

AXA Investor Day

December 3, 2015

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Andrew WALLACE-BARNETT, Head of Investor Relations, AXA

So, good evening, everybody, and welcome to AXA's 2015 Investor Day. Welcome to those on the phone. Welcome to those on the webcast, and, of course, welcome to those here in the room. After the presentation, we will have as per usual a session of Q&A and we'll be happy to take questions from those on the webcast or on the phone. Please follow the instructions you've been given, and we will give preference, as per usual, to questions from the room.

On the screen, you can see the agenda for this evening. But before we start, I would like to make just one remark. I know number of you have been following the sector and AXA for some time, and you may remember back to the early 2000s, and AXA at that time started to build its economic capital model before it was even a well-known concept. It has been a 15-year journey, and our model has evolved quite a lot over that time.

What you will see today is the fruit of that work paying off. Denis Duverne, and I remember I was there at the time, Denis Duverne, was the brain and the driving force behind that initiative, and it therefore seems very fitting that he will make the introduction this evening. And without any further ado, I hand over to Denis.

Denis DUVERNE, Group Deputy CEO, AXA

Thanks, Andrew, and good afternoon, ladies and gentlemen. I will do just the introduction and the conclusion of this presentation. Andrew is right. We started our internal modeling at AXA back in 2000. We had organized a competition between consultants at that time, and because of the – we eventually selected Tillinghast to support us, and we went for a long-term capital – internal capital model.

That was very useful to help us understand the profitability of our long-term business line like annuities, workers' compensation, the casualty lines, but we realized that we were in the minority, and the majority had gone for a short-term economic capital model over a one-year horizon.

We were fortunate when we bought Winterthur in 2006 that they had built their own model over one year horizon. And so, adopted the Winterthur capital model which we are further enriched after that, and our modeling team still resides in Winterthur, and they are the ones that have built that model for us.

In 2006, two years ahead of the financial crisis, we started developing our risk appetite. Unfortunately we had not fully completed our journey on the risk appetite when the crisis came in 2008 which led to the surprises that you will remember on our U.S. VA portfolio. So, we were a little bit late on that one, but I believe that when we launched Ambition AXA in 2011 we had fully incorporated in our strategy all the elements of the economic capital and the risk appetite.

And that has led us to strengthen our balance sheet, to change our business mix - I'll come back to that later. And we have, just a few days ago, received the approval of our internal model from ACPR. When we say "received the internal model approval from ACPR", it means a lot more than that because in reality, as you know, we are present in multiple jurisdictions across Europe, and it's not just the approval of the global model. It's also the approval of the local models in each of those geographies. And it's also the input and back and forth and the incorporation of the conditions put by each of those local supervisors on the model, both on the local models and on the global model.

So, our model is approved. It's approved by ACPR. But it's been approved also by the supervisors in other jurisdictions: the UK, Belgium, Germany, Italy – just to name a few. We – our model is giving us a solvency coverage of 212% at the end of Q3. We have told you that we were confident that we would land within 10 points of our previous model. In fact, we are clearly closer to 1 point of difference between the model that we have published in the last three, four years and the model that is now approved. There are lots of pluses and minuses, but we arrive at a very – at a number which is very close.

The most important thing is that our model is at the heart of our decision-making process and has been so, I would say, since 2007. This explains why, as part of Ambition AXA, we had put the emphasis on Protection & Health and Unit-Linked which shows in the numbers that we published in the last four years. The Unit-Linked business has increased in proportion. The Protection business has increased in proportion and the General Account Savings business which is the business which is less profitable in the Solvency II environment has declined substantially to represent so far this year only 12% of the new business.

Our new business margin has improved substantially which is a function not just of these changes in business mix which is also a function of all the repricing that we've done because our internal model also drives our pricing decisions as Alban will explain to you later.

It has driven our asset liability management. We've always mentioned tight duration gap. We have - with our in-force program that we launched four-and-half-years ago - reduced crediting rates in a very prudent fashion. We have added disciplined asset mix which has allowed us – and these are figures that you will recognize – to have a resilience investment margin between 70 and 80 basis points and towards the higher end of that range. It has also driven our M&A decisions. You will recall that since 2010, we've sold for €9 billion of businesses and bought €5 billion of businesses, mostly in P&C and Protection and in high growth market. And it has allowed us to have a strong dividend paying capacity with €8 billion of dividends paid between 2011 and 2014, and over €19 billion of adjusted earnings.

So our capital management is anchored in Solvency II. We have a strong Solvency II ratio at 212%. This is also we – this is also what drives our decisions in terms of risk appetite. I will not comment all the words that are on this slide because that would steal the thunder of Alban, our Chief Risk Officer, who is now going to take over before Gérald talks to you about how we expect to manage our capital going forward. Thank you very much.

Thank you, Denis. So, good evening, ladies and gentlemen. I'm happy to be with you tonight to be able to share our numbers after so many years of hard work.

So what I'll do today, I'll take you through some technical details of our model, well, the building blocks of our model. I'll show you some sensitivities of our capital to some shocks and show you how resilient our capital is. And then, as Denis mentioned, a few examples of how our internal model is embedded in our decisions.

I think we have two messages today. The first one is that we now have a stable capital framework with Solvency II entering into force in a few months, and our model having been validated by the European supervisors. And we have a resilient capital, as I'll show you in a few slides.

So, if we talk about the number, as Denis mentioned, we stand at the end of Q3 at a very strong 212% ratio. And we have plotted on this slide what would have been our ratio over the last quarters had we used the internal model. And on the top of the slide, what you see is the number that we've disclosed to you with our economic ratio. And you see, as Denis mentioned, that there is extremely little difference between the two and sometimes they're even identical.

What I want to highlight as well is you know that we don't adjust for dividend during the year. We do that at Q4. So, the dividend – dividend to paid – is not taken into account in those numbers. So, how do we – there's something missing on the screen.

So, how do we determine our AFR and our SCR? So, we start from our IFRS balance sheet. But we move from that IFRS balance sheet to a Solvency II economic balance sheet and we determine the market value of our assets, the market value of our liabilities. And the difference between the two is our available financial resources, our available capital under Solvency II. And that stands at €61 billion at the end of Q3.

Then, we determine, how much AFR we would lose with a 0.5% probability shock, so-called 1 in 200 years shock. The amount of AFR that we would lose in such a shock is our solvency capital requirement, and it stands at the end of Q3 at €29 billion. The ratio between the two, AFR to SCR, is our solvency ratio of 212%.

Now, moving to some details on how you create a Solvency II or market consistent economic balance sheet. So, you start with the IFRS shareholders' equity which stands at €71 billion. There are some asset classes for which the unrealized capital gains are not included in the shareholders' equity, that's real estates and loans, and we include those unrealized capital gains in our AFR.

You removed all intangibles from the balance sheet, goodwill, DAC and VBI. And then you move from IFRS reserves to best estimate liabilities. As such, the best estimate liabilities are €24 billion lower than IFRS reserves, and that increases our capital by the same amount. But as there is new market price for insurance liabilities and there is uncertainty on those liabilities because it's the best estimate, we include a risk margin or market value margin – for us it's the same thing – to recognize that uncertainty and that's €12 billion. That increases the best estimate reserves and decreases our AFR. And over time, if there is no deviation from the best estimates, that amount should accrue to shareholders.

Then you include also in your available financial resources, the subordinated debt that is not yet included in your IFRS equity, and that's €7 billion. And over all, that's how you come to the €61 billion AFR that I mentioned in the previous slide.

If we move to the SCR, that's the total capital requirement that we have. This describes the model that we have within the group, and the model applies to almost all our insurance entities excluding the U.S. It covers 97% of our insurance entities, and the same model, the same different modules of that model, apply to all our insurance entities.

We have four risk modules: underwriting risk, market risk, credit, and operational risk. And we're probably one of the few to have a validated internal model for operational risks. Underwriting risk, it's the insurance risk that we have. Market risk, I think, is rather intuitive. And credit risk is our default risk.

We have the numbers for – again, 1 in 200 year shock for each of those risks. So, for instance, €15 billion for underwriting risk, and we gave in the boxes below a number of examples of the risk that we model in each category. So, for instance, underwriting risk, we would have lapse risk in Life & Savings, reserve risk, longevity. Market risk, obviously equity, spread, interest rate.

On default risk – credit risk, it would be obviously on our portfolio bonds, but also the reinsurance receivables that we have. And operational risk, it's the risk of fraud of centric processes that do not work or fraud.

So, once you have that you have for each category the loss of AFR that you would have for a 1 in 200 year event. But as those events do not occur at the same time, obviously you're allowed for diversification. Diversification between those was – is €11 billion. The next step is the tax adjustment. The SCR is the net of tax amount. And the tax adjustment is €2.5 billion. So, that's the total amount of capital required for our insurance operations outside the U.S.

We add to that the capital requirement for Banking and Asset Management operations, €2.5 billion and some countries, which are on standard formula. That's the difference

with our current Solvency I ratio where we do not include Bank and Asset Management, here under Solvency II we do, and that's the €2.5 billion that you see. And then you add the capital requirement for our U.S. operations. And you know that we use equivalence. And that's – under equivalence, we use three times CAL, 300% of CAL which is not the most aggressive approach in the market. When you've done all that, you come to our Solvency Capital Requirement which stands at €29 billion.

We've put together than a couple of slides with some technical details. I don't intend to comment them all now but I'll be happy to take any questions during the Q&A. Just want to comment three of them. On sovereign risk, we do include sovereign risk both spread risk and default risk in our model, be it for domestic or non-domestic bonds for OECD or non-OECD bonds. All government bonds are covered.

Second item, transitional rules. We don't use any transitional rules either for equity or reserves. And third one is the UFR, the Ultimate Forward Rate that we use for the discount of our very long-term liabilities. You know that it stands for most countries at 4.2%. If it was to go down by 100 bps, our solvency ratio would go down by 19 points.

So on this slide, again, I won't comment any of these. But our information about market value margin, the volatility adjuster, and taxes. And again, I'd be happy to take questions on that during the Q&A.

Now, let's go now to potentially even more interesting part of the presentation, which is the sensitivity of our ratio to a number of shocks. And that will demonstrate how resilient our capital is. So, what we put on the slide is the sensitivity of our ratios to financial shocks on corporate bond spreads, on interest rates, and on equity. And you see that for those shocks, even for large ones, our ratio does not move significantly.

Now, I will go into the details of that for interest rates and corporate spreads. For interest rates, you may wonder why the shock in interest rates does not affect our ratio. In fact, obviously, it does affect our AFR and our SCR. And when you look at an upward shock in interest rates, you see that our available capital goes up by €900 million, and that's clearly what you would expect from an insurance company these days. But the fact is that at the same time, our capital requirements increases by €400 million, and that's between the two, more or less a ratio of 2:1, which is also our Solvency ratio of 200%.

So, that's why when they move up, also then our ratio overall is not affected, but AFR increases and so does our SCR. And by the way, it's exactly also what happens with equities, where our AFR and SCR increase in the ratio of 2:1 when equity markets go up. But you'll see also on this slide that if interest rates go down, AFR is most significantly affected, and that's because of the convexity that we have in our portfolio due to the guarantee that we have in our – in the options that we have in our products.

Moving to corporate spreads, I know there has been, again, a number of questions on the sensitivity of our ratio to corporate spread because it's not very sensitive. You will remember that AFR are the difference between the market value of assets and the market value of our liabilities. On the asset side, our corporate bond portfolio has a limited duration, a low duration of four to five years. And that, as such, means that we are not extremely sensitive to widening of corporate spreads. If I were to increase the duration of that portfolio by one year, that sensitivity will move from minus one to minus four. So, it's not insensitive, but it depends on the duration of my assets.

On the liability side, you know that we use the volatility adjuster. The purpose of the volatility adjuster is to recognize that, generally, we hold our corporate bonds to maturity, and therefore, will be repaid at par. And therefore, our solvency should not be significantly affected by volatility in the corporate spreads. So, that's the purpose of the volatility adjuster.

The volatility adjuster is not in our hands. It is determined by the EIOPA on the basis of a reference portfolio, and that's what dictates the adjustment to be made on our liabilities. And it so happens that in the reference portfolio, you have more corporate bonds than we do have in our balance sheet, and that also explains why the sensitivity to corporate bond spread widening is mitigated significantly by the volatility adjuster.

Conversely, we hold more government bonds than the reference portfolio. And you see that for shock of 50 bps on sovereign spreads, our sensitivity is a bit more significant because we will lose 9 points of solvency.

So, this is probably the most interesting slide of my presentation, and if you had one to remember I would hope that it'll be the one. Because what we've done here is we've used real life shocks to determine how resilient our solvency would be with those shocks. And you see that clearly, it is resilient. So, as a reference, we put the 1 in 20 year shock from the model, and that cost us 32 points, 1 in 200 years by construction would cost us 100 points.

And then, we computed what would be the change in solvency that we would have if we had a number of debt crisis that we had in the past. So, obviously, the one that everybody has in mind is the 2008-2009 financial crisis. If such a crisis was to repeat, we would lose 48 points of solvency. Admittedly, this is a significant number but that's also very severe crisis. But more importantly, it will leave us at a very strong 164% ratio. That also tells you how prudently we have calibrated our model because you see that we would lose 48 points which is very far from the 100 points that we would lose in the 1 in 200 year event.

With the financial crisis of 2011, we would lose 22 points. And then, we also went for very specific insurance shocks that we had in the past on the P&C side or on the Life side. On the P&C side, we used the two windstorms that we had at the end of 1999, Lothar & Martin. If, again, that was to happen again, that would cost us 3 points of

solvency. On the Life side, we looked for a big pandemic. The largest one that we had in the recent past was the Spanish flu that we had at the end of World War I. That only would be an impact – because of mortality losses – of two points of our solvency. So, overall I think, it demonstrates the resilience of our capital.

Another way to look at it is to say how much solvency do we create each year and what are the shocks that, so to speak, we can afford in a given year with that amount? The operational capital generation that we have year after year is more or less 20 points of solvency.

If you deduct the dividend that we pay – here we could, the one that we paid this year in 2014 earnings – that's 9 points, so you're left with 11 points of net capital generation in a given year. Only with those 11 points can I withstand a shock of minus 50bps on interest rates or 45% on equity market or a combination of 30bps and 20%. Only with the capital generated in one year.

Then coming back to what Denis said at the beginning, if our ratio and our solvency are so resilient, it's no miracle, no magic. It's because we have been embedding our internal model in our business decisions for years now. I just wanted to give four examples about this.

On products, the example that Denis mentioned was the fact that we moved from capital heavy products such as General Account to capital light products like Unit-Linked and Protection. There is also the fact that when we priced our products, the amount of capital that we use is the SCR for any given product. And that reflects the risk that we take. And therefore, there's alignment between the risks that we take, the capital that we put at stake, and the earnings that we expect. Full alignment.

On investments, we now have, for years, developed a strong and strict budget and monitoring of financial capital requirements. We determine every year the amount of capital we want to dedicate to financial risks, and we follow that on a monthly basis.

Still on the asset side, the asset liability management, we've kept now for a very large number of years a small duration gap of 1 or close to 1. And finally, the last example I would give is on the insurance side, there is no difference between the internal model that we use for solvency calculation and the model that we use to determine what would be a loss in a significant catastrophic event. And therefore, the amount of reinsurance that we need to buy. Again, there's full alignment between the two. And that also explains why our capital is so resilient.

That being said, I'll now hand over to Gérald.

Thank you, Alban. Good evening. So, Alban has presented you – has presented our internal model confirming that our Solvency II ratio is strong and resilient. Now, my objective is to present the consequences of Solvency II in our capital framework. With a specific focus on these four topics: first, the dividend policy; second, the capital management strategy; then, the capital structure; and next, the cash flow and remittance ratio. Let's start first with the dividend policy. So, I'm proud to announce that we are setting our payout ratio, our payout range at a higher level. Up to now, our dividend payout ratio was between 40% and 50% of adjusted earnings. As you can see here, we have been using the full range of our payout ratio. And from now on, we are increasing our payout ratio from 40% to 50% of adjusted earnings to 45% to 55% of adjusted earnings which is a great news for our shareholders.

So, let's have a look at our capital management policy. Here, we are presenting four different scenarios. The first one which is, I could say, a central case scenario, from 170% to 230% of solvency. Next, an upside scenario, above 230%, where we could even do more. And downside scenario, between 170% and 140%, where we would protect our shareholders. And then, an extreme down scenario, below 140%.

Let's start first with our central scenario, i.e. between 170% and 230%. So, our dividend policy will be based on 45% to 55% payout ratio as I explained before. Then, we will neutralize the dilution of employee shares and stock option offering. We will invest in business growth. We will maintain current investment risk appetite.

Above 230% and as solvency increases, we'll add flexibility on the payout ratio. We will add some room to invest. We will have additional room to invest in business growth. We will increase our appetite for investment risk, and we could be in a situation to return excess capital to shareholders.

Below 170% and we will gradually, I would say, be more conservative. First, with selective derisking of investment, increased selectivity in growth initiatives. We would allow for dilution of employee shares and stock option offering. Then, we would have additional flexibility on the payout ratio. And in the extreme event where we would be below 140%, then we would restrict our growth initiatives. We'll further derisk of investments, and reduce dividend payout ratio below the range.

Have a look now at the capital structure. So, our Tier 1, as you can see here, our Tier 1 is very comfortable and represents 84% of AFR. As you know, hybrid Tier 1 is limited to 20% of total Tier 1, meaning that under stress scenarios, our Tier 1 would be limited. That means that if Tier 1 would drop, then by definition, our Tier 1 debt would be haircut and considered as Tier 2 and declassified in Tier 2. This, combined with our strong solvency generation of plus 11 points – as presented by Alban a few minutes ago – means that, as a consequence and given our strong financial structure,

we believe that we have flexibility not to renew part of our Tier 1 debt by Tier 2 or senior debt.

Let's have a look now at the cash flow management. So, before going into more detail on the cash flow generation and cash flow generation of new business, I would like to remind you that we are going to maximize cash upstream to the Group. That means that concretely we will maintain limited volatility buffer above the 100% Solvency II level. And meaning that as a consequence, we will have some local excess capital in some countries and you have examples here like France Life and Savings, like Germany P&C, like the U.S. So, that means that on the next years, we will strive to maximize upstream to the Group. How could we do it, and you – it's mentioned here. First, we will reduce local excess capital. We will maximize ordinary dividends. We will simplify our legal structures and we could do some risk pooling as well. So, as a summary, we have excess capital in some entities.

So, let's analyze now how the free cash flow generation of new business works under Solvency II. So, here we are dealing with the cash consumption of Life and Savings new business. So, I'm dealing here with 2014 figures and under both frameworks. On the left-hand side you have Solvency I; on the right-hand side, you have Solvency II. So, as you know, the new business cash consumption has two different components. The first one, which is the new business strain. And you can see here on the two – under the two frameworks, it's exactly the same. It was €1.2 billion, that's the cash corresponding to the strain, €1.2 billion in 2014.

Whereas for the new business required capital, it's not the same under Solvency I and of Solvency II. It's the same for non-European country, it's €0.2 billion, but for the European country, this cash – this capital needs – this capital requirements can be covered with the new business future profits, which means that as a whole – the cash consumptions from Life & Savings new business, which was at €1.9 billion taking the example of 2014, which was at €1.9 billion under Solvency I will move to €1.4 billion, i.e., an improvement of €0.5 billion.

You can see here and it's mentioned, that as a consequence, the new business internal rate of return is improved as well. And taking the example as well of 2014 – we would – where it was our internal rate of return was 14% last year under Solvency I it would be 17% under Solvency II. As far as P&C, and Life in-force free cash flow roughly speaking it would be broadly the same, which means as whole that we can – that we have an annual uplift of free cash flows of €0.5 billion, and that means that our free cash flow completely will be higher, and now I propose you to move to the remittance ratio to see how much real cash will be upstreamed to the holding company.

So, our remittance ratio will be maintained between 75% and 85% which means that taking the example of 2014 on the right-hand side, that means that where in Solvency I, we had a free cash flow – we posted last year a free cash flow of 5.5 and we had a

remittance ratio of 86% which was at the – slightly above the 75 to 85 point range which means that we had €4.7 billion of cash that was upstreamed to the holding company. Under Solvency II, as I explained before, we can expect to have €0.5 billion more free cash flow and assuming that we would have an 80% remittance ratio on average, that means that we would have an additional €0.4 billion of cash that would be upstreamed to the company. Instead of €4.7 billion, we would be at €5.1 billion.

As a conclusion, I could say that we can expect to have much more cash upstreamed to the holding company and this is why we are confident in our ability to increase our payout ratio from 40% to 50%, to 45% to 55%. And now I hand over to Denis.

Denis DUVERNE, Group Deputy CEO, AXA

Thank you, Gérald. I would like now to wrap up and summarize the key messages of this presentation. Strong Solvency II ratio at 212% at the end of Q3 under our approved internal model. This is no surprise because this framework has driven our strategic and operational choices in the last several years - product mix, investment mix, risk mitigation and portfolio diversification. Our Solvency II ratio is very resilient to a variety of financial and non-financial shocks.

We have now a very clearly defined capital management framework, with a range of 170% to 230%, within which you shouldn't worry about the volatility of the ratio. We are able to increase our dividend payout ratio range to 45% to 55%. We have – we'll have a higher free cash flow on the Life side by roughly €0.5 billion annually. And in spite of that, we can maintain our remittance ratio between 75% and 85%. I will add one point, which is that the – we will, within our capital, continue to increase the quality of our Tier 1 by increasing the core Tier 1 part and slightly reducing the Tier 1 debt part.

With that, I'd like to thank you very much for your attention, and now, hand over the floor back to you for questions-and-answers.

Q&A session

Andy HUGHUES, Macquarie

1 in 20 year shock consumes 32% in the ratio. But normally, when I think 1 in 200, it's normally 10 times worse than the 1 in 20. And so, it's obviously not in your case in your model. And so somehow, I guess, as you go from 1 in 20 to 1 in 200, actually becomes more resilient effectively, either through hedging or management action.

So, I guess, what am I looking at in this 1-in-20 shock? And obviously, if the hedging kicks in at 1 in 200, is the worst point between 1 and 20 and 1 and 200 that I should be thinking about in terms of pressure? Thank you.

Alban DE MAILLY NESLE, Group CRO, AXA

There is no linearity in the shocks between 1 in 20 and 1 in 200. You can't say that 1 in 200 will cost 10 times more, and that's true for us and that's true for all our competitors. There is a distribution of losses. We look at to 0.5% probability or 5% probability. And you see that 0.5% probability which cost us 100 points, and the 5% will cost us 32%, but you cannot infer from the probability that the shock will be proportional.

Farooq HANIF, Citi

Hi there. Thank you. Farooq Hanif from Citigroup. I don't understand your cash flow because we're getting mixed signals from other companies. So, surely, when you write new business market consistently, if you're pricing that way, you should be creating value, so why is there a new business strain? And then also on your back book, you should be releasing risk margin. It must be a very big – it's obviously a very big number, it's €12 billion added to liabilities. So, just wanted to understand, I might – are we just thinking about this incorrectly because I think inconsistency opening up between the way the different companies are reporting cash over Solvency II? It may be that you have to take me offline to answer that.

Second thing is why 75% to 85% remittance if you're saying you keep a slight buffer locally there will come a point at which you can remit all of your cash. What is still the constraint in your business – is it the U.S.?

And last point is, yeah, why do you move to 300% CAL? I mean, is that equivalent to what you would say as an economic capital equivalent level or is it that a regulator told you to move to 300%? Thank you.

Denis DUVERNE, Group Deputy CEO, AXA

Gérald, do you want to take the questions?

Gérald HARLIN, Group CFO, AXA

Yeah. I'll start with your question about the 75% to 85% remittance ratio. Keep in mind that what you say would be absolutely true if you would have only European companies. But it's not the case. You mentioned the U.S., and as you know for the time being, the U.S., as we said in the past, has the capacity to upstream quite significant amount of cash. Remember that in the previous meeting, we said that we could expect between €600 million and €1 billion, so it's still true. But look at Japan and look at Switzerland, that means that these countries have a tougher regulatory constraints and framework, which means that in the end, on average, we are quite comfortable saying that it will be 75% to 85%. That's the main reason.

Denis DUVERNE, Group Deputy CEO, AXA

Do you want to take the question on new business strain and the Life business?

Gérald HARLIN, Group CFO, AXA

So, your question, and I'm not so sure that I understood your question about the new business strain. That means that the new business strain is anyway something which is statutory. So, that means that it's – it won't change. So, that means that what does it correspond to? It's purely cash. So, that means that you have to pay your commissions. And the fact that you have to pay your commissions, makes that you have a cash strain...

Denis DUVERNE, Group Deputy CEO, AXA

Plus internal acquisition expenses.

Gérald HARLIN, Group CFO, AXA

...plus internal acquisition expenses, agree, which means that you have a cash strain which is, I would say, the same whatever the framework. So, it's purely cash. It's in and out.

Farooq HANIF, Citi

The local GAAP is not changing.

Gérald HARLIN, Group CFO, AXA

No, no, no.

Denis DUVERNE, Group Deputy CEO, AXA

It has nothing to do with local GAAP.

Gérald HARLIN, Group CFO, AXA

It has nothing to do with local GAAP. It's local, it's local cash needs. So, it's what we call -it's exactly the same. Just take a look at our EEV framework, it's exactly the same. So, that's what we call generally the strain. So, that's why it's a – I hope I answer your question, but it's really something which is quite the same taking the detail on countries.

Denis DUVERNE, Group Deputy CEO, AXA

I would add one point which is that on the new business required capital, it's really a function of your mix of business. So, if your mix of business is quite profitable which is our case, then you have – you don't have any additional new business need in addition to what VIF you create. If you have a different mix of business which has a lot of guaranteed general account business, then you could still have a new business required capital on top of the VIF. Is that clear?

Farooq HANIF, Citi

The 300%?

Denis DUVERNE, Group Deputy CEO, AXA

I see, yes, but – so, the 300%, yes, we have heard different figures coming from different competitors, but what you don't know and what we don't know is what has been required by the respective supervisors in terms of add-ons. So, we can tell you

that 300% for us is what we believe is required by the local regulator and that's why we put the 300% as the equivalent of 100% in Solvency II.

For the companies that have taken a lower figure, it may mean that they had a capital add-on separately. And so, I don't – I'm sure that there is fairness across geographies because the same supervisors are supervising different groups. But that may be handled in a different way.

Nick in the second row.

Nick HOLMES, Société Générale

Hi. It's Nick Holmes at SocGén. Sorry. I apologize for my creaky voice. First, two questions. First is on the dividend, the new payout ratio, 45% to 55%, previously with 40% to 50%, you started at the bottom and have worked your way up. And the question is, can we expect a similar sort of progression? I mean, for the dividend this year, presumably well, I mean, can you give us guidance? Are you expecting it to be 45% basically for this year? That's the first question. Do you want me to give the second question or do you want to?

Second question is looking more optimistically at the progression of the dividend. And I wanted to ask, you've always been a leader in prioritizing Unit-Linked and being capital efficient. We can see the benefits coming through. But because you've always been a leader, how much more scope do you think there is? And I'm thinking in the context of Solvency II, which is a regulatory framework that favors the strategy you've had for a long time. One would imagine that there could be quite a lot more scope to improve your capital efficiency and to sell a lot more unit-linked. And I wondered if you could possibly share your thoughts with us on that? Thank you.

Denis DUVERNE, Group Deputy CEO, AXA

Okay. Thanks, Nick. On the first question, I'm afraid I will not give more guidance. If we define a range of 45% to 55%, this is to leave us the flexibility to be any place between 45% and 55%, and I would not give more guidance, and you would be surprised if I were to.

On the second topic of Unit-Linked, I believe it's a very important topic for the whole industry, especially in the context of low interest rates, and I think it has more to do – our ability to go beyond the proportion of Unit-Linked that we currently have - it has a lot more to do with how financial markets evolve. In other words, we have had quite favorable markets, equity markets in the recent years, and that has helped us improve the proportion of Unit-Linked, but it also has a lot to do with the product design and the sales tools and training that we give to our sales force because I believe that's – I

mean, our customers still want some guarantees, and we need to do a better job of guiding them through the asset allocation that will make them have enough money for their retirement. And so, it's a long process. It's a process, I mean, where all the industry as a challenge. If we want to develop Unit-Linked, we have to make sure that we sell products with the appropriate asset allocation and convince our customers that even if they are 50 years old, they would still normally need to have 50% of equities which are – and sometimes the regulation goes against that. So, there is – this is a big topic for the European industry with rates at zero, and you heard today that QE would continue until at least March 2017. Clearly, the savers would need to invest more in equities, and it's not obvious with the mindset that most people have in Continental Europe, but it's definitely a challenge for the industry.

Nick HOLMES, Société Générale

Can I – may I, just a very, very quick follow-up on the subject of Unit-Linked. In France, if you look back far enough to the early 2000s, I think it was as much – Unit-Linked was as much as 40% for new business. Do you think Solvency II could drive a return to that?

Denis DUVERNE, Group Deputy CEO, AXA

You're talking about the industry figure for...

Nick HOLMES, Société Générale

I'm talking about industry, not your own.

Denis DUVERNE, Group Deputy CEO, AXA

So, this would allow me to make a comment on the Danish compromise. You know that, I mean, the Danish compromise allows that the banks to double count their insurance capital, and it is clear that this has – this means that there was less concern on the banks in terms of their capital consumption. And if the Danish compromise is prolonged, this trend will continue. So, there is clearly a situation where pure insurers are at a disadvantage against the bancassurers who are less worried about the way their insurance capital is consumed. But having said that, I believe that there was now a big awareness that this is not going to last forever, and we see also the banks driving more Unit-Linked.

James SHUCK, UBS

Thanks. It's James Shuck from UBS. I have three questions, please. The first one is on the corporate credit spread sensitivity. On slide 15, you show that for a stable Volatility Adjuster, there is a 13-point impact on the Solvency II ratio, whereas over the page, it's only 1 point. So, am I correct in assuming that you're assuming a dynamic volatility adjuster?

And then kind of connected to that, I'm interested in – I mean, obviously, the economics are such that you clearly are exposed to credit spreads, as long as the credit spreads blowout is driven by illiquidity, then volatility adjuster is fully justified. So, I'm kind of keen to understand what your default assumption is within the corporate credit, I suppose, and actually what happens if you double the corporate credit default assumption within that so I can get a feel for what the true economic sensitivity is to corporate credit. So, that's my first question, please.

Secondly, the range of 170% to 230%, that's a 60-point range. You make a big point about you've got low level of volatility. So, why do you need such a big range? At what stage can you see yourselves narrowing that range? That's my second question.

And the third question is just quite a simple one, really. Could you give me a reconciliation between the basic own funds and the eligible own funds, please?

Denis DUVERNE, Group Deputy CEO, AXA

Alban, do you want to start with the first question?

Alban DE MAILLY NESLE, Group CRO, AXA

Yes. So, on credit spread, you're right in assuming that we used a dynamic volatility adjuster. But that's an SCR issue, not an AFR issue. The dynamic volatility adjuster is used in the SCR. And you will have seen in the slides that what really matters in the corporate spreads sensitivity is the AFR. So, what we have shown on the slide that you refer to is if in, I find, the liabilities, the volatility adjuster were not to move at all, then the sensitivity on the asset side would give the number that you have on that additional slide. But it's irrespective of what happens to the SCR with a dynamic VA. But you're right in saying that we use a dynamic VA.

On your other question which is the default assumption, so that's usually speaking of corporate default, right? That's not in the market risk. That's in our default risk. And the number that we show on slide 13, the €4 billion, mainly relates to corporate default much more than to receivables and so on. So, that's the amount that we would have.

Denis DUVERNE, Group Deputy CEO, AXA

And you have a third question?

James SHUCK, UBS

Well, the second question was for the first part or the second part, was the range of...

Denis DUVERNE, Group Deputy CEO, AXA

Oh, sorry. On the range, look, we have a ratio which, as we say, is very resilient. But, I mean, we remember the situation at the end of Q1. You see that we – the ratio dropped by 10 points, and it was a – I mean, it was a big issue for the analysts. And we want to tell you that we are not worried by movements of 10 or 20 points. Because markets will move, our ratio will move, and we are running a very long-term business. And we are not going to take short-term decisions on the basis of those short-term movements.

So, we tell you we feel very comfortable within that range, and you shouldn't worry about it. Yes, arguably, it's a big range, but we are comfortable with that range. And we don't see the benefit of moving to a narrower range which would lead to major strategic decisions. We don't believe it's the right thing. So, the reason why we've put a large range is because we wanted to – we want to manage the business on a long-term basis because this is a long-term business, and not on short-term fluctuations.

James SHUCK, UBS

And then just on the basic own funds and the eligible own funds?

Alban DE MAILLY NESLE, Group CRO, AXA

I think you're referring to the difference between – well, the difference would be operational risk generally on this. That's for the standard formula. Well, I'm mistaken with something. I'm not sure I understand your question.

James SHUCK, UBS

To the extent that the AFR is the difference between the market value of the assets and the market value of the liabilities, you have – you would have the basic here in France and then there's restrictions over the amount of the basic own funds to get you to your actual eligible own funds under the Solvency II framework. Perhaps you can follow up later.

Alban DE MAILLY NESLE, Group CRO, AXA

Yeah. I'm not sure I get your point.

James SHUCK, UBS

Okay. Thank you.

Oliver STEEL, Deutsche Bank

It's Oliver Steel at Deutsche Bank. Two questions. You talked about increasing your equity Tier 1, at least I think that was the understanding relative to the debt in that Tier 1. Can you just give us some sort of guidance as to over what period and how far you want to move those ratios by. And just so we have a sort of sense of how you might use free capital generation going forward.

And then secondly, Alban talked about the regime being stable from here. Is that right or what changes could you expect from here on?

Denis DUVERNE, Group Deputy CEO, AXA

Yeah, Gerald, do you want to take the first one?

Gérald HARLIN, Group CFO, AXA

Yeah. Oliver, about your first question, going back to the cash generation. So, Alban mentioned that we can expect to have an 11 points cash generation year-after-year. And, as you know, this is after dividend but taking, we are used to, taking many times, we mentioned that we would have external growth and, let's say, €1 billion of M&A. What does represent €1 billion of M&A? It would represent, assuming that the goodwill would be one-third, it would be minus 3%. Assuming that it would be two-thirds of the value, i.e. €600 million roughly, it could represent minus 6%.

So, you can – I believe this gives you a good approximation of the fact that we can expect on a net-to-net basis on average, to have an operational cash generation, let's say, between 4% and 6%, roughly speaking, and that gives you – and again, what I said is that Tier 1 under stress scenario is not so resilient. So, I believe that it gives you an idea of the speed and the pace at which we could recover. And just presently, we have as mentioned in the appendix, we have €9 billion of Tier 1.

Alban DE MAILLY NESLE, Group CRO, AXA

Do you want me to take the second question?

Denis DUVERNE, Group Deputy CEO, AXA

Yes.

Alban DE MAILLY NESLE, Group CRO, AXA

So, I think there's been a number of back and forth in the construction of the Solvency II framework. So, everybody now wants to use it. When I say everybody, it's both the insurance industry and the supervisors, before potential changes are implemented.

Obviously, what you may have in mind is the discussion on the UFR. The – there won't be any change on this at least until the end of 2016. The EIOPA then during 2016 will launch the consultation on what should be the level of the UFR. What the industry is saying, the CFO forum, the CRO forum, Insurance Europe and so on is that we need stability. And so, for the next three to five years, we are asking the supervisors – the regulators not to change the UFR because we need stability in Solvency II. That's, for me, the one thing that could change, and I will not mention the ICS and insurance capital standards that might come in so many years.

Denis DUVERNE, Group Deputy CEO, AXA

The other topic that could change is the sovereign risk charge in the standard model, but as you have seen, we are already taking it into account in the internal model.

Michael HUTTNER, J.P. Morgan

Thank you very much. I didn't quite understand, and I'm on slide 27, you talked about the local excess capital. And I just wondered, if you could just say again what you meant because I didn't understand if it's already excess or it's going to be excess or it going to be released, I mean, France and the Germany and the U.S.

And then on slide 24 and 25, so slide 24, it strikes me as the dividend never goes down, and slide 25 used slightly different words for the different scenarios according to dividend flexibility or outside range. And I just wondered whether underlying this, you've got a kind of commitment to a ratchet dividend, in other words, the payout 45% to 55% but not cutting it, that seems to be coming through but maybe I'm wrong here.

And then, you mentioned the balance of deals in the past that was positives, you released more capital than you reinvested. Is that right now we should expect €1 billion to be roughly to be reinvested net every year? Thank you.

Gérald HARLIN, Group CFO, AXA

I'll start with the excess capital. It's on page 27. Let's put it this way, as you know, in a Solvency I world, we were quite highly reliant – we relied on the unrealized capital gains on bonds. And you know that the unrealized capital gains, by definition, were extremely volatile. Here, I would say that it's completely different. And obviously, today, yes, we have some capital excess mostly in the countries that are mentioned here, but it's quite volatile, and tomorrow it will be different. That means that it will be less volatile.

What do I mean by a buffer? Let's say that the buffer, it could be – it could be between 130 and 150, but what is above these levels can be distributed not in one day, but progressively, and that's what we meant, which means that we are quite comfortable to say that over time, it will be possible to distribute now, and that's why we have – we confirmed that the €0.5 billion – the example of €0.5 billion could be distributed because we will have this capacity to upstream cash through the retained earnings locally in the different entities. And it's mostly the case for the European entities, of course, because it will be – it's much more complicated, again, relative to countries like Japan or to countries like Switzerland because the framework is different, but it doesn't mean that we won't do efforts in order to reduce and to optimize capital in these countries.

Denis DUVERNE, Group Deputy CEO, AXA

On the dividend payout range, I don't think I can tell you more than what is on slide 25. Basically, we said that's between 170% and 230%, we are confident that we can pay our dividend between 45% and 55% of adjusted earnings. It means that outside this range, we might have to change the payout ratio either upwards or downwards.

Michael HUTTNER, J.P. Morgan

And within the 170% to 230%, given the history of maintaining at least the same dividend, is there kind of implicit commitment maintaining the dividend or is that completely flexible depending on the earnings?

Denis DUVERNE, Group Deputy CEO, AXA

I mean, the – obviously, all companies tend to have a policy where you try to smooth the pace of growth of the dividend. I will not tell you anything more. That's a rational thing to do and that's what all boards will eventually propose to their shareholders.

Michael HUTTNER, J.P. Morgan

On deals?

Denis DUVERNE, Group Deputy CEO, AXA

On deals, yes, we have already indicated in our previous calls or investor meetings that we would expect that the balance between acquisitions and disposals might be different in the future that would have probably slightly more acquisitions than we would have disposals. That doesn't mean that we say that we won't continue to make disposals. But on balance, we would expect the balance to be slightly positive instead of having been negative or having more acquisitions than disposals going forward.

Ralph HEBGEN, KBW

Thank you. Hi. It's Ralph Hebgen from KBW. Just two things. One, going back to slide 28. I'm not entirely sure I understand why under the Solvency II framework, the new business required capital goes down and so I would value perhaps some comments on the dynamics there. And second, going forward, or let's start with the past. I mean the past we had a very stable framework of reporting cash within the MCEV

framework. Could you give us some comments how you plan to perhaps report on cash in the future under the Solvency II framework.

Denis DUVERNE, Group Deputy CEO, AXA

Gérald, do you want to take the two questions?

Gérald HARLIN, Group CFO, AXA

Yes. Starting first with your first question about the page 28. So, as you know, the biggest difference between Solvency I and Solvency II is that you can benefit from the future profit. Let's call it the value of in-force business – the VIF.

So, what does it mean? That means that up to now, where are had to post capital, let's say 4%, 1%, et cetera. You had to post capital which was hard capital in front of – in order to do new business. In the future, depending on the type of business that you will write, you will have less capital requirement, hard capital requirement. In other words – and that's our case. The fact that we are doing, as mentioned before, more Unit-Linked and more Protection means that we have future profit and we're benefiting from this situation. So, that's exactly what we want – that I wanted to mention here and to present here.

Your second question was about cash.

Denis DUVERNE, Group Deputy CEO, AXA

Yes. Cash in the – how we would report cash flows in the future?

Gérald HARLIN, Group CFO, AXA

Yeah. We will report. So, that means that most probably, we will report on a format which will not be fundamentally different from the one of EEV, clearly highlighting the cash flows. That means that our format which was based on free cash flows, remittance ratio, how much cash, will be the same, except that on a capital requirement, we will adjust it. But you will have a strong – we will keep a strong cash flow effort.

Blair STEWART, Bank of America Merrill Lynch

Yeah. Thank you. It's Blair Stewart from Merrill's. Just following on the cash generation, you talked about the reduction in your cash consumption. And the implication, obviously, is that your cash generation is the same as it was on the previous disclosures. Is that right, firstly?

And following up from that, will you give – clearly, the unwind of the discount rate in Solvency II is the low unwind. And then you have a real-world investment return on top of that. Coming back to the point about presentation of your cash generation, presumably you will present on a real-world investment return perspective rather than just simply the unwind of the Solvency II discount rate.

Gérald HARLIN, Group CFO, AXA

Yeah. Anyway, what I can say about your last question Blair, we will go on, for the sake of calculation of the IRR, for example, you will need to have the risk free rate plus the additional – plus the risk margin – plus the spreads. So I think that we will do it also in the real world. So, that means that it's won't be very different. That means that you will have the cash flows, and the cash flows under the management case that will give you the capacity to calculate, as we do today, IRR. So, that's – honestly, I don't believe that it will be – that's why I said it will be very close from the present framework except that there will be some small modification, and we will have opportunity to discuss it on the right time.

Blair STEWART, Bank of America Merrill Lynch

Yeah. I think that's clear. Just two very quick follow-ups and I have very quick additional questions. You've given some indication in the past of the impact of using U.S. equivalents in solvency points terms. Is that something that you're prepared to share now or is that something that's in the past?

And secondly, just a bit confusion on this with different companies you speak to, but will you publish – would you be required to publish your solvency ratios without or excluding the impact of the volatility adjuster?

Gérald HARLIN, Group CFO, AXA

About U.S. equivalence, we said that in the past that it would be between 30 and 40 points, so it's still the case. About the volatility adjuster, the answer is no. That means that it will be required within roughly, if I'm right it should be in mid-2017. Before, the answer is not.

Andrew CREAN, Autonomous

Good evening. It's Andrew Crean, Autonomous. Could you – three things. Firstly, what is the benefit of the internal model relative to the standard formula in terms of your coverage ratio?

Secondly, when I'm thinking about your remittances, you're basically indicating you're going to cram down on the local regulators and try and push as much cash up to group as you can. Does that mean that the 75% to 85% has some element of sort of latent capital being pushed up or is that sort of ongoing rate? And as regulators settle down on the Solvency II and begin to understand themselves, do you think that they could be – open their shoulders a bit more and allow money to come up?

And then thirdly, on slide 13, where you have given the underwriting risk, market risk, credit risk, probably not now, but would you give us a bit more understanding of the different elements within the market risk and the underwriting risk there? The €15 billion here, it might be quite useful to understand how much of that is equity risk and all the other components?

Gérald HARLIN, Group CFO, AXA

As far as your first question for the internal model is concerned, we don't – we benefit from this internal model, so we won't – we don't give the advantage of the internal model relative to the standard formula. It's not something which is required at all in a Solvency II framework. And at no time, it will be asked for.

About your question relative to the remittance, I would say that so long as you will use new business future profit, if you want to take all benefit of this new business profit, for sure, you will use some retained earnings, local capacity that you would have in the local entity and that's what we will do. So, that means that we will, as much – so long as we have significant excess capacities that over time could be upstreamed, then that's why the 75% to 85% is something that we can confirm and where we switch we are quite comfortable.

Denis DUVERNE, Group Deputy CEO, AXA

And this is – so, you should interpret that as meaning on an ongoing basis and not as something that would result from a, as you say, pushing a lot of money up front in year one and two and then not having the ability to push as much in the later years.

Andrew CREAN, Autonomous

That suggests you could, in the first few years, that you push out more than 85% as some of these one-off excess capital get moved up.

Denis DUVERNE, Group Deputy CEO, AXA

Maybe, but on the other hand, we have some internal debt that we would unwind.

Gérald HARLIN, Group CFO, AXA

But nevertheless, as I've said, what is important to keep in mind that even net of these internal debts that would be unwound, there is capacity.

Alban DE MAILLY NESLE, Group CRO, AXA

And on your last question, what I can tell you is on page 13, the examples that we gave in the boxes are in a decreasing order of importance so in our market risk, equity risk is more than spread risk which is more than interest rate risk. And for those who wonder why equity risk comes first, though we have limited exposure on our balance sheet, you should remember that our Unit-Linked business has some equity exposure, and we might lose future profits from Unit-Linked business if equities decrease.

William ELDERKIN, Goldman Sachs

Thanks. It's William Elderkin from Goldman, two questions. First of all, the guidance you've given in terms of the Solvency II capital structure on slide 26. Does that supersede or how should we think about that in the context of the IFRS balance sheet target leverage range of 23% to 25%.

And then secondly, going back to the – I think you made a statement on slide 11 that you expected the capital generation from the Inforce on the Life business to be roughly stable, Solvency I compared to Solvency II. I'm just wondering, is there a simple explanation of why that's the case given there seems to be so many moving parts for change moving to a full market value balance sheet and hence, why net-net, there isn't a sort of any material change?

Gérald HARLIN, Group CFO, AXA

On your first question relative to our Tier 1 debt, I would say that this doesn't change. Look at what I said, I mentioned that we will – we still have 23% to 25% target. We will keep it. It's our interest. And we always said that below, it would be considered as not in the interest of the shareholders. Nevertheless, you can imagine that over time, we could have some parts of the Tier 1 debt that could be replaced by other categories and that's mostly it, no need to pay for a spread which is quite important. We will keep the present range in term of debt while reinforcing our capital structure.

Alban DE MAILLY NESLE, Group CRO, AXA

Just the other question on the cash flows in terms of Solvency I compared to Solvency II.

Denis DUVERNE, Group Deputy CEO, AXA

The cash flow was from the in-force.

Gérald HARLIN, Group CFO, AXA

Yes. The cash flow in the in-force, it's quite – it's not something which is so easy as you can imagine and you mentioned it. Thank you. But anyway, you can – we looked at it and it's – I said it's broadly the same. So, don't – we cannot accept to have big differences. What I could say and that what I didn't mention and it goes back to the previous question is that so long as for the in-force as well, you will benefit from the VIF makes that if you have some capital available then you could benefit from this, but I didn't take into consideration, and that's why in the presentation, I focused only on the new business. But it's also something which is possible, but it goes back to the capacity to de-capitalize the company and to make the bid, to monetize the VIF. That's another way that I could explain it. But broadly speaking, everything equal, should be more or less the same.

Farooq HANIF, Citi

Hi there. Farooq Hanif from Citi. So, it seems to me from what you're saying that it's more attractive to buy stuff in Europe because you've got a market value frame, which is looking similar to what you had before. You have a big diversification benefit. I'm just wondering whether this is informing your M&A.

And secondly, is there any convexity in your 75 bps corporate bond spread sensitivity because I know you've got credit derivatives on the balance sheet. I know they're not

necessarily that hedged, but can you talk about any convexity that gets more negative beyond 75 bps if we get a really, really big shock? Thank you.

Denis DUVERNE, Group Deputy CEO, AXA

So, on the M&A strategy, we are not going to change our M&A strategy in any significant way. We will continue with the strategy that we have had in the last 4.5 years, focused on P&C and protection, focused on high growth markets, and we should – you should see a continuation of the previous trends there.

On the convexity, you want to take that, Gérald?

Gérald HARLIN, Group CFO, AXA

No. Okay. No, apparently – apparently, there is – I don't see any convexity. That means that there is convexity when there is a kind of option. That's the case for interest rates but not for spreads.

Alban DE MAILLY NESLE, Group CRO, AXA

Yeah. If anything, we do have some protections for – on corporate spreads widening. So, that would protect us against, slightly, but against a significant shock. So I don't think there is convexity in that.

Denis DUVERNE, Group Deputy CEO, AXA

A question in the back.

Andy HUGHES, Macquarie

Thank you. It's Andy from Macquarie again. A couple of questions. The first one is on slide 12. I couldn't find any adjustment for fungibility that you talked about. Is it right to assume there isn't really any deduction to fungible or there is no fungibility problems assumed in the Solvency 2 framework.

And the second is if I'd just like to touch a bit more on the volatility adjuster and the comment you made that because you have lots of government bond, it's actually quite positive when the volatility adjuster increases. So, are the regulators happy with you assuming the credit from the volatility adjuster, even though you own a portfolio of mainly government bonds? Thank you.

Alban DE MAILLY NESLE, Group CRO, AXA

So on fungibility, there is a haircut of €500 million, and that haircut is the recognition that the minority shareholders' funds cannot cover other entity's losses, and that mainly comes from our AXA MPS minority shareholders. And that's all. There's no other haircut in terms of fungibility.

On the VA, the reference portfolio has certain percentage of government bonds and corporate bonds. And all the industry has to use the VA that comes from that reference portfolio, what ever they have on the asset side. And given that we have a different mix than the...

Denis DUVERNE, Group Deputy CEO, AXA

Which is more conservative.

Alban DE MAILLY NESLE, Group CRO, AXA

Which is more conservative, as I explained during the presentation, the corporate bonds spread widening is more motivated than the government bonds spread widening. That's why you have that 9 points sensitivity for 50 bps whereas it's closer to zero for the corporate bonds spread.

Did that answer your question?

Andy HUGHES, Macquarie

There's no question about – everyone's happy with you using that in your SCR. How big is the benefit out of interest?

Alban DE MAILLY NESLE, Group CRO, AXA

Okay. So, the – on the AFR, we use it like the rest of the industry; on the SCR, the first part of the model that was approved by the supervisors. So, everybody – if you refer to the supervisors that looked at our model, everybody is happy with that. Yes.

Denis DUVERNE, Group Deputy CEO, AXA

Question in the front.

James SHUCK, UBS

Thanks. James Shuck from UBS again. Just a couple of quick follow-ups, please. The – you mentioned the government bonds are risk charged. Could you just outline what your approach is there or are you just treating them like normal corporate bonds based on the credit rating ? In particular Italy and Spain I suppose.

And then, secondly, just returning to the cash generation. You can see that the strain in year one is positive on capital generation. Obviously, you mentioned that Solvency I basis moving to Solvency II, but I'm thinking about capital generation from the back book. So, at the moment when we look at your MCEV disclosure we can see how the required capital runs off as we move through one year.

So, my question is really what happens to that level of required capital release in the near term as you transition to a Solvency II environment.

Alban DE MAILLY NESLE, Group CRO, AXA

So, on the first one, which is the government bond risk charge. So, like for all the other risk, we look at path volatility. But here we look at path volatility country by country. So, we would effectively have different capital charge for a Spanish government bond or a Belgium one or French one, based on the volatility that you've seen over the past years and notably in 2011-2012.

Denis DUVERNE, Group Deputy CEO, AXA

Yes. The euro financial crisis has had significant influence on the – of the capital charge for sovereigns. Second question, Gérald.

Gérald HARLIN, Group CFO, AXA

About your second question that's not very far from the previous question. And what I said is that the way we will release capital on the Solvency II world will not be exactly the same but more or less it will be in line. So, that means that we cannot expect with very big differences. And keep in mind as well that before in the Solvency II world we were using 150% of Solvency I which means that we had already a certain amount of cushion that was used in our EV report. But again, wait for the – we will present it with

the 2015 accounts and we will present a new format and we will have the opportunity to release this at the time, but don't expect big differences on that side.

James SHUCK, UBS

Just to follow up very quickly on that. So, for Italy, for example, if you took the sov work, can you actually tell me what your capital charges are for Italian sovereigns?

Alban DE MAILLY NESLE, Group CRO, AXA

I don't think we want to go to the details of our various capital charges for various risks. Question in the first row?

Andrew CREAN, Autonomous

It's Andrew Crean again. One thing I don't understand is when you – the most important slide according to you is this one about the resilience and the least resilient situation was 2008-2009 financial crisis which hit you by 48 points. Now, that essentially was a credit crisis. Given the fact that you're saying that you're very resilient under a credit situation, how come that is minus 48 points?

Alban DE MAILLY NESLE, Group CRO, AXA

So, it was not only credit crisis because at the same time, you had equities going down, you had interest rates going down, you had credit spreads widening and...

Denis DUVERNE, Group Deputy CEO, AXA

And volatility.

Alban DE MAILLY NESLE, Group CRO, AXA

...volatility significantly increasing. So, you had all those asset classes going the wrong way. And, obviously, when – I showed you the shocks, the individual ones. But naturally, when they are severe and they are combined, the total combination of those shocks is more than a single sum.

Andrew CREAN, Autonomous

Perhaps it might be interesting now for us to have a feel for what's going on there within the 48 points.

Denis DUVERNE, Group Deputy CEO, AXA

Michael, in the second row? If you can you pass the mic?

Michael HUTTNER, J.P. Morgan

Again, a stupid question because I don't understand what the Tier 1 discussion and I'm a bit lost. You say you want to reduce it or improve the quality but not change the debt ratios. Can you just give an example of what you intend to do, just to understand? That's all. Thank you.

Gérald HARLIN, Group CFO, AXA

Okay. Let's say that you could imagine that we will have, within the next year, some Tier 1 debt that will mature. And we could decide that part of this maturing debt, instead of being renewed as Tier 1 debt will be replaced by senior or Tier 2, which will be cheaper. At the same time, the fact and it goes back to Oliver's question about what you expect, that means that the fact that we have capital generation of 11 points minus eventual M&A makes that you have an accretion of your solvency. And I believe that you have the answer to your question. I'm clear or not?

Michael HUTTNER, J.P. Morgan

About the last point.

Gérald HARLIN, Group CFO, AXA

And now the last point is – no, but the last point is the fact that...

Michael HUTTNER, J.P. Morgan

Retained earnings. Do you have retained earnings?

Gérald HARLIN, Group CFO, AXA

... you have – okay. You have – imagine that you have replaced a Tier 1 debt with a senior. So, it may be, at least, the effect would be to decrease your solvency ratio, okay. But progressively, the fact that you are accretive and that you have, let's say, a few points that increase your solvency ratio makes – while, over time, while keeping the same solvency ratio, you end up with a structure which is stronger and cheaper.

Denis DUVERNE, Group Deputy CEO, AXA

Any further questions? Yes?

Robert HAIM, J.P. Morgan Asset Management

Just – how have you treated your own pension funds within the – sorry, pension fund within the solvency, on what basis? Is it the accounting IAS basis or the funded basis or what? And the second question, I was just going to ask – or just for numbers purposes, can you provide the breakdown of the €2.5 billion between asset management, banking, and the others?

Alban DE MAILLY NESLE, Group CRO, AXA

So, on the first one, we use for owned staff pension funds on the AFR, which we have on IFRS balance sheet, there's no difference. But in terms of capital required for our pension funds, we use the same model as for the rest of our activities. So, there is a capital requirement for our pension funds, which is built the same way.

Robert HAIM, J.P. Morgan Asset Management

It's in excess of the amount under the IAS basis?

Denis DUVERNE, Group Deputy CEO, AXA

For the AFR, what Alban has just explained, we take the IFRS basis. It's deducted – we don't change the existing deduction, but for the SCR we include a charge which is based on the structure of the liabilities.

Robert HAIM, J.P. Morgan Asset Management

Are all companies doing that? Do you know if everyone is doing that same basis?

Alban DE MAILLY NESLE, Group CRO, AXA

No, I'm not sure I know, but it was something shared obviously by our college supervisors where all European – almost all European supervisors represented. So, I would think that our competitors should do the same, but I can't assure you that.

Denis DUVERNE, Group Deputy CEO, AXA

Your second question was?

Alban DE MAILLY NESLE, Group CRO, AXA

Was the breakdown of the capital requirements for...

Denis DUVERNE, Group Deputy CEO, AXA

Yeah.

Alban DE MAILLY NESLE, Group CRO, AXA

So, I might have to come back to you on that one.

Blair STEWART, Bank of America Merrill Lynch

Okay. Just coming back on the tier-1 debt instruments that you have. At the moment, my recollection is firstly they are very long dated, and secondly, they are very cheap, certainly cheaper than equity. Why would you want to replace this with equity or am I missing something?

Gérald HARLIN, Group CFO, AXA

The point is that it's very long, yes, but they are calls as you know. Second, about the cost, the costs are roughly 4.6%. Okay. And second, we could say that this debt is , as I said under stress scenarios, it wouldn't be extremely resistant. So, that's all these

reasons combined make that we decide to do this. Look, today – under today's conditions, replacing, let's say, Tier 2 debt or senior debt is much cheaper.

Denis DUVERNE, Group Deputy CEO, AXA

Any further question? Michael, again?

Michael HUTTNER, J.P. Morgan

Very slight puzzled. So, you're distinguished between Solvency I strain of new business and the Solvency II is €0.5 billion benefit which is lovely. And you've been running your company on this for a while. So, presumably, what you're telling us today you've been actually doing before or I don't quite understand. So, if you've been running – if you've been using this framework until now, this change from Solvency I to Solvency II and the cash upstreaming, is that a real change or is that just a kind of information change for our benefit?

Gérald HARLIN, Group CFO, AXA

I would say it's a real change. That means that we were not ruled before by Solvency II. We could not use the future profit of our in-force business just in order to match up capital requirements. No, it's real. It's real.

Michael HUTTNER, J.P. Morgan

It's real. So, you're going to pass next, well pass I don't have any shares in AXA. You're going to pay the lucky shareholders here next to €500 million for 2015, is that right? Or is it 2016 that it comes into force?

Denis DUVERNE, Group Deputy CEO, AXA

It comes into force in 2016.

Michael HUTTNER, J.P. Morgan

It comes into force in 2016. Sorry. I beg your pardon. Thank you.

Denis DUVERNE, Group Deputy CEO, AXA

Okay.

Rotger Franz, Société Générale Credit Research

Yeah. Société Générale Credit Research. Sorry, one more question about your capital structure. You were talking about replacing Tier 1 hybrid with Tier 2. But do I understand you correctly that you leave the door open to place one of your – some of your outstanding Tier 1 hybrid with new Solvency II compliant Tier 1? And would you consider being the first issuer, issuing Solvency II-compliant Tier 1?

And second question, am I right to assume that all of your outstanding hybrid debt falls under the grandfathering regime, and it's not Solvency II-compliant in its own right?

Gérald HARLIN, Group CFO, AXA

Okay. So, it's not at all what I said. And it's not – I didn't say that we wanted to be the first one to use this Solvency II Tier 1 compliance. We will see in the future. And second, yes, you remember that we mentioned that we were benefiting from the grandfathering and this is a given. So, we will benefit it for 10 years. So, we'll keep it. And you remember, maybe that we decided that one year ago, we decided to prolong the sum of this debt in order to fully benefit from it. So this is something that we will keep.

Denis DUVERNE, Deputy CEO, AXA

Okay. Do we have questions from – on the – no. Okay.

So, we – I believe that we have exhausted your – the list are your questions. Thank you very much for your attention.

Thank you very much for coming for this Investor Day. And I wish you a very pleasant end of the day. Thank you.