

# **AXA 1Q16 results Transcript**

***May 4, 2016***

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This document is the transcript of the 1Q16 results release held on May 4, 2016. The podcast of this presentation is available on <https://www.axa.com/en/investor/earnings-presentation>.

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## **Operator**

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Ladies and gentlemen, welcome to the AXA 1Q 2016 Conference Call. I now hand over to Andrew Wallace-Barnett.  
Sir, please go ahead.

## **Andrew Wallace-Barnett, Head of Investor Relations, AXA**

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Thank you and good morning, everyone. And welcome to the AXA conference call on our activity indicators for the first quarter of 2016. Gérald Harlin, Group CFO would like to give you a quick overview of the main figures included in the press release which we issued yesterday evening and of course make some comments on the announcements we made about UK transactions this morning. You can find both of these press releases on our website. Following that Gérald will be happy to answer your questions.

Gérald, I hand over to you.

## **Gérald Harlin, Group CFO, AXA**

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Hello, good morning and thank you, Andrew.

So let me begin by making some remarks about the UK transactions that we have announced and then give you an overview of the main figures for the first quarter of the year before moving, of course, to the Q&A.

So as you noticed AXA announced today that following a strategic review conducted by AXA UK of the UK Life & Savings market, it has agreed to sell its wrap platform business, Elevate, to Standard Life plc. This transaction follows the announcement made on April 28 for the disposal of its UK offshore investment bond business which is called AXA Isle of Man.

AXA also confirms that it is engaged in discussions for the disposal of its remaining UK Life & Savings assets i.e. its direct protection business called SunLife. AXA UK P&C, Health i.e. PPP and asset management-related operations, Architas, are not included and remain key businesses for us.

We expect total proceeds from this transaction at around €800 million and to generate an exceptional negative P&L impact of circa minus €0.4 billion accounted for in net income. As previously communicated we also expect to realize an exceptional gain of circa €1 billion after tax on the disposal of the two real estate properties in the U.S. which will be accounted for in net income during the first half of 2016.

So now let me move to an overview of the figures of the first quarter. We have continued to see growth in revenues this quarter with total revenues up 1% on a comparable basis to €32 billion. On Life & Savings, we recorded a +16% APE growth and this growth includes higher corporate pension scheme sales in the UK of €0.3 billion. If we excluded UK Life sales then the overall APE growth would have been flat.

The high Unit-Linked sales in the UK were offset by Hong Kong due to the non-repeat of the exceptional sale of large contracts and high carryover sales in Q1 2015 in anticipation of the change in regulation implemented in 2015.

Also worth noting are the high sales of G/A Savings single premium business in China as part of the Chinese New Year marketing campaign. These seasonal sales were higher than last year. For the remainder of the year, we expect to sell the higher margin regular premium business in China and we would expect the overall NBV margin for the year for China to be somewhere between 10% and 15%, similar to last year.

The NBV margin at 29% remains high. The decline compared to the first quarter 2015 reflects for the most part the higher corporate pension scheme sales in the UK in the quarter which have a lower NBV margin. If we restated the numbers to exclude the UK Life & Savings business then the NBV margin for the group would have been around 36%.

Life & Savings net inflows for the quarter were at €3 billion and this includes around €0.5 billion outflows from the most recent GMxB buyout in the U.S. which operated from December 2015 to March 2016.

P&C revenues were up 3% mainly driven by a positive pricing effect of 3.4% on average. In mature markets, revenues increased by 1% driven by the UK, Ireland, Germany, with higher volume and prices.

In high growth markets, revenues were up 9%. This was driven by Turkey where we significantly increased pricing from April 2015 to restore the profitability of our portfolio, and business growth in Mexico and Malaysia. Excluding Turkey, revenue growth in the high growth markets was 4%.

Direct revenues grew at 7% driven by Japan, the UK and France.

Let's speak now from asset management. Asset management business total inflows were €10 billion with AXA IM at €8 billion mainly from Asian JVs and AB at €2 billion mainly from institutional clients. Average AUM dropped 4% driven by the withdrawal of assets from Friends Life in 2015 explaining roughly 3% drop in AUM.

And revenues dropped 9% due to lower asset under management first and the decrease in average management fees linked to a higher share of fixed income products following weak equity markets in the first two months of the year.

Our economic solvency ratio is estimated at 200%, down 5 points versus December 2015. The impact of adverse market condition was partially offset by a positive operating return and the issuance of a €1.5 billion subordinated debt. As disclosed in full year 2015 results, our Solvency II ratio now includes an estimated dividend accrual for the period estimated based on one-fourth of last year dividend.

I would like to take this opportunity to remind you that we plan to share with you our new strategy plan during our IR Day in Paris on June 21st.

I'm now happy to answer your questions.

## Q&A Session

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**Peter Eliot, Kepler Cheuvreux:** Thank you very much.

First question, I want to ask, I guess now that we've had the detail from the Department of Labor, I was wondering if you can give us an update on your view of the impact that that will have.

And perhaps also, on the U.S. now that the sort of mark II, the second phase of the buyouts are over, just wondering if you could share, whether you have any intentions to do anything else there?

And then finally just on the South-East Asia, India and China you said that the margin was down due to the business mix and high Chinese sales, but I guess that the value of new business was also down quite a lot.

So I'm just wondering if it was something other than just an extra high volume of low margin business. Can you comment a little bit more on that? Thank you very much.

**Gérald Harlin:** Yes, Peter. So let's start with DOL. So it's quite obvious and I believe that most U.S. players noticed that DOL was slightly better than we could fear. You remember that we mentioned at the last presentation of the accounts at the end of February that it would be between 10% and 30%. So we could say roughly speaking that the impact on the U.S. new business might be 20%. So, slightly better again than we could fear. And I believe that we'll give you more detail about the U.S. and the impact on the U.S. on 21<sup>st</sup> of June.

The buyout, do we intend to do other buyouts? I believe that we can expect now that - it's difficult for me to tell you. I don't expect in the foreseeable future to have other buyouts but I believe that we'll present it more globally with our U.S. strategy.

About China, so it's true and quite obvious that in the first three months, we had a strong growth and a strong production in China, which was clearly in General Account business and with an NBV margin which was negative. It was an NBV margin of - 6%. Why? Because you know in the way – first of all in China, for the first three months, that means around the Chinese New Year, like we did in the past but this year it's more important, there are massive marketing campaigns, which are quite important in order for ICBC to increase its market base.

And that's what we did and that's the reason why we had a quite attractive product in the first part of the year. But I can tell you that in April we produced new products with an NBV margin between 15% and 20%. And on a cumulative basis at the end of April, we are positive in term of global NBV. So it's absolutely in line with what we explained

to you which is that, in the first three months we have a General Account production which is floored to zero or even negative which is the case today, first.

And second, for the rest of the year, we can expect to produce other type of products which are not pure savings products but which are much more whole life products with higher margin. And as a whole, we can expect to have a margin for the whole year between 10% and 15%. So again, these figures reflect this very strong marketing campaign that we did. I can tell you that in the end we didn't pay any goodwill for our business in China. And for us, being the number 10 so quickly in China in Life is a good success. So that means that it's something which was expected and it's a good news for us because it's a way for us to increase our footprint in China.

**Peter Eliot, Kepler Cheuvreux:** Okay, thanks a lot.

**Operator:** So we have another question from Paul De'Ath from RBC.

**Paul De'Ath, RBC:** Yeah, hi. Good morning. Couple of questions if I can on the UK transactions. And I think firstly I guess just looking at it from the outside on the face of it the UK Life market should be one that fits well with the sort of AXA strategy of selling more Unit-Linked and less guaranteed products and that kind of thing. So I'm just interested to know kind of what it was within the strategic review that made you think that actually the UK wasn't the place that you want to grow the business.

And secondly linked to that point just looking at the Q1 sales, so the institutional Pensions business that you sold in the UK, where does that fit within the Life and Pensions businesses that you're selling or indeed is it part of the asset management business that you're holding on to and that would be good, thanks.

**Gérald Harlin:** Okay. Let's start with the first part of your question on the UK. First of all, we don't have scale and that's very important in the business. If I take the two examples, Isle of Man , it was €9.4 billion AUM. Take Elevate, Elevate is €10 billion.

Second just have a look at – you have these figures of course, but just have a look at the MD&A from last year and you will notice that in Life, in underlying earnings contribution, for sure was 75 in Life. But a lot of this was corresponding to tax one-offs.

Just have a look at the pre-tax, underlying earnings contribution. In 2015, it was €30 million . So you can understand that we were small on one side. Second we believe that we have other opportunities to redeploy these €800 million corresponding to the disposal.

So it's a no-brainer. Again, it's a matter of scale. I fully agree with you that in term of products, Unit-Linked and so on, it was in-line. But you know that the UK Life market is extremely competitive and in other countries we can do Unit-Linked business at much

bigger scale and with much bigger profitability. And the second part of your question was...?

**Paul De'Ath, RBC:** the corporate TIPP (14:43)

**Gérald Harlin:** Yes, the corporate TIPP's are... first of all they are in Unit-Linked business. If your question is where is it in the net inflows, in the net inflows it was a regular premium which means that it's only part of the total APE impact that flows through the net inflows for the first quarter.

**Paul De'Ath, RBC:** Okay, it was more a question of whether or not that business was also part of the UK Life businesses that you sold, if it's part of the transaction.

**Andrew Wallace-Barnett:** It is part of the transaction.

**Gérald Harlin:** Yes, it is part of the transaction. I'm sorry, that was obvious for me. I'm sorry.

**Paul De'Ath, RBC:** Okay, great. Thanks.

**Operator:** We have another question from Nick Holmes from Société Générale. Please go ahead, sir.

**Nick Holmes, Société Générale:** Hi, Gérald. Thank you very much. Couple of questions, first is there any comment on the Turkish repricing policy. I'm wondering whether you're confident that you're getting the situation under control.

Second, any comments on the situation in Hong Kong and I'm thinking here of the sale of G/A products to replace the Unit-Linked, could you update us how that is going? Thanks very much.

**Gérald Harlin:** Okay. As far as the Turkish situation is concerned, yes, you remember that following the reinforcement of reserves that we did last year. We decided at the same time to significantly increase - more than doubled the price of MTPL. That's what we did. And so that's perfectly in line with what we could expect.

The second point is maybe you noticed that there will be an evolution in the legislation in Turkey relative to MTPL and we are just studying it and it might be I would say an improvement going forward. You know that the real problem over there is that due to this - due to the bodily injury indemnification that are extremely high, this led to very high price increase and the government tried to fight and to find solution more than fight - find solution in order to stop this price increase. So it could be a good evolution. We will rediscuss later on in the year. And I will update you on this but I could say so far so good.

About Hong Kong, yes, you noticed that in Hong Kong we decreased significantly the APE due to this – due to the fact that we had a change in the legislation and progressively we are increasing the Life business - the traditional G/A business. But it's what we call – I could call capital-light and at the same time as we can see here we have an NBV margin which is quite good.

So yes, we are progressing but we still – we are not there. That means that we have to compensate the Unit-Linked business which means that in Hong Kong we still have a 17% drop in APE. And we are expecting to recover over time and at the same time you can notice that our NBV margin is still pretty high at 63%. So, it's not a matter of worry but we have to ramp up our new generation of products. That's presently what we are doing.

**Nick Holmes, Société Générale:** Thanks. Just a very quick follow-up so would you say that in Hong Kong you do want to grow a significantly the G/A Savings business? I mean that is your strategy rather than just say, be in Protection because you're very strong in Protection aren't you?

**Gérald Harlin:** Yeah exactly but the Savings part, you know, first of all it's not pure Savings products. It's products with some Protection in it. Second, it's capital light. To be clear, the way we are designing these products makes that you don't have – you have almost no guarantee. You don't have a yearly guarantee. We have a lot of surrender fees in the first years which means that in case there would be a surrender then we don't have an ALM risk because we would be indemnified through this surrender premium. So the way we design these products makes that it's really and clearly the generation of capital light products.

**Nick Holmes, Société Générale:** Okay. Thank you very much.

**Operator:** We have another question from James Shuck from UBS. Please go ahead, sir.

**James Shuck, UBS:** Good morning. Thanks for taking my question. I have two questions please. Once again just on Hong Kong, I'm just interested here about your sales into Mainland China. Obviously you're rebasing down the level of sales following the changes on the Unit-Linked but most of the companies that I look at I think they see big increases from sales into Mainland China and I'm just wondering why we're not seeing that with you whether that is actually part of your plan or whether that's something you just decided not to sell.

Secondly in more general terms, could you just kind of outline where you are in terms of new product designs in Europe in particular and how they're adapting to the low bond yield environment, low-return environment. I am particularly interested in the new

generation products. You talked about something in Japan in terms of new generation Savings products there. But I'm interested in Europe in terms of kind of fee-structured, commissions, surrenders and whether Q1 is the start of something that's going to evolve over the coming years or whether you're already where you need to be in terms of those new product designs. Thank you.

**Gérald Harlin:** Okay. Sales in Mainland China, no, we roughly we have 50% of our sales coming from Mainland China in Hong Kong. What I explained before was the drop compared with beginning of last year in Unit-Linked products. It's true for both the Mainland Chinese and the Hong Kong customers. So that's it. But we didn't have any decline and I believe that the comments made by the other competitors, it's true for us. So that means that we didn't have any decline of the Mainland Chinese due to the change in the regulation of cash payments – of payments.

Second, the new product design. You mentioned Japan, indeed in Japan what we did is that we – initially you remember that we were selling VA products, that VA products had a poor margin. On top of this, it was – it created some volatility as you know due to the hedging in line with our policy to hedge VA products.

And we decided to sell another style of Savings products which is an Australian dollar denominated product and with quite high margins. So that's an example of Savings products where the profitability is pretty high, on top of my head, we should be close to 40% in terms of profitability.

The second part of your question was about Europe. Yes, in Europe we are obviously working on – we don't give up selling Unit-Linked products. I should tell you that although we had some decline in the Savings products due to the turbulence on the market in France in the first two months.

Nevertheless we are still selling 41% of Unit-Linked products in our Savings products. So that's quite good. That means that we don't give up. It's not because the markets are difficult that we give up on the percentage of Unit-Linked business, point number one.

Point number two, we are working on more attractive General Accounts products. You all heard about Eurocroissance and we have good news because Eurocroissance is a product that should benefit, it's not completely done yet, but should benefit from part of the capital gains from the General Account portfolio. And the way Eurocroissance will work is that you don't – you won't have a yearly guarantee, but a guarantee after eight years which makes that it will be clearly a capital-light type of products.

We are doing the same in other countries. Take Germany, in Germany we have Relax Rente products which are products with General Account and with Unit-Linked but again it's a capital-light type of product. And we have the same in Hong Kong, I just

described it. And almost everywhere you can expect that we will develop General Account products but anyway with capital-light type of structure, but anyway there is no mystery: in the present interest rate environment, we cannot expect to make very attractive products so it should be analyzed as a complement to Unit-Linked products.

Last but not least in some countries as well, we can develop some structured products with guarantees which are not at 100% but at 80%, 85%. Why? Because in such a low interest rate environment it could prove to be attractive to propose to our client a structured product which is a Unit-Linked product with a guarantee which is below 100%.

**James Shuck, UBS:** Okay. Thank you very much.

**Operator:** We have another question from Farooq Hanif from Citigroup. Please go ahead.

**Farooq Hanif, Citigroup:** Hi there I was wondering if you could comment on implications for AXA Investment Management in the UK from Elevate and then also the sale of the other UK Life & Savings business. What proportion of the assets are managed and what could be at risk?

Secondly, returning to Property & Casualty following up slightly on Nick's question, is Turkey going to be going back to underwriting profit? And generally speaking when you look at the price increases that you're putting through particularly in personal lines, it seems to me to be towards the upper end of the range of claims inflation. Will we see an improvement in underlying loss ratios there particularly in the direct area where you're obviously looking for scale but roughly haven't been growing? So if you could just comment on profitability in P&C given your activity indicators? Thank you.

**Gérald Harlin:** Okay. First of all on AXA IM I would say that a lot of our business was open architecture and it was done mostly through Architas and you know that we keep Architas today. Architas should be €20 billion roughly. And Architas is kept within our group because it's not a tool only for our UK business but it's a tool also for other European countries to sell Unit-Linked business especially for high net worth individuals where open architecture is key.

The second part of your question is on the Casualty business. I would say that if your question is about the loss ratio, it's a bit early to give you any indication, Farooq. I would say that for the time being what I can say that the weather conditions are quite fair and good. But beyond I cannot go, and let's wait until end of June in order to comment on this.

I can say, that even you were mentioning direct, yes in Direct we are at +7%. It doesn't mean... – so it's quite a success - you know that in Direct we are benefiting for

example from the Loi Hamon in France where we had much more surrenders which means we benefit from this situation. It's a negative for AXA France, it's a positive for Direct but we don't give up on our traditional rules of profitability, so that's for sure.

**Farooq Hanif, Citigroup:** Okay. Thank you so much.

**Operator:** We have another question from Jon Hocking from Morgan Stanley. Please go ahead Sir.

**Jon Hocking, Morgan Stanley:** Good morning, everyone. Just to clarify – are you – just want to make sure that you're committed to the group Pensions business in the UK. That hasn't changed as a result of any of these transactions?

**Gérald Harlin:** No, that means – no that's quite clear that the group Pension business is something that we won't – we won't run any more Life business in the UK, let's be clear, except the asset management part of Architas that I've just described before. So that means that all the Life business will be sold. We already announced the disposal of first, Isle of Man which is indeed the offshore investment bond business – €9.4 billion AUM, second, this morning, we announced the disposal of Elevate which is a wrap platform and it's €10 billion of asset under management.

The last part which is not sold yet, but with our intention to sell, it's SunLife business and SunLife business is protection business. And we have also the traditional investment and pension business, what we call Embassy, which will be sold as well. So that means that in the end, with these three transactions out of which two have been announced yet, we will get rid of all our Life business in the UK except the asset management because we'll keep Architas.

**Jon Hocking, Morgan Stanley:** Okay. So you have P&C, you have the Health business, you have Architas, you have asset management and you have a – you still have a corporate pension platform there yeah? Or not so?

**Gérald Harlin:** No, because Elevate and the traditional investment and pension business will be sold. So no, that's quite clear. We will keep P&C, you are right. We will keep asset management, PPP, but we won't have any more Life business.

**Jon Hocking, Morgan Stanley:** Okay, thank you very much.

**Gérald Harlin:** Okay, thank you.

**Operator:** We have another question from Blair Stewart from Bank of America Merrill Lynch. Please go ahead Sir.

**Blair Stewart, BoAML:** Good morning, good morning. I've got three questions. I think the first one, can you comment, Gérald on the ongoing P&L effects of the UK disposals? That would be useful.

And secondly, can you talk – you've talked about 3.4% price increases in P&C, what would be the price increase if we exclude the impact of the Turkish price change?

And thirdly, you've announced that you expect to raise €800 million from the UK disposals you raised I think €1 billion or so from the U.S. real estate disposal, it is quite a lot of money. What do you intend to do with those proceeds?

**Gérald Harlin:** Okay. So first of all, relative to your first question on the P&L effect, we announced this morning that we could expect to have a €400 million net income impact. We had a book value which was higher so we take a loss, selling at €800 million. So the book value was roughly at €1.2 billion.

I wanted to tell you at the same time that you should keep in mind that we have a significant – we should have a significant capital gain from the disposal of the two building as I said in my introduction. So that means that anyway we believe first that it was a good decision taking into account as I said before the book profitability of this business, our poor scale. And second yes there will be an impact in term of P&L but this impact will be more than offset by other operations.

**Blair Stewart, BoAML:** Gérald, the question was what is the ongoing impact on the P&L from selling these businesses, the ongoing effect?

**Gérald Harlin:** The ongoing effect, there will be relatively few impacts I would say... there will be some stranding costs that will remain. But very quickly we'll take the right measures in order to offset them. So, don't expect significant negative impacts on the P&C business. I see your question but you can imagine at the same time that we'll take the right decision in order to offset it.

We have a nice business in the UK. Our P&C business and PPP in Health is doing extremely well. We have a strong growth so that means that this strong growth makes that we will absorb it and very quickly. And I don't have any specific fear on that side.

On the second question which is the price increase, you can go to the press release and you will notice that in P&C, on page 6, that you have a price increase in mature markets which is 1.3%, high growth markets which is 15.2%. I don't have the exact figures but I can expect that most of it, at least 2/3 of it, is coming from Turkey, so it's by far the main impact.

I just wanted to tell you that we have a 9% growth in revenues. We said that excluding Turkey, we would have been at 4%. But it would have been more 5% because as you

know we have some companies which are accounted under the equity method. If we take this into consideration and for example with China, with Tian Ping, then we would be more towards 5% to 6%, so it's something that needs to be kept in mind.

Your last question is about the cash, so that means that the cash, we will upstream - I believe nothing is decided yet. Out of the €800 million, we might upstream €400 million, maybe, from the UK, the rest staying locally because we will have some needs for the pensions fund and so on and for the organic growth.

So that is it. Yes, this year we can expect to have a good level of cash that will be upstreamed to the holding company. But nothing will change. That means that we will keep the same policy meaning that will be a way for us to fund our – you remember that in December I mentioned that we could slightly decrease the Tier 1 debt because it was not efficient. So it could be a way for us to marginally decrease also our Tier 1 debt which is not part of it – which is not so efficient. So that's it. But I believe that we will have also the opportunities as usual to develop our business through organic growth and external growth.

As we said, we took the example of €1 billion of acquisitions, so that's something that on average over the next years is something that you could keep in mind. But it's not our intention at the same time – you know that our solvency is at 200%, it's a good level and it's just within our range – so no intention for us to go to the top of 230%.

**Blair Stewart, BoAML:** And what about the proceeds from the U.S. disposal Gérald, how much of that will you upstream?

**Gérald Harlin:** Well we will upstream – we should upstream – I said that usually we have €600 million coming from the U.S. You remember I'm sure this figure. So we could have this year a bit more that means that it could be €700 million, €800 million more coming from the U.S. But there are plus and minuses at the group level.

So that's – it's a bit early to tell you: “okay, what will it mean?” because it's your question. What will it mean, how will it translate into your remittance ratio. So the remittance ratio should be – last year we were in the high-end. So we can expect due to this to be in the high-end. But it's too early to give you a more precise answer relative to this.

**Blair Stewart, BoAML:** Okay. Thank you very much indeed.

**Operator:** We have another question from Niccolò Dalla Palma from Exane BNP Paribas. Please go ahead, sir.

**Niccolò Dalla Palma, Exane BNP Paribas:** Yes, good morning. I just wanted to check on the disposal of the two real estate properties in the U.S.. Was this gain – did

this gain impact solvency at all or were the buildings already mark-to-market in your Solvency II calculation?

**Gérald Harlin:** They are already in solvency – they are already mark-to-market, point number one. Point number two it's in the U.S. so it's ruled by the equivalence.

**Niccolò Dalla Palma, Exane BNP Paribas:** Okay. So it's completely neutral.

**Gérald Harlin:** Don't expect – this will have a cash impact as explained by Blair. This will have a net income impact, but no Solvency II impact.

**Niccolò Dalla Palma, Exane BNP Paribas:** Okay. Very clear. Thank you.

**Operator:** And we have another question from Michael Huttner from JPMorgan. Please go ahead, sir.

**Michael Huttner, JP Morgan:** This is very boring. Can you – just walk us through the solvency from 200% – from 205% to 200%, so the – between how much the bond contributed, the operating profit and the stresses from markets. That would be very helpful.

And then just to be clear, so from what I understand from the previous points you explained on the U.S. and UK, the benefit to solvency– is there only the UK disposals? Can you give us a figure maybe? Thank you.

**Gérald Harlin:** Okay. As far as your first question is concerned, so we were starting from 205%. So we have the normal impact of the underlying growth and profit and which means that let's say it's always between 4 and 5 points. So it's absolutely in line with our sensitivities. Keep in mind that at the same time that we were at 190% and we were not at 190% I gave you the indications that on the 25<sup>th</sup> of February we were at 190%.

So that means that if I try to explain what happened in March, first of all we had a bit more of operating profit maybe 1 to 2 points. We increase by 5 points the solvency due to the €1.5 billion of subordinated debt increase. Hence at the same time we have the dividend and we have a market impact that was a bit less benign. Starting from the 205%, to be more clear: operating profit +5 points, sub debt that we issued +5 points, dividend -2 points, and the market effect -8 points, then you have 200%. That's roughly the roll-forward.

**Michael Huttner, JP Morgan:** That's really good. Thank you.

**Gérald Harlin:** The second – I missed the second part of your question.

**Michael Huttner, JP Morgan:** Just the UK deals, how much do they add to solvency?

**Gérald Harlin:** 1 point.

**Michael Huttner, JP Morgan:** 1 point.

**Gérald Harlin:** 1 point.

**Michael Huttner, JP Morgan:** Cool. Thank you very much.

**Operator:** And we have another question from Andrew Crean from Autonomous. Please go ahead, sir.

**Andrew Crean, Autonomous:** Good morning, all. I just have two questions if I can. Firstly, Japan represents about one-fifth of the overall new business profits and the margins there are about 3.5 times the average margin, to over 100%. Can you just talk a little bit in the medium term about whether those very high margins are sustainable?

And then secondly on European Life, I know on the G/A Savings you've taken out the guarantees but with interest rates at current levels, offering a return premium promise is actually quite generous when you think about the expenses, the capital charges and the default risk charges. Could you talk a little bit about whether the economics of that kind of return of premium promise on G/A Savings?

**Gérald Harlin:** Okay. As far as Japan is concerned Andrew, so yes Japan is consistently being a country where we have a high profitability. Take into consideration also that the NBV margin is not the IRR. In other words, keep in mind that the extremely low level of interest rates makes that the NBV margin is pretty high, presently we are at 101%. In terms of IRR, which is excellent, we should be at the 15% on top of my head, which is good, when rates are at zero. Well, our success is due to the fact that 70% of our business is Protection & Health and also some Protection with Savings business. The pure Savings, I described it before, it's one-third, so it's relatively small.

Second keep in mind that although we have 2.5% market share only, it's captive – we have captive clients through the CCI. And in each CCI in Japan we have a representant from AXA which makes that it's an excellent network through the SME business and where we can approach the owners of these SMEs and also the employees. So that's what makes our business extremely profitable and we don't expect, in the foreseeable future, a decline in the profitability.

The second part of your question was about the General Account products and how do we do in order to have an attractive return. So that's again the last – take the example of all the countries – or countries like AXA France. Last year we paid

something which was close to 2.5%. So we can expect that this is extremely attractive in the present environment.

We didn't at all reduce our margin this year and in the foreseeable future we don't expect to reduce our own margin. But the fact that we have been managing eight years-duration helps us.

At the same time, we are extremely cautious not to dilute the margins. The new business is invested these days roughly around 2.0% to 2.2% on average. And we have an inforce which is roughly at 3.5%. So all combined makes that you can still propose to our client a guarantee even for new products which is positive, which is let's say even between 1% and 2% and still being attractive. And it will help us sell more Unit-Linked business. That's our strategy. That's what we want to do.

**Andrew Crean, Autonomous:** Gérald, can I just follow-up on that. If you're – on new business if you're investing at 2.2% you have expenses, you have to put capital up against credit defaults and if you're offering sort of what you're saying crediting rates of 1% to 2%, I can't see how the economics work for the shareholder?

**Gérald Harlin:** Well, but, let's put – first of all, there is no defaults. That means that when you invest in BBB the default is extremely, extremely low. And its – these days it's 0%. At the same time keep in mind that you have no guarantees. That means that there is no product that we sell today with any type of guarantee. On average we have on top of my head, 90 basis points margin on such type of products. So let's say just below 100 basis points. And you see, even at 2.1% you have – if you keep 0.9% for you, you still have the capacity to pay 1% to the clients. So it's not really a big issue and this doesn't take into account the fact that you have inforce business with people going out. And you have cash flow, positive cash flow coming from the inforce book of business. I hope I'm clear, but no, it's not something which – of course if we would invest, if rates would go further down, it would be different. But in the present environment, I'm not so worried about keeping a high level of profitability on traditional business in G/A.

**Andrew Crean, Autonomous:** But you presumably do reserve against corporate bond defaults in BBB, don't you? Even if you currently have no default.

**Gérald Harlin:** First of all we are not ruled by IFRS 9 new rules. And second I can tell you, but when we'll have time together I could go into more detail. But I can – you can trust me the defaults is extremely low. As I explained at the end of February, in order to avoid such type of default we have strict guidelines. We don't invest in BBB- or with great scarcity. Second, we limit the duration when investing in BBB- or in BBB so we have a team – the Group Credit Team in my own team, which is giving guidelines to the investment managers which are AXA IM and AB in order to significantly limit this type of issue.

**Andrew Crean, Autonomous:** Okay. Thank you.

**Operator:** So we have no other question sir. We have a question please introduce yourself and ask your question.

**Ralph Hebgen, KBW:** Hi. Sorry guys. It's Ralph Hebgen from KBW. Just one thing, Gérald, you mentioned that you will be able to conduct Unit-Linked business both in higher volume and also in higher profitability outside the UK. Would you be able to comment on what the focus is in your group? Which are these markets where you're hoping to focus your activities in Unit-Linked? Thank you.

**Gérald Harlin:** You know the big Unit-Linked markets for us. They are the U.S., France, and that's already a significant part of it. And of course Asia, with countries like Indonesia for example.

I can give you, Ralph, an example. These days, since the beginning of the year, we have been quite successful in selling in France non-equities and the reason why we had been relatively successful, it's because we sold some real estate type of Unit-Linked products. And this type of products is quite successful because it's relatively good return. So the point is to adapt yourself to the present needs and to avoid and to have a balanced portfolio which means that our clients don't suffer too much from volatility. That's what we try to do, and it's working quite well.

You know that AXA Investment Managers is extremely successful in real estate. AXA IM – Real Assets, that its name, is the number one in Europe and so, meaning that we are quite successful with a very strong team and with excellent performance. So we try to balance these businesses – these Unit-Linked exposures.

**Ralph Hebgen, KBW:** Thank you very much.

**Operator:** We have another question from Blair Stewart from Bank of America Merrill Lynch.

**Blair Stewart, BoAML:** Thanks. Just one follow-up, Gérald. Just coming back to the Chinese product that you sell in Q1. Can you give us just a little bit more detail on what that product looks like, what's the guarantee, what's the expected duration, the ALM etc? Thank you.

**Gérald Harlin:** Okay, so it's traditional short-term products. So that means that it's a products with an expected duration between one and five years so that's mostly it. But again we try to limit it. And it's not ideal from an ALM point of view, to be clear. And that's the reason why we limit this type of products – it will represent maybe one-fifth of

the global production of the year. And for the rest it will be much more traditional products with some Protection in it and so on and so forth. So that's it.

I mentioned that we have an NBV margin. This NBV margin is negative because there are some options – option to lapse for example from the clients – but the other products have much more attractive terms for us in terms of income or profitability as I've said. Just another point in terms of earnings we don't expect – NBV margin is negative on a market consistent basis, but in the real world, these products are not loss making. That's an important point.

**Blair Stewart, BoAML:** Okay. So you're able to make a positive spread in the real world.

**Gérald Harlin:** Yes, but I would not say that it's a great spread. I don't want to – no, no, but I want to be clear, Blair. But nevertheless it's a positive spread and we will make money on the other type of products. That's it and that's what is important.

Last element that I wanted to mention is that there has been a change in the regulation in China which means that for the time being, these type of products are more or less stopped in China. Because the regulator with the new capital rules, especially C-ROSS, will reinforce the level of capital that will be sold with this type of products. So we can expect that it will bring a bit more discipline within the market and that in the end we'll benefit from it. But again, it's not something which is unexpected in our development in China.

I take the opportunity, I'm sorry, to go back to Michael's question, that means that I was not exactly right I believe in the maths on the evolution of Solvency II. So we started from 205%, operational is +5 points, sub debt is plus +5 points, but the market is -13 points and dividend is -2 points. I was wrong I said that the market was -8 points, I'm sorry for that.

**Blair Stewart, BoAML:** Okay. Thank you, Gérald.

**Operator:** So we have no other questions, sir.

**Andrew Wallace-Barnett:** Okay. Well, thank you very much everyone and of course we hope to see you on June 21<sup>st</sup>.

**Gérald Harlin:** Thank you. Have a good day.

**Operator:** Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.