The role of capital for non-bank actors

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Key messages for today

1

The balance sheet structure of insurance companies is fundamentally different from that of banks

- The business model of insurance companies is different from that of banks
- Insurance companies use low leverage and debt funding
- Asset Liability Management is an essential tool for managing insurance company balance sheets

2

Potential future shocks are better handled through risk management and consolidated group-wide supervision

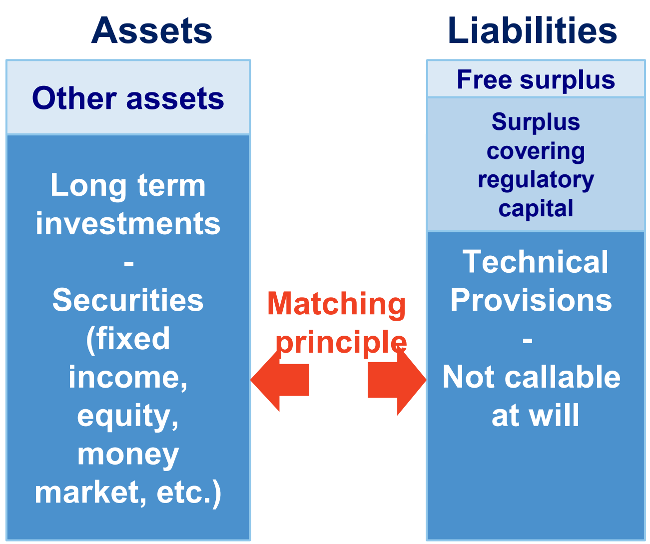
- European insurers already have many prudential regulations obligations to fulfill: Solvency II, Recovery Plan, Systemic Risk Management Plan and Liquidity Risk Management Plan

3

The draft solvency regulation of systemic insurers has too many flaws to be transposed in the regional regimes

1 The business model of insurance companies is different from that of banks

Insurance



- Long term liabilities matching long-term investments
- Up front premiums with controlled outflows leading to strong operating cash flow
- Policy features and Tax impacts limiting surrenders

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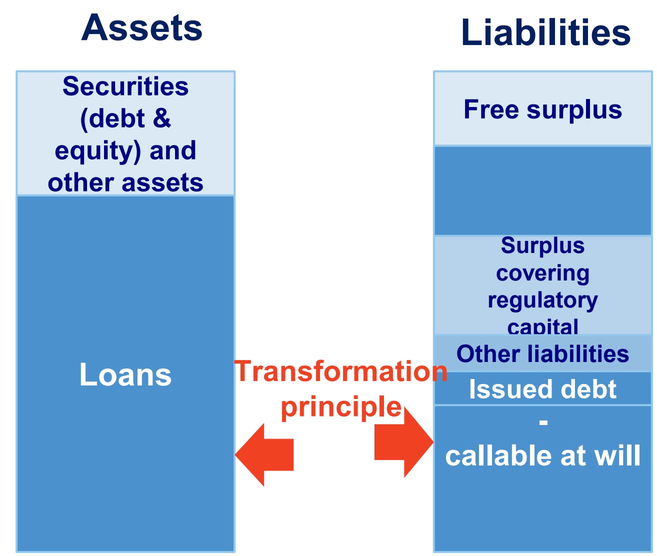
Banks



- Short term deposits (savings accounts) matching mostly illiquid assets (loans)
- Dependency to interbank market exposing to liquidity & duration mismatch

1 Insurance companies have low leverage and debt funding

Simplified AXA Group's IFRS consolidated balance sheet (end-2014, €bn)

Asset		Liabilities	
Intangibles	43	Shareholders' Equity	68
		Financing debt	9
G/A assets	499	Insurance reserves	636
Unit linked assets	181		
Investment (bank, other)	40	Provisions for	13
Other assets	55	Banking	37
Cash & equivalent	22	Other liabilities and payables (incl. repos)	78
Total	840	Total	840

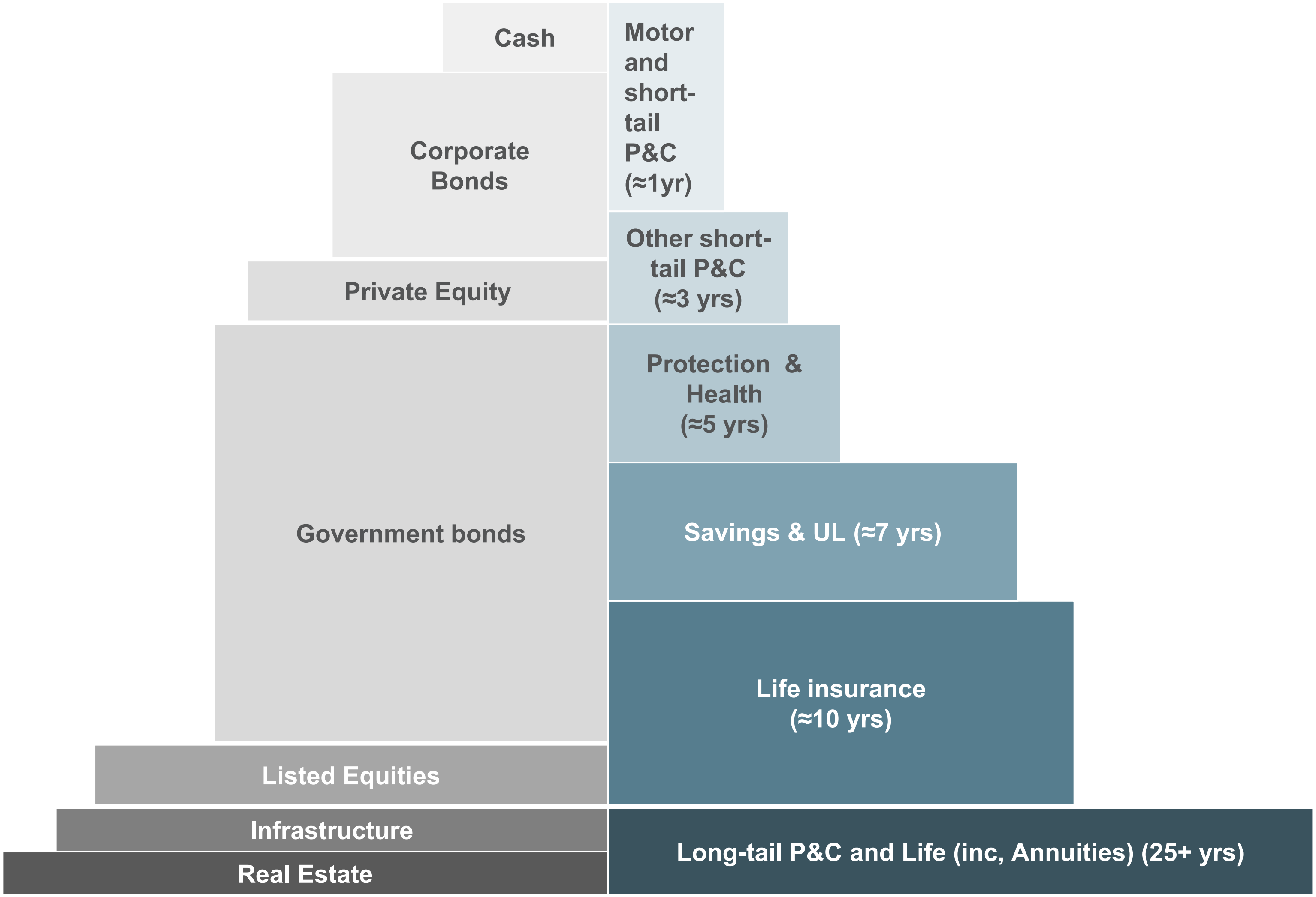
Off balance sheet commitments (received and given), including derivatives, repos and securities lending

Insurance companies have low leverage

- **AXA's Financing Debt/Shareholder Equity ratio = 13%**
- The average Financing Debt/Shareholder Equity for **European insurers ≈ 25%**
- The average using the same metric for **European banks ≈ 180%**
- This metric is a different concept than the "usual" banking leverage ratio (= Core Capital / Total Assets)

Asset Liability Management is an essential tool for managing insurance company balance sheets

Maturity structure of insurance stylized balance sheet
(excluding equity and debt for simplicity)



2 Solvency II is a comprehensive economic framework

- **Solvency II is a stringent economic framework that requires capital against the risks that can stem from the use of these instruments**
  - Under Solvency II, capital requirements are based on the value at risk over a one-year horizon of the marked-to-market balance sheet
  - Insurace companies have to withstand a 1 in 200 shock over a one-year horizon

- **Solvency II enforces an economic risk-based approach**
  - It encompasses the use of derivatives and repo
  - Any leveraged position would automatically require a high level of capital so that economic leverage can not remain

- **Solvency II encourages the use of a financial protection by insurers**
  - Derivatives is the only way to offset the risk of the options and guarantees that are implicit in most Life products and many P&C products

- **Solvency II strongly discourages speculative derivatives with the capital charge requirement and the collateral to be posted**

- **Supervision of EU based insurers has been done on a consolidated basis since 2005**

2 Additional regulations have already been imposed on the industry

- **Liquidity Risk Management Plan** approved by Board of Directors by YE2014
- Reflects in substance the methodology used for the calculation of the Excess Liquidity in the RAF both at AXA SA and local levels

LRMP

- **Systemic Risk Management Plan** approved in June 2014 – Main topics covered: **callable life products, variable annuities, derivatives, repos and SL**
- To be updated on a yearly basis

SRMP

Resolution Plan

- Main purpose is to set out how to resolve the AXA Group in an orderly manner

Recovery Plan

- Main purpose is to document in detail recovery capacities of the Group

Recovery Plans and Resolution Plans provide additional comfort on the ability of GSIIs to restore their financial standing or to be resolved in an orderly manner

Recovery and Resolution Planning

Enhanced supervision

3 The draft solvency regulation of systemic insurers has too many flaws to be transposed in the regional regimes

- Lack of quantitative impact studies
- More volatility of capital measures than US and EU regimes
- Instability of designation criteria and arbitrary exclusion of reinsurers
- Instability and weak justification of the concept of non traditional insurance
- Additional capital considered as solution when risk mitigation measures would be more effective
- HLA based on relative measure between "systemic insurers" instead of absolute measure of systemicity