of adjusted earnings. If I go now into the different businesses, I would like to start with the Life & Savings business, certainly a business that is highly marked by the low interest rate environments, despite the fact that we were reporting minus 2% APE at half year, the second half has been very strong and we have achieved an overall APE growth of 2% across the year.

At the same time, we have managed to increase the NBV by 5% at the very high margin of 40%. Why is that the case? First of all, we have experienced a strong growth in Asia, +16% of APE. Secondly, we have continued to work on the optimization of our business mix, more focus on protection, more focus on health and more focus on capital light business. The third piece is, we have continued our in-force management and I would like to highlight one particular action in Belgium, where we have launched a buyout of €1.5 billion, with a record high take-up rate of 70%, where we are continuously working on reducing our exposure to the traditional general account.

A second important market for us is the P&C market. Also in this market, we have experienced a growth of 3.4%, both in the retail business and in the commercial business and you can also see that the difference between mature and emerging markets has materialized again, and in particular in the emerging markets we benefited from a growth of 7%. At the same time, the loss ratio has been reduced even though the overall combined ratio has slightly increased. That has got two reasons. The first one is, we have reduced the prior year relative to last year. And secondly, we have clearly set a target of growing more in commercial lines. If you want to grow, you need to invest and the increase in the cost ratio is reflected in the investment in growth.

We clearly, however, confirm our combined ratio target for all year between 94% and 95% through to 2020. The third business that is very important for us and that is often hidden behind the Life and the P&C business is the Health business. We are today one of the largest player in the health business, very strong in six markets, one of them being the UK. We have experienced an attractive growth of 4.3% in these markets and have reached a revenue figure of €12 billion. All of this at a very attractive combined ratio of 94.9%, clearly a market where we want to continue our growth path. If you look at the cost savings, we have started the Ambition 2020 plan that we have presented to you in June last year. In the last year, we have clearly phrased a target of €2.1 billion by 2020 and obviously, we have started our efforts already in 2016. We have reached €300 million of savings and confirm our ambition of €2.1 billion by 2020 focusing on all key levers from administrative expenses through claims handling expenses and acquisition expenses because the cost savings has a high contribution to the underlying earnings growth per share.

When we look at the achievements relative to the Ambition 2020, we can clearly state that we have completed a good first step in this and towards this ambition. Why is that the case? With 4% underlying earnings per share growth, we are well in the range of 3% to 7% and though 3% to 7% were very much linked to how are the capital markets performing, how the environment in terms of volatility. If you think about last year, Brexit, Trump election, those were all elements that have contributed to a significant volatility.

The second area is cash flows. We have reached €6.2 billion free cash flow. Again, if you project this onto a journey between 2016 and 2020, we are well in the range of €28 billion to €32 billion. On the adjusted return on equity, same story, 13.5%, well in the range between 12% and 14%. And on the Solvency position, 197%, again, well in the middle between our target range of 170% to 230%. So overall, very solid results based on a very solid balance sheet and the first step in Ambition 2020 is well concluded. Let’s now look on the way we invest in the future and how we transform our business. We have clearly said that we want to lead this way and really think how can we transform. In order to do this, we need to create an ecosystem for this transformation.

We have started and acted very much with the financial and business means on it. We have built AXA Strategic Ventures. We have already invested in quite a few ventures and have launched an additional fund this year of €150 million. The idea is to spot new start-ups, new ideas and have a merger between AXA and the start-up working together and benefiting from each other in the way that start-ups has many ideas, we have large scale, and the two together make a good combination. This has been very successful. On AXA NEXT that we have created last year, we are moving into new business models. If you take my word on the Health business, we see that there is certainly a lot dynamic in this market.

Population Health Management, which is around the question, how can you manage the cost increase in chronic diseases better, is something that we really want to be in. We're developing new business models in this area. In Kamet, this is an incubator for disrupting ourselves. There we have also launched three concrete ideas in order to really create new business models. On the other hand, we are also in the middle of societies, acting as a social contribution to society and there it's very clear. We have got a very strong hand on where do we invest and where do we not invest. We have taken the decision last year to withdraw from investments in the tobacco industry, which was quite a bold statement. And we have also engaged ourselves in emerging markets and providing solutions for the emerging middle-class through our investment in MicroEnsure, one of the two leading micro-insurance companies in this world.

A third focus for us is clearly to push more gender diversity. We have been very active on it and have also received certification for it. And just to give you an example on how strong our commitment is: on the group senior executives, which is about 150 to 170 people, we are almost at 30% women in the new round of nomination. I wanted to show you a few concrete examples of what has happened in the last couple of months in terms of really transforming the business. One of them is in Asia around Prevention. This is a lot of the questions, how can we really get closer to the customer, get more customer contact? Here we have clearly launched a chat-bot, where we have a mix of human and robot-advice and where we have many, many more contacts with the customers than we usually have in our business.

I would dream of proper insurance contract to have seven contacts per week. This is impossible, and therefore we clearly want to increase the contact frequency and give value-added services for the customers where you see also in the second example, which comes from Egypt, where we have launched a telemedicine service where our Egyptian customers really use it, because at the moment, there is hardly any private medical infrastructure and we can help. Or if you take another example on the other extreme, in Adjacent Services from Germany, where we have launched an application called WayGuard where you are being accompanied by AXA.

So imagine your daughter goes to a party on a Friday evening and you want to make sure that when he/she parks her car away from her apartment that she gets home safely. She can connect herself to AXA and walk with AXA back to her apartment. This has been very, very popular in Germany, about 30,000 users, and every 13 days a contact. This is clearly focused in the direction how do we transform, how do we create a different customer experience, how we are much closer in contact with our customers. Thank you very much.

I would now like to hand over to Gérald to go into the details of our numbers.

Gérald Harlin, Group CFO, AXA

Thank you. Hello, good afternoon. So going to the earnings, so underlying earnings are + 3% at €5.7 billion. I won't comment Life & Savings, P&C and Asset Management because as you know, and as usual, we have dedicated part for each of these business lines. As far as Banking is concerned, -19% is due to decreasing interest rates. And for Holdings, as you will see in the appendices we benefited from lower rates, and also from some expense savings. Adjusted earnings, mostly at +3%, mostly explained by underlying earnings. Net realized gains, €415 million, mostly on equities and real estate. And net impairment €395 million, mostly on equities as well, so +3%.

Net income, so as usual, we have some elements like derivatives which don't benefit from the hedge accounting. That's the reason why we have a negative adjustment of -€158 million. Then we have the fair value of some funds which are mark-to-market +€40 million. Then we have the discontinued operations, and I would like to mention three operations. First, as we discussed and shared it with you in the first half, is the disposal of two buildings in the U.S. for close to €1 billon, in fact €973 million. And we had as well, the disposal of the UK Wealth Management business and the disposal of Bluefin, which is a broker in the UK.

So now we, as you know, we have our business in UK, which is concentrated in P&C and Health. So as a whole, -€454 million on this, +€387 million on this exceptional and discontinued operations. Integration & Restructuring costs is linked to our workforce planning investment and the €454 million concerns Belgium for roughly 50% of it, and the rest is Germany and France. So as a whole, net income +2% at €5.8 billion. Going to a bit more detail and moving to Life & Savings. So, on the top line we have a growth of APE of +2%. Mature markets, -1%, +14%. You can notice that the +2% is a significant increase. At the end of June we were at -2%, we were at 0% at the end of September. So, nice improvement. We are at +2% now. New business value, +5% and +7% in mature markets, -1% in emerging markets, coming mostly from China.

And as you can read in the middle, China NBV margin is at 17%. There again, you remember that there was a bit of emotion at the beginning of the year, because we had a negative NBV margin on China, so we end up at 17%, which is much better. So we walked the talk, I told you at that time that after the New Year, we will write much more protection business in China, that's the case. So, as a whole new business margin moved up from 38% to 40%. Then, let's concentrate on this slide on the net flows. So we have +€4.4 billion of net flows of which Protection & Health, +€5.1 billion. G/A Savings, is -€3 billion. But indeed its +€3.6 billion in capital light and -€6.6 billion in capital-heavy. And Unit-Linked is +€1.3 billion, but we had the effect the GMxB buyouts, so excluding these effects, we would have been a +2%. So nice level of net inflows in Life.

Let's go to the underlying earnings, so on the post-tax basis, as I mentioned to you, we are at +2%. Let's go through the pre-tax basis, -5% in Protection & Health, explained by higher net technical margin. But you remember maybe that in 2015 we had negative one-off and we had in 2016 the non-repeat of the assumption change in France. It's corresponding to a positive €300 million at the end of 2015. So, that means that on Protection & Health, we have a nice improvement of the technical margin, excluding this 2015 one-off. In G/A Savings, we are at +2%, explained by lower expenses, higher technical margin, but lower investment margin. I'll go back on this later on.

Unit-Linked, -2%. We have a higher result from the U.S. in VA GMxB, but we have lower fees and revenues in Italy due to a specific situation. And as you know, with MPS we have a significant part, which was in Unit-Linked business and we have a higher DAC amortization. So to make a long story short, it's a good quality earnings on the Life side because it's more technical margin and more DAC amortization. Another way to look at it is this chart: we start from 2015 restated. It's starting from €3.4 billion and we had the Protection & Health, +€124 million. G/A Savings, +€15 million. U.S. VA GMxB +€107 million. Then we have other Unit-Linked, -€131 million, mostly coming from two countries which are Italy and Belgium as well.

ForEx and Other +€110 million, and we have these exceptional one-off in France in 2015, which makes that in 2016, it's a corresponding decline of €259 million.

Then we have tax €131 million and higher positive tax one-offs, €35 million. And you will find all of these in the MD&A. So we end up at €3.5 billion. Let's move to Property & Casualty, so +3% revenues. Personal Lines, +4%. Commercial Lines, +2%. Here you have the – our traditional slide on the price effect and you can see that we benefited from the price effect of 3.8% in Personal Lines, and it translated into 3.6% in revenue growth. Price effect had been positive almost everywhere except in Italy where the markets suffered from decline in prices. And I remind you that the market was at very high prices in Italy.

Commercial Lines, +1.5%, and in the end, revenue growth of +2.3%. You can see on the market pricing trend, more or less we're still expecting positive price effects in the UK and Ireland, in Spain, and more or less flat in France and Germany, and negative trends in other countries.

Mature markets. Let's go to the margins and revenues. So revenues I mentioned to you, +3%. It's +2% in mature markets. +7% in emerging markets, and 9% on an economic basis. Why? Because we have in Asia, notably, we have some entities which are consolidated under the equity method. That means that the top line growth doesn't flow through the 7%. If we restate, we would have been at +9%. And Direct is at +7% top-line. Current year combined ratio flat in mature markets. In emerging markets, slightly up mostly due to the acquisition expenses. Direct, a decline from 99.3% to 98.7%, and as a whole, we have a current year combined ratio which is up 0.2 points.

Another way to look at it, and that's our traditional slide starting with the current year combined ratio, which is what I just explained. But you have another element, which is natural catastrophes, and we were at 0.5% this year versus 0.7% the year before in 2015. Prior year developments dropped from 1.4% to 1.2%. As a whole, our all-year combined ratio moved up from 96.2% to 96.5%. Investment income was more or less stable, which is due to two elements, higher average invested assets, but as planned and as we discussed in a previous meeting and when we presented the plan, the investment yield is dropping from 3.6% to 3.4%, within the range that we shared with you.

Asset management now, net flows as a whole are quite significant, €45 billion. +€56 billion at AXA IM. A significant part of it, $38 billion[1], is with Asian JV. Average AUM is down 3%, partly explained by the impact of the withdrawal of Friends Life portfolio. Excluding it, as you can see on the right-hand side on the top, revenues would have been at +1% excluding the Friends Life contract versus -3% published.

Net flows[2] at AB, it's -€12 billion, and didn't change since the third quarter. The negative corresponds to the loss of two large contracts. Average AUM +1% and revenues -3%. Let's move to underlying earnings. So, underlying earnings are down 8%, -1% explained again by the Friends Life contract. If we exclude it, we would have

1. During the call, asset management net flows from Asian Joint Ventures were said to amount to Euro 34 billion, whereas the correct figure is Euro 38 billion.

2. During the call, "Average AUM" was mentioned instead of "Net flows". This has been corrected here in the transcript.

been positive. On AB, we have a strong negative tax one-off of €50 million. And excluding this one-off, we would have been at +6%.

Balance sheet now, it's with the invested assets. So, our invested assets amount to €583 billion. No big change in our asset allocation. No big change in the asset duration, above 8 years for Life & Savings, 5.6 years for P&C. And as you can see and as I already commented for the P&C business, our yield decreased from 3.6% to 3.3% for Life, and from 3.6% to 3.4% for P&C business.

No big change, govies and related bonds still benefit from a rating which is in AA range. As far as the corporate bonds are concerned, still in the single A range. This relates to the investments that we made during 2016. We invested €82 billion in fixed income at an average rate of 1.8%. You have the allocation on the left-hand side. So, we invested more in corporate bonds than before. You can notice below investment grade credit, which is at 12%, it corresponds to short-term high yield.

We don't intend to invest anymore in short duration high yields. They will lapse naturally because they have a very short duration, because the return is too low. Presently, we have a spread on this type of business of below 1.5%, which is not enough. So, we'll invest in other categories of assets. Whereas last year, we were investing at 1.8%, we should invest slightly above 2% in 2017.

Asset and liability management, so we benefit – we still benefit from margin, significant margin of 140 basis points between the invested assets and the guaranteed assets on the Inforce business on the left, as well as on the new business on the right. And our investment margin has been resilient at 73 basis points, well in the high-end of the guidance, which was 65 basis points to 75 basis points for 2016 and 2017.

Next is shareholders' equity. Shareholders' equity went up by €2.1 billion from €68.5 billion to €70.6 billion, mostly explained by the net income. We had an increase in net unrealized gains, because we had a drop in the interest rates on the euro. We had the dividend and we had the reimbursement of sub debt. And we had also the change in pension benefit. Why? Because due to this drop in the interest rates, we had a lower discount rate, the discount rate was roughly lower by 60 bps, which means that we had a correlative increase in the pension debt. So, that's mostly it.

Look at the adjusted ROE, which is at 13.5%, as mentioned before by Thomas, well within the 12% to 14% range. Financial debt, as a whole, as last year, you can notice that we still have mostly sub debts, €9.1 billion in sub debt and €8.1 billion in undated subordinated debt. You can see that the interest cover is quite good. Debt gearing is at 26%, and we have been upgraded by S&P to AA- in October 2016. More or less, across the board, we are AA- in all the three agencies.

Solvency II ratio, we are at 197%. So, you have the roll-forward. We started at 205%. I remind you that we were at 191% at the end of September. Compared with the full-year 2015, +19 points in operating return, -10 points on dividend, it corresponds to the dividend paid in May last year. Market impact -14 points, and the other elements -5 points. So, we end up at 197%, which is 6 points above the level of last September.

Last slide is on the cash flow. So, we have a strong cash flow generation and a strong remittance. Operational free cash flows are at €6.2 billion, so in line with last year. But the cash remitted to the Group, to the Holdings are at €5.4 billion, higher than last year as we moved from a remittance ratio of 81% to 88%.

And now, I hand over to Thomas for the conclusion.

Thomas Buberl, Group CEO, AXA

Thank you very much, Gérald. If you look at the results that we have presented, there are two major conclusions. One is that they are in line with a long series of consistent delivery. If you look at the previous ambition and this ambition, we have always managed to deliver what we have promised. And the new ambition has had a first year of a very good start.

What are the key characteristics? We have managed to grow the top-line by 3%. We have managed to grow the earnings by 4%. This has led to a decision to increase the dividend per share by 5%. All of this based on a very solid business model, very solid balance sheet with a return on equity of 13.5% and a Solvency II ratio of 197%.

Thank you very much for your attention, and we are now coming to all your various questions that you will certainly have.

Thomas Buberl: Jon, why don't you start?

Jon M. Hocking, Morgan Stanley: It's Jon Hocking from Morgan Stanley. I've got three questions, please. Firstly, on M&A, I think you've been very clear that you are more interested in large scale M&A. I just wondered if you could just reiterate for us what your M&A criteria are, the sort of size and the sort of metrics you would look at if you were doing a transaction. That's the first question. Second question, just to pick up on what Gérald said about the investment allocations. You're putting less into short duration high yield. Where are you reallocating to in terms of the reinvestment mix? And then just finally, on the interest cover, the interest cover has jumped up dramatically, and the leverage is still fairly similar and the earnings haven't moved a lot. I just wondered what's driving the jump in interest cover. Thank you.

Thomas Buberl: Thanks Jon. So, I'll take the first question and Gérald would do number two and three. There is certainly many questions at the moment on M&A. When we look at AXA's history, AXA has grown by bolt-on M&A. The aim was to get to global scale. Today, we are at global scale. So, when we look forward in terms of M&A, it is not about acquiring small pieces and it's not about large M&A. It is about where can we reinforce ourselves in the areas where we want to grow. What are these areas? Health, commercial P&C, and the preferred geography is Asia. We are actively looking out for targets. As you know, this market is very hot at the moment, and it's never easy to get quickly to the right target. But we are very actively looking, and when the time is right, we will take the right decision to enlarge our footprint in these areas. Gérald, for two and three.

Gérald Harlin: Yes. Jon, as far as your second question is concerned, yes, we mentioned that we didn't intend under present conditions and below a spread of 1.5% to invest in short duration high yield. As far as below investment grade is concerned, we prefer these days much more leverage loans, because we benefit from covenants that give much more protection. At the same time, we have higher spreads.

The way we manage our assets is really comparing the return on STEC, comparing the return on economic capital. And that's why, from time to time, when you have a decline in the spread, then no more interest to waste capital and to invest in such type of assets. That's more or less the way we do it.

On the interest cover, you remember that I said that it was the same during the first half. We said that in the Holdings side, we had an improvement in underlying earnings contribution coming from lower interest rates. Progressively, with the decline of interest rate, we benefit from these lower interest rates, and that's the case.

Thomas Buberl: Thank you. Let's move just the row forward, and then we'll go to the other side.

Farooq Hanif, Credit Suisse: Thank you very much. It's Farooq Hanif from Credit Suisse. Can you just comment please, Gérald, on the sharp increase in U.S. yields that we saw in Q4? How does that factor through into your earnings in the context of the plan that you gave, Ambition 2020? That's my first question. Second question is, general question, there's been a sharp increase in your market share in Variable annuities in the US. So, I believe you're going up the tables in a market that's sharply down. What's going on there? What's the outlook for that business and the margins? Thank you.

Thomas Buberl: Gérald, with the first question, and then Paul Evans will take the second one.

Gérald Harlin: Okay. The higher rates in the U.S., it's a good news for us. It doesn't translate so much into the RBC. We are roughly at €600 million. Why? Because it's inverted, it doesn't improve the Solvency position like in Solvency II. But in reality, the economic situation is improving while interest rates are going up. I could go through the appendices, and in the appendices, you have the contribution to earnings of the U.S., on page B31.

And on page B31, you can see on the fifth line that indeed, in the end, we have a positive contribution from interest rates, credit and spread. We are at €34 million. It's net of DAC but that's the situation which in itself is quite positive, because the higher the rates, the more we can amortize DAC. And I can tell you that as far as the whole book of business is concerned, we decreased quite substantially our DAC roughly by €600 million. So, that's mostly it. So, it's good news. And at the same time, the present situation where there are relatively high stock market and higher rates, is a good news for us.

Farooq Hanif, Credit Suisse: Thanks. Do you reiterate the guidance that you gave in Ambition 2020 that the U.S. yields are more important than anything else?

Gérald Harlin: No, I believe that the U.S. yields are important, but what is as much important is also the yield curve in Europe. And the yield curve in Europe is very important, it increased, but not so much. Remember, just after the presentation on the 21st of June, we had rates in Germany going down to -30 bps. Now, we are at +30 bps, so it's far better. We benefit from this situation but it's not the end of the game. Remember that the base case – the base case that we showed in last June was a slight increase from roughly zero, where we were before, to 100 basis points, if I'm right, by the end of 2019. So, we are on this path. So, what is important is, from a macroeconomic perspective, I would say, from an interest rate perspective, we are back in the base case, which is great news.

Thomas Buberl: Second question, Paul?

Paul Evans: So, Farooq, on the Variable Annuity market, so yeah, you saw last year that the U.S. market was down, as distributors and providers prepared for development of labor reductions around fiduciary duties. And indeed, AXA US' sales were down in the first half of the year. Around 40% of the U.S. volumes are Variable Annuity. And the U.S. have launched a product, which is called the Structured Capital Strategies, which is an investment in an index, where you offer to guarantee a reduction of 5%, 10%, 15%, 20% in the value of your investments over time in exchange for a give on the upside. And we saw very strong sales of that proposition throughout 2016, and in particular, it's part of our Q4 growth story. But of course, the market additionally then took into account the views of the incoming administration. The margin on that product is lower than Retirement Cornerstone's. Retirement Cornerstone is the traditional VA replacement product that we introduced after the financial crisis. It's about half the margin that we get from Retirement Cornerstone.

Thomas Buberl: So, VA doesn't equal VA. We'll move over to that side.

Nick Holmes, Société Générale: Nick Holmes with SocGen. A couple of questions. The first on expenses, your cost reduction program, although the growth numbers are pretty good, doesn't seem to be hitting the bottom line perhaps in 2016 quite as much as in previous years. I cite for example P&C expense ratio rose to 27% from 26%. I wonder how confident are you that the €2.1 billion is actually going to hit the bottom line? And second question is with growth. Asia, going very, very well. But I wondered what your thoughts are about the areas that you've highlighted in the past as growth areas, in particular Healthcare and of course Unit-Linked, neither of which is quite delivering perhaps as you had hoped or certainly Unit-Linked is not. Thank you.

Thomas Buberl: Thank you for the two questions. I suggest that Gérald is taking the first one on costs and Paul will take the second one on Health and Unit-Linked.

Gérald Harlin: Yes. So, as you said, our expense don't hit the bottom line, especially in P&C. You are right, but it's due to the acquisition costs. It means that as far as the admin costs are concerned, we are perfectly on track, and it's due to acquisition costs, especially on the commercial lines, and maybe there will be question on this and Gaëlle could develop. What I can tell you is that we are on track. We confirm the €2.1 billion. So, there's no fear on that side. We will do our plan.

Thomas Buberl: Maybe, Gaëlle, before Paul answers, go into that topic on acquisition costs on commercial line to clarify the question fully.

Gaëlle Olivier: It's important to see that on the retail side, expenses are flat. So, that goes in the right direction. On the commercial lines, expenses are increasing slightly.

Admin expenses are flat. Acquisition expenses are increasing slightly. It's a combination mostly of two factors. One is one-off change of methodology in some of our International segments, which has been brought back into the overall Commercial Line segment. And the other dimension is specific investment that we are making to develop partnership. And as you know, partnerships develop over a few years, so we are incurring the costs to start with and we expect over the next year that we see the benefit falling into the earnings.

Paul Evans: So, on Healthcare and Unit-Linked, so if you got back to A22, which shows the mix of APE. So first on Health, so we've shown 4% growth in revenues in Healthcare. I can't see you, Nick. Wherever you are. Hi, Nick. The 4% growth to €12 billion in Healthcare, which actually was very solid performance across-the-board and was it despite some turn back in the Gulf in particular. In Unit-Linked, you've got a combination of stories in Unit-Linked. So we had a situation in Italy that Gérald touched on where it became, obviously, very difficult just to what was a predominantly Unit-Linked product through the branch. We had the closure of the Individual Savings business in Belgium, which further reduced UL. We had the experience in the first half of 2016 when stock market volatility had a particular impact in France, but also as I touched on earlier, the VA impact in the US.

Nevertheless, I increasingly look at UL and capital light G/A together, because we are increasingly re-engineering our G/A products to be capital light, i.e., their NBV margin is such that the AFR is matching the step requirement or above. So, in particular, there we saw strong growth in Hong Kong. In particular, in Italy, we were able to sell capital light in the bank rather than UL. So, you need to look increasing those two lines together. So I'm less concerned now that UL should grow year after year after year, I'm looking at the two together, and of course, capital light grew last year by 23%.

Thomas Buberl: Nick, maybe just to add on the cost side, because numbers are one thing, the other thing is what are the lead indicators for cost. And if you look at where are the core restructuring problems happening, and Gérald was mentioning the restructuring cost numbers. You have a very big restructuring program in Belgium. You have a significant one in France. You have a big one in Germany, and another big one in the U.S. and also, particularly in UK. So, everywhere we are in the preparation and negotiation and implementation of restructuring programs. Our core business is in Europe. One key value of AXA which we'd really like to keep is the social partnership with the social partners, which means you have to invest time in negotiations. But that pays off because if you take the three countries that I have mentioned where you have very high social partnerships, France, Belgium, Germany, we have concluded very positively to go into the implementation. So if you look at lead figures of what will happen in terms of cost savings, that is very clear, green light for the future.

Ralph Hebgen, KBW: Ralph Hebgen from KBW. I've got two things. One is on the cash. You showed a net remitted number of €5.4 billion, I think. I'd like to discuss whether that number still includes any repayment of internal debt? And if it does, it would be great if you could tell us how much and indeed whether your strategy is ongoing to pay down internal debt domiciled in the AXA Financial Holding in the U.S.? And the second question relates to P&C. We all noticed that you have combined the old International Insurance function into P&C. You have repeated your target, but indeed extended it to now include the international or the core business unit in the old International Insurance segment. So my question is basically, what drives that optimism? Are you hoping to generate diversification pricing benefits from the combination of the two segments or anything else? Thank you.

Thomas Buberl: Thank you very much. Question one for Gérald, question two for Gaëlle.

Gérald Harlin: Okay. Ralph, so your question about the €5.4 billion. Did we reimburse debt coming from the U.S.? Yes, roughly €1.2 billion, and it was higher than the previous year. You remember that I mentioned in the guidance that was around €0.6 billion. Why, because we had the disposal of the two buildings and the cash of the two buildings has been upstreamed. And the second part of your question is about what's next and what will you do in the future? Yes, we will go on. And the objective is to have a regular basis at a lower pace, of course, but the basic principle, it's also to reimburse. Another point also, you remember that in June, I said that I was comfortable with the 75% to 85% remittance ratio guidance because we had some potential also to reduce capital. I'm sure you remember this – to reduce capital and to optimize capital in Europe. So, globally speaking, that means that's why we are comfortable and we remain comfortable within this range because there will be plus and minus depending on the years. But we still have this capacity to optimize our financial situations.

Thomas Buberl: Gaëlle?

Gaëlle Olivier: So, on the commercial line side, maybe just to reemphasize what we have done in 2016. You see the growth of 2.3% more or less on the commercial lines side, and that includes the International segment. You see loss ratio which is improving by 0.8% and you see an expense ratio which is increasing not on the admin but on the acquisitions side. So that give us comfort, going forward, that we can achieve overall, all-year combined ratio target for the Commercial Line segment by 2020 to reach 94% to 95% range because despite being a soft market, we are able not only to grow our business through a mix of price but also volume effect, while improving our underlying profitability. Now, if you remember what we had disclosed back in June 2016 in our targeted segment strategy for commercial lines, we see good progress there as well. If I just illustrate with the initiative that Amanda here is a sponsor of, which is the SME initiative, we are growing that segment at 3.6%, which is well in the range that we have also shared with you back in June last year. And the other element is, in the International segment, you have two main pillars. One is the

Assistance, Partners part, and the other one is a Corporate Solutions part. On the Partners part, is exactly what I mentioned earlier. We are today incurring some investments to develop new partnerships, and we expect those partnerships to really develop in the coming years and to translate into earnings in a profitable manner by 2020 which is why we are reiterating our target of 94% to 95% combined ratio all-year by 2020 including as well, the International segment.

Mark Cathcart, Jefferies: It's Mark Cathcart from Jefferies. You mentioned a bit earlier about M&A. But if you got into a situation monstrum horrendum where Intesa, Generali, Allianz, Zurich, things happen in Europe. You mentioned you've got global critical mass, but your market shares could erode relative to large players quite significantly within Europe. We saw Allianz tweak their capital management strategy just one year into their business plan. My question is phrased as this: does AXA have the essence of flexibility in their thinking to consider adapting their business plan, if you start to get sizeable moves going on within Europe?

Thomas Buberl: The question is always, which sizeable moves? I have said earlier that we have two areas where we do contemplate M&A in the main geographies that we have. I prefer Asia, but again, if there is M&A opportunities in Europe on commercial lines P&C or on Health, I'm always ready to look. But when you look at it at the moment, many of the opportunities that are presented are in traditional G/A Life and that's certainly not something I am interested in. We go this way and then to Andrew.

Peter Eliot, Kepler Cheuvreux: Thanks. Peter Eliot from Kepler Cheuvreux. I had a couple on Solvency, please. First of all, I noticed your sensitivity to interest rates seem to have increased quite a lot. I was wondering if you could just say what's happened there or the reason for that? And secondly, in the second half of the year we're looking at 11 points of operating on a Solvency II basis. I'm wondering if you can just sort of say how much of that you might consider one-off, because obviously it’s above your sort of guidance for ongoing Solvency capital generation?

Thomas Buberl: Gérald?

Gérald Harlin: As far as the sensitivity, I could say that, you have to take into consideration the fact that we are benefiting from the equivalence. The equivalence makes that when interest go up, in all non-US companies we benefit from this situation, that means that as long as we have an open duration gap, which is relatively limited but say, one year, we benefit from higher interest rates. But in the U.S., it's the opposite. It's the opposite because we are using RBC. So that's why you could be surprised on page 40 that we are at zero. That means that we have an interest rate sensitivity, which is relatively limited +3 points. From an economic point of view, it would be higher. That's the message.

Next, about the operating return. It's difficult to draw, but yes, we said that it would be between 15 bps and 20 bps of operating return per year. We are in the high end of this range. We could say it could vary from one, two points but it's not substantial. What is important is to say that at 197%, we are well within our range and that's it. There are always some fluctuation. But I believe that, until mid-year and you will have the SFCR report and we will have opportunity to discuss with you on more sensitivities and so on. But no specific sign about changing the guidance we said 15 bps to 20 bps. We remain within this guidance.

Andy Hughes, Macquarie: Hi. Andy Hughes from Macquarie. A couple of questions, if I could. First one, the reinvestment rate. Obviously, it's gone down in the second half versus the first half. Just quite curious about the leverage loan investment strategy that you are planning. How much yield are you getting on the leverage loans? And what's the risks in the leverage loan portfolio? Can that be a large part of the assets of AXA Group or is it always going to be a very small part of the business?
And the second question was about the commercial lines expansion. So I guess, I heard from Zurich and maybe also AIG that they were pulling away from long tail lines in commercial because of the inflation risk. And I'm just wondering how you feel about that at the moment? I can see it's probably a bit hard to beat you up over the reinvestment rate and the inflation rate at the same time but seems they're doing it. So on the P&C side, if inflation picks up, I mean, obviously, you've got quite a long duration of the P&C assets, how well provisioned are you against that? Thank you.

Thomas Buberl: Gérald, do you want to take the two questions on investment and then Gaëlle maybe you comment on the commercial lines business and the long-term nature of it?

Gérald Harlin: So about the average loan, it was an example. So last year, as I said, we invested 12% roughly in below investment grade. But we are speaking from and last year we had €82 billion to invest, which was quite large. This year, I'm expecting to invest – to have between €40 billion, €50 billion, €45 billion to €50 billion to invest. So I'm speaking for a few billions. I'm not speaking from huge amounts. About the spreads, your question was what do you expect it in terms of spreads? It's something like a spread of 250 bps, something like this. Because again, the reference for us is really how much capital? That's the answer I get before that the amount of capital that we want to dedicate to it. So, I'm not at all ready. You can see that all the line of business, all the line of business has a quite high return because that means that in term of return on investment, return on equity, we have high levels.

I don't want to invest and to dedicate capital in order to have say, less than 10% returns. So that's why we are quite keen and mobile, flexible in term of investment. Last point, and to answer fully your questions, at no time we would like to change and to – on average, our portfolio should be single A plus. I don't want at all to change the average rating of our portfolio, because indeed, in the end, it would mean more capital for marginal return. We are today in a situation where spreads are quite low, and look, there is such a demand for U.S., because most of the short-term high yield is U.S. short-term high yield as you know. And there is such a demand for high yield product that spreads are at a level, which are no more reasonable. That's the message I wanted to convey, nothing more. And it won't change fundamentally the way we invest. But the majority of our investment will still be in investment grade, say 90%.

Yeah, lot of yield would come from small part of the assets. For example, a significant part of our new money is invested in corporate real estate loans, for example, and corporate loans are investment grade loans. But they are illiquid, which gives a bit more return. So there is no magic in it, but I can tell you that my investment teams are working hard in order to find buckets of assets with good return, which are mostly investment grade, but with high return on capital, even if we accept to be less liquid.

Thomas Buberl: Commercial lines.

Gaëlle Olivier: On the commercial lines I would say, on the perspective I would say probably three things. The first one is, compared to the competitors that you have mentioned, we have been historically less exposed to commercial lines. So commercial lines today is roughly 40% of our revenues and we believe that there is room to grow for us, to grow our business in commercial lines, again in a profitable manner. The second thing is the way we are intending to do it, is in a very segmented manner and we believe that today we have still opportunities to grow in segments in commercial lines. SME was an example, mid-market is another one, international offers where today we have a global presence is another example of areas where we believe we can grow business profitably in commercial lines. And the third aspect is if you project yourself five, 10 years from now, we see some new risk emerging. Cyber is one, but also probably the motor insurance where we will see more and more exposure towards commercial lines compared to what we see today being a retail, individual insurance and we want to be in that market, because we believe that this market is going to grow and we believe that we have the expertise to grow that business profitably. So that's why, in our long-term strategy, commercial lines is an important dimension where we want to continue to grow market share, reach to the normal market share that we should have or even beyond and take the new risk opportunity that we see as opportunities for business.

Thomas Buberl: We go to the very back and then move over to Andrew.

Michael Huttner, JP Morgan: Thank you so much. One question is for you Mr. Buberl. So 3% to 7% was EPS growth target of the period, 4% I guess is the number today. Does the 4% correspond to your judgment what you can maintain at the current level of interest rates? Or is there still an element of backend loading with the cost to come? So that would be my first question. Then Mr. Harlin, on the cash flow from the U.S., €1.2 billion is a lovely number, but if I just deduct the gain from the buildings, it's only €0.2 billion or €0.3 billion, however you round it? Is there a stress there linked to the proposal to increase the reserve capital for the U.S.? How does that look? And that's my only questions. Thank you.

Thomas Buberl: Thank you very much. So I'll do question one and Gérald will do question two. You are absolutely right. We have stated very clear differentiation during our June 21st meeting between what is in our hands and what is not in our hands. What is in our hands are clearly the 8% underlying earnings per share growth from growth, from margin improvement, from cost reduction, from better capital management.

This we have to mirror against the Capital Markets, which is not in our hands. We have planned at the time for a very negative scenario where the one thing we hope would not happen a couple of days after our Investor Day presentation, Brexit, was even considered. So, first of all, the 4% or whatever it will be is first of all dependent on how the markets are performing. We, as said earlier, have seen good equity markets, we have seen a rise in interest rate in the U.S. We have not seen yet a rising interest rate in Europe. We believe this will come over time, but it's a more longer term issue.

And secondly, you are absolutely right, when you look the development between 2016 and 2020, I would not assume a linear movement because there are things that you have to invest in, have to get going before they materialize. I mentioned earlier the costs; if you want to reduce your staff in European entities, you have to first understand where you can do it, how you can do it. You have to agree with the social partners. That takes time, but I've indicated earlier that certainly in three countries, we have reached a major agreement to go forward and materialize this. So, yes, this should not be a straight line. Second question to Gérald.

Gérald Harlin: Yes, your question was about the U.S. cash flows. Indeed, for technical reasons, you know that, even if it's a repayment of debt, it translates into a repayment of debt through the holding company and then you have the operating company and the operating company pays dividend to the local holding company. And for technical reasons, you should get an agreement from local supervisor and we got an agreement extremely late, which makes that for technical reason, we kept some cash and it will flow in 2017. So don't have any fear. Except the two buildings, there is real cash flow.

Gérald Harlin: Andrew, your hand must be falling off now. I'm sorry you had to wait so long.

Andrew Crean, Autonomous: It's Andrew Crean for Autonomous. I want to take you up on that restructuring issue because your restructuring provisions have gone up by nearly three times to €450 million. They represent 8% of your underlying earnings. You are restructuring the organic business here. It's not that you're acquiring the operations.

Should those restructuring provisions not be taken within the underlying earnings, in which case, I think your underlying earnings would have been down 2%, no doubt 3%, because there are costs which you are incurring to improve your business to grow the underlying earnings. And I suppose, that's a presentational question. Behind that lies, what does outlook for the €454 million of restructuring provisions?

Thomas Buberl: Thanks you, Andrew. Gérald.

Gérald Harlin: Yeah. That's, no, we cannot analyze it this way. Let's take the underlying earnings from the restructuring cost coming from Belgium. It's more than €160 million. What does it correspond to? It corresponds to disposal of the business. We stopped the business, indeed. So, it's not at all underlying cost because it's a line of business that has been stopped. We decided clearly to discontinue our individual savings business. So these are costs associated to it. So imagine you would dispose a business, there is no case for putting this cost or this loss in underlying earnings. For the two other countries, which are concerned, Germany plus France, it's really restructuring. It's restructuring because we have pre-retirements in these countries and this corresponds also to initiatives that are taken in order to change a business, to be more effective, to be more profitable. That's more or less the case. So, really, it's not something that you could expect to have on a recurrent basis. So don't expect to have restructuring costs at such level in the future years. So you always have some restructuring costs, but this year, it was at an exceptional high level, but for justified reasons.

Thomas Buberl: Blair.

Blair Stewart, Bank of America Merrill Lynch: Thanks. Thanks very much. It's Blair Stewart from Bank of America Merrill Lynch. Three questions, please. We've talked about the plan a lot and the interest rate movements, I think within your plan there is a 0% equity assumption. We've had better than that and we may well get better that in the coming year. Can you give us some form of sensitivity to what happens if you get some positive growth in equity markets, say 5% or 10%? What does that do to the earnings of the company? Secondly on Asia, you've struck a fairly optimistic tone about Asia, but I notice that payback period is going from three to eight years. Is that a function of macro conditions or is it something else; because eight years is quite high by Asian standards.

And thirdly, I just wonder if you can give some commentary on the U.S.? You've given good guidance in the past about what may happen to DOL or what might happen to VA volumes around the DOL, which is fairly accurate. Given the DOL is likely to get watered down, given the possibility or prospect of lower tax rates, et cetera, in the U.S., I wonder if you can just refresh some of that guidance that what might happen in the U.S.? Thank you very much.

Thomas Buberl: Okay. Thank you, Blair. So let's take first question Gérald, and question two and three for Paul.

Gérald Harlin: Okay. Let's just for the sake of clarity, I propose you to go to page B21 because I believe it will answer your question. Here, that's the usual analysis, what we call the margin analysis of our Unit-Linked business and here you have €163 billion of Unit-Linked average reserve. It's not exclusively equity. Let's say that roughly you have 2/3 in equity. So it gives you a good view. You have €2.6 billion coming from equity. So let's say that a rise of 10% of the equity market, more or less represents something like €200 million pre-tax and pre-DAC, that gives you a good idea. I believe based on this page, you have a good view and a good sensitivity of what it could mean. Yes, for sure, it would be a good news for us, that's what I said. Both in Europe, both in the U.S., we have two large countries where we have Unit-Linked business, as you know. It's the U.S., it's France, and also other countries but not to the same extent. It would be an extremely good news.

Blair Stewart, Bank of America Merrill Lynch: Asset management as well?

Gérald Harlin: Yes. Asset management as well, you are absolutely right. And you can do your math on asset management as well. You have all the appendices here. You're right.

Thomas Buberl: Paul, on payback in Asia and U.S. regulation.

Paul Evans: Back in Asia, I'll speak under Gérald's control. I believe what you're seeing there is the mix of country toward China. Gérald, are you going to say yes to that?

Gérald Harlin: Yes. It’s on page 70?

Paul Evans: 72.

Gérald Harlin: 72, yes. So what you're referring to is the fact that we are moving from 3 to 8 years. And you are absolutely right. It's coming from the fact that in China we have a very high profitability in countries like Indonesia, Thailand, and the fact that we are growing strongly in a country like China, with a marginal NBV but the IRR, it's linked, makes that we are increasing the paybacks. That's exactly the reason.

Paul Evans: I mean, clearly, the Thailand mix, we saw two factors in Thailand mix. We saw our banking partner have issues with performing loans and we also, of course, saw the death of the king. So we saw downturn in profits in volumes in a high margin country and switched into China, which saw a great growth. The U.S. – it's difficult to give a projection in the U.S. because there are now quite a number of moving parts.

So, yes, the new administration issued an instruction that the DOL should reconsider their plans. But it's reconsider their plans, we don't yet know whether that will mean they reconsider them and to continue as planned.

I mean, many distributors in the U.S. are progressing, as if the April implementation date will continue. We expect it to change but we don't expect it to be zero. We don't expect no reform of fiduciary duty, but we do expect it to be more favorable. Then you have the administration's plans for taxes, which are of course unclear but an expectation of lower corporation tax rate, which is positive for us, expectation on dividend tax, which is negative, and the key question is where will the administration go on state taxes. So actually, I struggle to give you as accurate range we had for DOL. But I would say that the U.S. market will nevertheless remain challenging for us during 2017.

Paul Evans: Gérald? Corporate tax rate in the U.S.?

Gérald Harlin: Corporate tax rate, it's 40% today. Altogether, we are at 40%. Yeah. But pay attention, it's difficult to make some speculation about this. For sure, it would be a great news. But keep in mind that we benefit also from the DRD reduction. So on the face value, we could imagine an announcement of significant decrease of the tax rate to 15% or 20%. But if the DRD goes down, it will offset. I believe that the net should be positive. I fully agree with what Paul said. Pay also attention that on the first year we could have a slight depreciation on the DTA, on deferred tax asset. Okay, but it would be a one-off anyway. But on a recurrent basis should be positive. How far? Difficult to say because the devil is in the details. The phase amount will decrease, but there could be some offsetting amounts, which would be negative. So net should be positive.

Thomas Buberl: Going to the back again.

Michael Huttner, JP Morgan: So considering France to be also the next political place. Could you give a feel for how the various scenarios could play out for the group? Certainly here in London there is always a discussion, a fear that France could exit the Euro, maybe there is a hope, I don't know?

Thomas Buberl: So this is certainly a topic and if you take the bond markets as a temperature feeling for how certain or uncertain something like this is. You have seen in the past couple of days that spreads between the OAT and the German bonds have been widening. This could be a sign of concern. If you go back further in the history, you see that those +/-80 basis points are actually not that high, because we have seen times during the European financial crisis where the spreads have been much higher.

It is true today that you can have very different scenarios on the political front in France. You know them as well as I do. The question arises what is the chance of a

Frexit. The general sentiment in France and my personal opinion is that this chance today is fairly low, because after Brexit, it was a clear wakeup call for continental Europe. And what you see today is a much heavier cooperation and effort between the German and Franco couple. Because at the end of the day, if you want to give a new narrative to Europe, it is those two countries who need to carry the narrative. Both countries will have election this year and there is a strong hope and desire that two candidates and two voted people emerge that will carry this couple forward. So my personal opinion, yes, there is a chance. The chance is to my mind very, low.

And if you look at the markets and the spreads that will show you that relative to the past. However, we need to prepare ourselves for it. But we mustn't only focus ourselves on Europe, because apart from Frexit and Brexit, there are many, many uncertainties in the U.S. There is China, there is Thailand, there is Malaysia. We are living in a world of uncertainty and risk and fortunately our business is to manage uncertainty and risk. And if you look over the last 30 years, we have always coped with this in a very proactive approach, identifying it early and acting on it and I'm very sure that in a case of Frexit, which I really hope will not happen, we will be doing the same.

Jon Hocking, Morgan Stanley: Could I ask you, you're clearly all very confident in the balance sheet and the earnings are pretty stable, the cash flow is looking good. What does it take for the dividend to move up through the payout ratio range?

Thomas Buberl: So, I mean, we have clearly stated today that the dividend will increase because underlying earnings have increased. And for me, this is an absolute key paradigm. We want to keep the stability of the balance sheet. That is our asset, our backbone and we don't want to jeopardize this balance sheet by applying a dividend policy that does not follow the earnings.

Ralph Hebgen, KBW: No, no. It's all clear. Actually this was exactly the same question. I was just looking...

Thomas Buberl: So I've already answered it.

Ralph Hebgen, KBW: Yeah. Already written the answer down here. No, basically perhaps just a slightly different framework. If you just look at the U.S., well, U.S. is really in bullet points. You have a 600% RBC ratio. The operations there are clearly self-funded. Sometimes you sell a building. There is internal debts still at AXA Financial which you can upstream. The dividend which you paid is 1.5 times covered. This compares to an annual run rate in the past of 1.3 times. So, slightly differently, what are you doing with all this cash. I understand, of course, the requirement and necessity to keep the balance sheet strong. But this is exactly also my sentiment, would you not be able to even now allow the payout ratio to increase to perhaps the upper end or the upper half of the payout ratio range? So, perhaps if you share some additional thoughts reflecting the enhanced cash generation capacity, which AXA has achieved over the last two years?

Thomas Buberl: Look, first of all, we don't have so many buildings any more that are left in the U.S. Secondly, you are absolutely right, we have been successful in our cash generation and we want to continue to be successful. I've also given you a very clear hint when questions came on the M&A strategy that we are dedicated to reinvest that cash in the activities that we like to increase and when I'm talking about Health and Commercial Lines, I'm not only talking about co-insurance Health and Commercial Lines. I mentioned earlier AXA NEXT. There are businesses developing beyond insurance that are related to insurance.

I mentioned Population Health Management, you could go as well in the commercial line area and see that the risk consulting and risk identification piece, certainly if you take one booming area, cyber risk, is a business that we should be looking at. So, we are all personally very committed and dedicated to invest this cash where it's required, where it's building our business, and where it's generating further earnings capacity that we can then distribute, but again we need to take one step after the other.

Farooq Hanif, Credit Suisse: Hi there. I want to follow-up on commercial lines, because history is littered with companies have gone into new areas, and have found profitability especially in commercial lines is challenged and we're facing a situation, now everybody is telling us whether it's international programs or long-tail even sort of mid-tail business and the pricing is down. So, how can we be confident, how can you be confident that you're just not going to fall into that trap?

Thomas Buberl: Certainly, I just wanted to say, just a remark that came spontaneously, being new in the business and having half of your P&C business in commercial, I wouldn't consider new. But Gaëlle, you go ahead.

Gaëlle Olivier: I understand your question and I think it's important that I clarify. Commercial lines is not only the large risk and very often what you have in mind when you see commercial line are really the large risk. So that's why I insisted so much in my two answers before on the SME segment. It's an illustration of small companies and we think SMEs let's say less than 50 people employed.

And in that segment those companies when they are growing the economy, 80% of the growth of an economy, let's say is coming from that segment. Two, they need a proper protection. Three, they are not properly addressed today. And when I look precisely at what we are doing and the growth we are able to generate. Again, the growth in our Commercial Lines segment is 2.3% in average in 2016. On the SME segment it's 3.6%. So we have a segment there which is growing much faster.

Now, to illustrate that we have a perfect example here with what Amanda is doing in the UK. UK, mature country. You could say low inflation, low economic development, are you able to grow in that market in a profitable manner? And what we are able to demonstrate in the UK on the P&C side in commercial lines is that we are able to grow at 9% on the P&C side in the UK in a profitable manner.

And we have other examples like that in other countries. We have also other countries where we have already a very sizable commercial lines book, take France for instance or Switzerland. So obviously when we already have a sizable book here, the strategy to grow will be different.

But when we have opportunities that we see in some markets and we attack them in a very segmented manner and we see the first success building up, then yes we want to be confident that we can continue on that successful way and continue to deliver our growth, again, in a profitable manner and those are not large risks.

So, it's not a long term liability that you can associate with nuclear plant or very large risk, those are the business that we encounter every day when we look in the street, when we do our own individual needs, you go to the barber, you go to the coffee shop, those people they need insurance as well. And that's what we are targeting. I think the big opportunity that we have in our hands, being both retail player and a commercial lines player, is that we are able to leverage the new technology today, the new tools to address that segment in a much more convenient and user friendly way and that's what we are doing in the UK, Amanda you want to add?

Thomas Buberl: Yes.

Gaëlle Olivier: If you think.

Thomas Buberl: The power of a living example cannot ever be beaten. So Amanda, why don't you join me and tell exactly what you've done.

Amanda Blanc: So yes, I think the opportunities are not just in the traditional sense. So what we've done here is look at the various different segments as Gaëlle outlined in the micro SME. We've looked at a different route to market. So we've looked at a more direct route to market, so taking what we know about the direct business, a digital approach, much more efficient without any acquisition costs, or with lower acquisition costs and we've grown that business, we've started that from scratch as a pure digital play. It also allows us to do more value prevention and more rounded service.

So I will completely echo what Gaëlle has said. And what I see from my sponsorship of SME worldwide is the opportunity for us to grow in SME is there in virtually every entity. And you do not get then the huge exposure to big – the big scary step, which I think you do all associate with commercial lines, it's really more retail like than it is commercial lines.

Thomas Buberl: Perfect, Amanda. And just to add to this, because we looked at the UK now. If you look into Europe, where's our strength? Our strength is not in underwriting the scary step, if I may quote, Amanda. Our strength is in presence of agency sales force, if you look what is the challenge of these agency sales force.

They are today very much exposed to the motor business. We all know that you cannot make a living anymore in 10 or 20 years only for motor business. We are actively transforming these agency sales forces towards more advice heavy business, commercial business, the butcher, the barber, those are the ones that are close to the agents.

And if I give you one example of AXA France where Gaëlle used to work, today, we have significantly reduced the business mix of the agency sales force to 30% in motor only and the commercial line space has taken this vacancy, so that is where our strength is. We don't want to go in broad international large risk. Our home turf is retail like SME.

Niccolo Dalla Palma, Exane BNP Paribas: Niccolo Dalla Palma from Exane BNP Paribas. So my question is on innovation and there were some examples on slide 14 which I thought were interesting. Each of these examples clearly makes sense, is probably profitable on its own but it's small in the group context.

So my question is, how do you manage the competitive innovation, because it's a bit like a good restaurant moving from a menu with a few plates which are really good, to a very 40-page menu where you struggle to choose.

My question, are you looking at each of these initiatives as a call option on one or two or three or five of them will be great, or are we just going to have to be used to a much more complex environment where you will be running thousands of initiatives that altogether are profitable?

Thomas Buberl: So you're absolutely right. We don't want to create the menu with 40 pages. However, to get to a decent menu, you probably need to launch 40 things to see what are three or four that are very interesting and carry future value. On the slide here I've only given you the latest ones. I have not mentioned the ones that are already in production where we are in the market. It is very clear for us that we don't want to have 40,000 innovative ideas and innovative approaches.

We want, however, to enable our people to innovate. And one thing that has struck me when I was traveling to all of the different AXA countries in the first place and doing it again now, is the innovative and entrepreneurial activity and energy that AXA has and it is the case in every country, be it in UK, be it in Egypt, be it in Asia.

What we are going to do is to have a look at which of these have the highest potential and if you look for example at the telemedicine idea that has clearly been copied. We have started telemedicine approaches in the UK, in France and have used to same logic and the same approach. For the Egyptian market obviously you have to adopt, if you have no doctor and no hospitals, it is a very different situation compared to places where you have an over population of doctors and the social security system on the site.

So you take the same ideas and adopt it country-by-country and that's how we are going to do it. First create a lot and you also have seen in the slide beforehand that we have very different approaches. We have one approach where we invest into innovations, we have another one where we destroy ourselves with KAMET, disruptive approaches and we have a third pillar which is building innovations out of ourselves.

All those three are important to generate the menu, but at some point the boss has to decide what other dishes that are coming on the menu and we are constantly in that phase whenever a new idea for our dish is coming, we are looking, is it better than the dish that is on the menu or should we keep the old menu.

So it is clear not a huge complexity, slim menu, but also leveraging the size and the logic of AXA which is we can copy and paste from one country to another. And you have certainly countries that are well ahead of the curve. If you take the UK market, very competitive, very innovative, much more advanced than many other countries. I think that was first in the way back and then.

Michael Huttner, JP Morgan: You reiterated the 94%, 95% combined ratio guidance, but now it includes the international business which is always been higher. So about 98%, so where does the extra positive, it sounds if you improve your target this is what I am trying to say and I'm just wondering where it comes from?

Thomas Buberl: Gaëlle?

Gaëlle Olivier: Probably you repeat what I said earlier. Yes, it is actually an improvement of the target. What gives us comfort there is two things. One, how we start to see the development of our plan going with a growth which is building up both from volume aspect, price effect, despite a soft cycle and with a loss ratio which is improving. So we see that as a good sign that we are able to grow despite the soft cycle and in a profitable manner. And the second aspect is what we call International segment is basically two pillars, the AXA Assistance, Partners part and the AXA corporate solutions part.

And if you look at the Partners part, that's precisely where we have started to invest building new partnership, that's why our acquisition expenses are increasing and we expect those investments and partnerships to translate into earnings over the plan, which is why we are reiterating our target but widening the scope in a wider book of business including international insurance.

Andy Hughes, Macquarie: Hi. Andy Hughes, Macquarie. Just a kind of strategic question, I guess. I think you sort of covered this with the comment about merger insurance and agents in 10, 20 years time. I mean I could say the same thing about general account business with a reinvestment rate of 1.8%. It won't be much of a future for agents selling general account business if you are earning 1% or 2% on your assets. So I'm wondering what do you AXA in 10 years time in the continuation of current trends. I mean clearly they can expand into direct markets as you described providing that's not whatever else does. And I guess the future is unit linked, but you've pointed there might be volatility this year from the various elections coming through. Where do you see AXA in 10 years time? Thank you.

Thomas Buberl: So, Gaëlle and Paul have spent a lot of time and energy to answer exactly those two questions and I would like to give them the floor to answer. Gaëlle, why don't you start and then Paul?

Gaëlle Olivier: So where do we see the market in P&C 10 years from now? First, we see retail continuing to develop, but nothing in same manner as to what is implemented today. We see an opportunity to develop multiple interactions for the customers and we see the underlying assets, let's say, the motor, for instance, the car, developing strongly in terms of autonomous vehicles or the cash sharing and that should drive us to do our business in a different manner. We have started to do that.

In the next 5, 10 years, we may not see a massive change on the financials. We will continue to see a claims development. We will continue to see price increase, but 5, 10 years from now depending on the geographies, we expect to see disruption in the market with potentially a strong decrease of severity and claims and that's where we need to adopt now our business or to take the necessary measures today to adopt our business and be able to transform it, so that we are ready for the instruction to come in the 10 years from now.

On the commercial line side, we see both an opportunity for us to catch up versus a market share that we do not have today compared to our existing side. We see an opportunity to grow. As I have mentioned earlier on specific segments which are under served today and SME is a very good example of this. And we see opportunities in new risk. Thomas mentioned cyber, that's one example. We see opportunities in autonomous vehicles. There will be more risk coming in societies at large and commercial insurance we'll be able to address those risks and that's why we believe commercial business, commercial P&C business is an area where we want to invest, develop expertise and grow.

I don’t mention further the risk consulting angle which is I would say maybe a play for the next 10, 20 years where that's something we probably will come back to you in due time to clarify what we mean by that and what we can expect out of it.

Thomas Buberl: Thanks Gaëlle. Paul?

Paul Evans: So on the life and savings side, we're clearly – yes, you are right, an agent can't carry on doing what they are doing today as much anything else because the channel is becoming expensive relative to the yield of the products that they are able to provide customers. I don't think we should focus on the G/A approaching rate because G/A tends to protect the downside. It gives a guaranteed return, but there are opportunities on the other side too. And what we know well is that somebody who is planning today for retirement has to save more than double someone who retired just 15 years ago.

So we know there is a massive need for society to save more. We know society needs to protect itself more particularly as the state withdraws more social benefits and needs to invest more in long-term health prevention. So we're going to have to look at how we help our agents become more productive focusing on long-term investment, protection and health and how we can enable our customers to deal not only face to face with someone who can advice them, hold their hand through that experience, but also remote channels and ultimately of course their direct digital channels too.

So I think the role of the agent going forward is quite an optimistic. I think we have to help them become more productive and we do them because actually we see an increasing need in society for the products and the services that we can offer.

Thomas Buberl: Andrew?

Andrew Crean, Autonomous: I just want to come back on this U.S. tax rate question because – if I look at your U.S. Life results, tax rate was €40 million for €945 million of profit, I mean so 4% tax rate is the major reason why AXA's tax rate is so low this year. How do we square that with being enthusiastic – or 40% tax rate and being enthusiastic about U.S. tax rate coming down and benefiting you? And I suppose, more broadly, what would you guide as to the underlying tax rate for the group going forward?

Gérald Harlin: The question is much more about the tax one-offs that we have in the U.S. and then the periodic basis, you can see that over the last years, we had roughly €150 million of tax one-offs which are linked to the DRD, which means that there are some tax audits. And it's only after these tax audits that we release the reserves corresponding to this DRD. That's it.

And in the next years, we still have tax one-off in the U.S. but I was not referring to it. I was referring to the usual tax in the U.S. and I mentioned also the DRD because that's the reason why I said we should take care of what will be this impact. So I believe that the net will be positive.

We can still expect to have some release of reserves in the future corresponding to the DRD, point number one. And point number two, we believe that on an ongoing basis, the net should be positive if there is a change in the U.S.

Andrew Crean, Autonomous: So the impression of that is in future years you'll pay less than €40 million on tax in the States?

Gérald Harlin: No. But we could pay less than €40 million of tax. If you have a tax one-off on the past years which is at €150 million and if your recurrent tax rate which is instead of 35%, 40% which could drop to the equivalent of 20%, then we might have a few years with a negative coming from the U.S. Yes, it could be – we could imagine this possibility.

But, again, please, let's wait for this reform to see exactly what will be the impact and I mentioned the DRD because we should not consider that it will be a straight decrease of the tax rate but there could be some collateral effects. But I maintain that the net should be a positive for us.

Thomas Buberl: Nick?

Nick Holmes, Société Générale: Nick Holmes of SocGen. Just a very quick one. The EIOPA requirement to disclose the impact of the long-term guarantee package. Just wondered if you could share with us your preliminary thoughts. I mean, is this going to be helpful. Is this going to be meaningful? Thank you.

Thomas Buberl: Gérald?

Gérald Harlin: No. But I don't believe so, because the long-term guarantee package is the – and we have a few information on the volatility and just so on. But I don't believe. But, keep in mind that over the next years there will be some further thinking about some evolution that will take place.

You'll remember that there will be some slight change expected in 2018. But mostly it will concern the standard formula, so we shouldn't be concerned. But next it will be 2020 and in 2020, we could imagine some further adjustment, roughly speaking. What is really at stake is equivalent of the volatility adjuster, because the volatility adjuster should correspond to a reality and that's mostly it you know. I don't believe that we should give too much emphasis to this. There will be some thinking. We cannot expect in a foreseeable future any significant change.

Thomas Buberl: I think just adding to this. I would look broader at what are the different geographies doing, because what you saw a couple of years ago was clearly a tendency to harmonize the standards across the globe, certainly for the systemically relevant insurers. What you see now is a certain deviation by geography from it. And the question, what does it mean for the competitiveness of players being situated in a geography that is better or worse positioned versus the other.

Rob Haim, JP Morgan Asset Management: If I look at the your AFR and the Life section, the actual existing business contribution from that was around 7% last year. Is that a ongoing number to use. And secondly, your numbers on your new business done a basis of EEV or Solvency II, the AFR?

Gérald Harlin: It's clearly on NBV, it's done on the base of EEV.

Rob Haim, JP Morgan Asset Management: That would be materially higher than on that...

Gérald Harlin: That's the way we communicate because we believe that it better correspond to an economy reality. And that's maybe a point on which I want to insist, you noticed that in this report we tried to keep EEV, because for us it's important as that's also the way we analyze our own business. And take the example of the U.S. for example, it's on the EEV, it's real economic basis, whether on the AFR its the equivalence.

So we wanted to keep those. So you will tell us exactly how you find this first attempt to combine those and to present those, but it's important to see the differences and going back to your question about the about the way we calculate the NBV, we believe that the NBV should be more calculated on an EEV type of approach rather than on the AFR, but we have to live with AFR. AFR is the way we measure our Solvency and it will still exist.

Rob Haim, JP Morgan Asset Management: But that's 7% or 6.5%, the contribution of the AFR which last year was approximately 7%, is that an ongoing figure, I mean, I just took that 2 point...

Gérald Harlin: I should check, I will come back to you on this point because if your question – your reference is a 7% is the contribution to AFR of the new business.

Rob Haim, JP Morgan Asset Management: No, no, the actual contribution unwind, so you actually...

Gérald Harlin: So the unwind.

Rob Haim, JP Morgan Asset Management: Life & Savings side you said Gaëlle your existing contribution of around...

Gérald Harlin: It's a €2.9 billion. Yeah. Look there is a direct link not an immediate, but there is a link between this €2.9 billion and the cash flows, and of course, I don't expect it to be fundamentally different. So there could be some fluctuation around it, but I believe that it should be normally a good guess.

Rob Haim, JP Morgan Asset Management: The reason I asked is, we are getting such a materially different numbers, I can't do anything with them. So one of your peers yesterday disclosed 10.5 of it and...

Gérald Harlin: I don't have that papers. I don't have their figures.

Rob Haim, JP Morgan Asset Management: ...business value is based on Solvency II from that so we're getting no comparability at all.

Gérald Harlin: No, but again and I go back to the previous question about the SFCR. The SFCR will be an opportunity for you guys to have more consistency, or at least to understand how it's done. And I believe that such it's a good point for us as well. We don't always understand what the others are doing and it would be interesting to have something which is much more measurable and more comparison between the different entities. I agree with you.

Thomas Buberl: Any further questions? Do we have any questions from the webcast? No. Very good then we close the session here.

Thomas Buberl, Group CEO, AXA

Thank you very much for coming and certainly thank you very much for asking very interesting questions. We wish you a great rest of the afternoon. Thank you very much.