Q4 2017 Earnings Call

Company Participants

- Andrew Wallace-Barnett, Head-Investor Relations
- Gérald Harlin, Group Chief Financial Officer
- Thomas Buberl, Group Chief Executive Officer & Director

Other Participants

- Andrew J. Crean, Analyst
- Andrew Sinclair, Analyst
- Blair Stewart, Analyst
- Colm Kelly, Analyst
- Farooq Hanif, Analyst
- James A. Shuck, Analyst
- Johnny Vo, Analyst
- Jon M. Hocking, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Peter D. Eliot, Analyst
- Ralph Hebgen, Analyst

MANAGEMENT DISCUSSION SECTION

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Welcome to our Full Year 2017 Results. A warm welcome to those of who you on the telephone. A warm welcome to those of who you on the webcast. And of course, welcome to those of who you here in the room in London. There will be, as always, a Q&A session at the end of the presentation, and we'll be happy to take questions from the phone or from those of who you on the webcast. Just follow the instructions you've been given. And of course we will, as usual, give preference to questions coming from those of who you here in the room.

Here on the stage we're joined by our CEO, Thomas Buberl; our Deputy CEO and CFO, Gérald Harlin; and in the room we also have our CEO for France, Jacques de Peretti; our CEO for AXA in Europe, Antimo Perretta; and our CEO for the UK and Ireland, Amanda Blanc. So welcome to you all as well.

And so without further ado, it's now my pleasure to hand over to Thomas.

Thomas Buberl {BIO 16182457 <GO>}

Thank you, Andrew, and good afternoon to all of you. I'm extremely happy to be with you this afternoon, particularly in view of the very good results that we have presented this morning. When we look at the key takeaways of the results, I would like to stress five points. The first one is you have seen that we have published excellent results. This is a very strong earnings growth relative to last year, which has led the board of AXA SA to decide that the dividend will increase. The second important message is if you look where does the growth in earnings come from, it is not from one geography or from one operation; it is across the board from all geographies that have contributed to this excellent performance.

The third one is, many of you might say, well, on the revenue side you have been flat, but this was a very dedicated and clear decision to focus ourselves on more profitable new business and to deprioritize business that is not profitable enough, and this focus has really driven those strong results that we have published today. All of this has happened and will happen in the future on a very strong and reliable balance sheet. You have seen that our Solvency II ratio has, again, been reinforced and this is also a very good basis for very strong cash generation in the group.

For the first time, we have also published Health separately. I know this was a big desire of yours or some of yours over a long time. We have done it because Health for us is very important. It is a big ground for innovation. We have certainly moved on with some very tangible results. And Health is not only a question on the insurance side and innovation side, it is also a question on how are we behaving as a social actor when it comes to investing. And also on the social acting side and being a responsible citizen, we have taken some very clear measures when it comes to our investment focus and sustainability.

If I start with Ambition 2020, in June 2016 we have launched Ambition 2020. Four major targets were attached to this objective, these objectives of Ambition 2020. The first one was underlying earnings per share. We said our ambition is despite the fact that we have a negative impact from capital markets, we want to achieve an underlying earnings per share growth between 3% and 7%. In 2017, we have hit the absolute top of this range, with plus 7%. A second important target was the free cash flow. We set ourselves the objective based on a remittance ratio that is quite high to get to a cash generation capabilities over the period of 2016 (sic) [2015] to 2020 of €28 billion to €32 billion. 2017 has been a year of a generation of €6.3 billion; again well in line within the target range that we have set ourselves. On the adjusted return on equity, we set ourselves a target between 12% and 14%. And in 2017, we have even over reached this range with 14.5%. On the solvency side, I commented earlier on it. We have a target range between 170% and 230%. We are spot on in the middle, slightly above the middle, with a very proud 205%, which is an increase compared to last year.

When we look at the underlying earnings, we can see a strong growth of 7.5%, which has led to an underlying earnings per share growth of 7.3%, right at the top of the range that I indicated just earlier. On the adjusted earnings and the net income, we see a very similar tendency for the first time, 7.6% on the adjusted earnings and 8.5% on the net income. €6.2 billion on the net income is also the first time that we have surpassed the threshold of €6 billion in the history of AXA. When we look at the adjusted earnings per share, which is the base for the dividend, we can report 7.6% gross, and this has obviously led to the decision of the board of AXA to say we want to increase the dividend. We want to increase it from €1.16 to €1.26 while at the same time increasing our payout ratio from 48% to 49%. With those 49%, we are still in the guidance range of 45% to 55%.

I said earlier that this result has been fuelled by a very good performance across all the geographies that AXA has. And maybe you notice here that we have for the first time now changed our reporting from a line of business reporting to a geography reporting. This goes very much with the simplification of our organization. Last year in November, on the 14th of November, we have announced that we have changed our organization away from a very complex regional line of business organization to an extremely simple organization that is based on geographies.

When you look at those geographies you can see that France, which is our stronghold which makes roughly 20% of our overall result, is a very strong contributor to the overall results. We are a strong market leader in France. We are in the top three everywhere. And despite the fact that we are big, we are still gaining market share. Why is that the case? Jacques and his team is extremely innovative, is extremely well-positioned when it comes to product innovation, when it comes to distribution, and they can really reap the benefit of this great positioning.

The same is true when you look outside of France, into Europe. Again, Europe with €2.3 billion underlying earnings is a very strong contributor; has grown by 2%. And when you look across these markets, you see that AXA has extremely strong positions. Number one in Belgium, number one in Switzerland, number five in Germany, very strong in the UK when it comes to Health and Commercial, and number two in Health, so very strong positions. These have helped us to really grow, to really improve and also to make sure that the business mix has shifted in the right direction.

We've often heard about the fact that Europe is not so strong and that the emerging markets bring all the new profitability. If you look at our experience, this is not true. Europe is strong, Europe is alive, and we are also happy that the core of AXA is alive and brings good results. Nevertheless, outside of Europe, we also have two other strong footholds that are very important for us. One is the U.S. In the U.S., we have a very strong position in the retirement space, in the teachers segment, and also in the asset management with AllianceBernstein. The U.S. has experienced a very positive year with plus 16% of underlying earnings, where it's really a great story.

When we look into Asia, we also have a very unique positioning. We are the only company that is a multiline insurer there. We are the only company that plays in the bancassurance and the agent channel, a very strong positioning where we have really focused on fewer countries to really fuel the growth there. There, we clearly need to continue working on our business mix, continue working on our growth. I would have loved to see more growth there in 2017.

On the International businesses, which is all the other countries, we have also realized a significant improvement in the underlying earnings growth of 20%. Those are the markets of tomorrow, but those are also the markets that we need to streamline and need to decide where are we staying in and where are we going out. And you have seen that we mean it. Yesterday, we have announced one disposal in Azerbaijan. And we will continue working on those portfolios to manage the profits and manage them for profit, but also to rationalize our footprint.

When we look at the business mix, I'm extremely proud that we have continued to optimize our business mix. And despite the fact that some of you in this room have said, look, at 40% NBV margin, it's over, more is not possible. We have seen that we have proven the opposite. We have gone from 40% to 43.1%, again, with a further shift towards Protection, towards Health, and towards Unit-Linked. This obviously has a consequence on the growth. Because if you focus yourself on one area and more or less exclude other growth areas, it does show in the growth, but that doesn't matter. We need to continue this journey and we need to really make sure that despite rising interest rates, we stay disciplined and we show an improvement year-after-year.

When we look into the profitability of the other lines of business, P&C, Protection and Health, we can also see that our strong discipline in driving profitability has clearly shown in the combined ratios. We have worked hard on improving our loss ratios. We have been very disciplined, and Gérald will show that to you in a few minutes, on the question of how is our reserving, how is our prior year experience. We've been very clearly at the lower end.

As I said earlier, Health for the first time is fully separated. Health for us is a very strategic segment. We are the leader in Health. We are very strong in six markets, and these €12 billion of revenues have grown at 6%, which is a remarkable figure. At the same time, the underlying earnings have grown by 11%. And we have continued to invest and to realize and build up our innovative skills. I would like to mention two important pieces. One is the acquisition of Maestro Health in the U.S.

Maestro Health is a population health management company, so they are not an insurance company in the primary space, but they're a service company to help, in particular, companies to reduce their medical expenses. And I was very pleased to see that after we have realized that purchase that three large U.S. institutions have put themselves together to make sure that they work on exactly that topic. That has shown to me that we are on the right journey.

The second element, which is not on the slide, but I'm also very proud of that, is that we have now over two years ramped up our telemedicine operations in various countries. Today, I can report back to you that 10 million beneficiaries have access to their telemedicine. So it's really something very different. It is something that is very convenient for the customers because in the first instance, with the first call, we can resolve 70% of the issues. And these are the first steps among many others, that I can't talk about now because we have no time, that we are making from really moving from a payer to a partner.

As a very large investor, we also have to ask ourselves the questions what can we do to help society to live a better life, and what can we also do to influence the claims behavior that we're experiencing in a positive way. And, clearly, you have seen we have a long track record of being very focused as a responsible and sustainable insurer, being focused on climate change, being focused on really providing people with a healthy life.

We have started divesting from coal, we have then divested from tobacco. And we have taken a further step from divesting from coal, on the one hand increasing our investments in green areas €12 billion, which is 4 times more than what we had previously. Additionally, divesting €3 billion from coal and not insuring any new production of coal. This is for us an absolutely core element because our mission is how do we empower people to live a better life. This goes without paying claims, this goes with helping people in their daily lives without having claims, but that also goes with investing in a responsible way.

If I come back to Ambition 2020, I'm again very proud of these results. All of the KPIs that we have published this year are either in the range or at the top of the range, with 7% underlying earnings per share at the top of the range; €6.3 billion of free cash; 14.5% return on equity, above our target range; and an extremely solid balance sheet of 205%, 8% more coverage than last year.

I would now like to hand over to Gérald, who goes into more detail. Thank you.

Gérald Harlin

Thank you, Thomas. So underlying earnings, in line with our new format, but you will see later on that we have some reconciliations. What you can see is that, as explained by Thomas, we have an underlying earnings which is up 7%, and you can see that all the markets are up across the board.

Let's start with – and let's go through all these markets, and let's start first with France. And in France, we have underlying earnings going up by 3%, explained by higher Unit-Linked fees, in line with market improvement; and improved loss ratio in Protection; improved claims experience in P&C Commercial lines, and this is offset by lower investment income and you will see that across the board in most our markets; we have lower investment income, in line with our expectation; and also, we have higher acquisition expenses, but it's quite normal because it concerns Health and Protection where we have strong top line growth.

Next, on the top right, you can see the high profitability of our business in France and you will see that we can make exactly same remark as far as Europe is concerned. So P&C combined ratio, 94.6%; NBV margin, 34.5% plus 3 points. Revenues plus 4%, when we exclude a large pension contract at the end of 2016, with 14% in Health, 13% growth in Unit-Linked.

Next is Europe, and in Europe it's almost the same story. Underlying earnings plus 2% explained by higher technical margin notably in Belgium and Germany, lower expenses because maybe remember that in 2016 we had an extraordinary amortization of our VBI in Switzerland and we have a negative coming from lower investment margins. High profitable business, P&C 94.6% combined ratio; NBV margin even stronger than in France, 56.6% plus 8 points.

And look at the bottom right; 84% of our revenues are in P&C, Health, and Protection; absolutely in line with our strategy which consists in being less dependent from the financial market because the technical margin, as you know, are de-correlated from the financial markets. Minus 1% in revenues mostly explained by the G/A Savings. And the minus 23% in G/A Savings, it's mostly first in Italy because in Italy we have revenues down 12% with, I should insist, a strong recovery in the second part of the year in Italy thanks to MPS. You know that MPS had problems and difficulties in the first half of the year but we have a strong recovery, with most of a significant part of this new business done in Unit-Linked business which explains also the plus 30% that you can see here.

Next is Asia, and Asia underlying earnings are up 7%. I would say that it's explained by two main elements. First, improved technical profitability across the board among all the countries; and second, lower expenses, and that's mostly in Japan. Here again, just have a look at the combined ratio for Health, 78.3%; NBV margin, 70.6% plus 6 points. And again, look at the bottom right, the circle, 86% of our revenue are in P&C, Health, and Protection.

1% economic revenues. In Japan we were at minus 6%. Why? Because we had a drop in the bank insurance business, which was mostly G/A type, general account type of business with Whole Life business, Single Premium Whole Life business. Why? Because there is a new regulation, and I mentioned it already for the first half, that imposed banks to disclose their commissions and it slow down the new business. In Hong Kong, plus 2%. It's also due to a change in regulation, as you know, with the decrease in limited commission in Unit-Linked business which, again, slow down the Hong Kong business but plus 11% High Potentials which is quite good.

Moving now to the United States, plus 16%. So United States it's, as mentioned by Thomas just before, it's our Life business plus the Asset Management business of AB. So here we could say that underlying earnings are growing significantly plus 16% explained by improved financial market conditions, with higher Unit-Linked fees, with higher GMxB margin, technical margin, and higher management fees at AB. This is offset by an unfavorable mortality experience and net unfavorable model updates. So APE plus 6% with a strong momentum especially in higher sales in mutual funds. NBV margin plus 23.4% plus 2 points. And most of these 2 points improvement correspond to the tax effect because it's a net present value of future profit and tax, as you know, will drop in the U.S. explaining most of the 2 points improvement.

Net inflows plus €12 billion and management fees plus €2.7 billion. And it's good news, meanings that for an asset management company – a lot of asset management companies, too, they are suffering from decrease in their management fees. It's even the contrary here at AB because they are moving towards a higher proportion of retail business versus institutional business, explaining this improvement in the management fees.

International, so International, it's a smaller market. €337 million of underlying earnings but UE increasing by 20%, with higher investment and technical profit in Turkey. Turkey is back in black, and it was not the case last year. We have a current year combined ratio which is now close to slightly below 99%, which is good. And as you know, we have investment income which are quite high in Turkey, around 8%. Improved technical margin as well Russia, and these two positive elements are offset by nat cat charges in Mexico and Turkey.

You can notice that revenues are up 2%, and excluding Turkey. I remind you and we mentioned it for the first half that in April 2017 we have been imposed a 30% drop in prices in TPL, in third party liability. So it's not the biggest business line in Turkey, but nevertheless we suffered from this element. But it's progressively improving because we have the capacity to increase our prices by 1.5% per month.

Next is the AXA IM just to finish this review. Underlying earnings plus 16%. Reasons for these improvements are not very different from AB. Higher management fees; improved cost to income ratio; and as you can see, good level of net inflows, €8 billion, and of which €9 billion in third party; and cost to income ratio going down from 70.2% (sic) [72.4%] to 70.8%, meaning that in the end we have an improved operational leverage.

So I presented all these markets except Transversal and Central Holdings because in this category, in this bucket which grows by 8%, we have AXA IM; I presented it already, plus 16%. But we have also AXA Corporate Solutions which is our large-risk company. Unfortunately, underlying earnings of ACS went down by 59% linked to the weather events and to the nat cat. And we have also AXA SA, and AXA SA had an improvement. And this improvement is linked to the 3% tax because you know that previously we had a 3% tax on dividends, and starting from 2017 we don't have these tax anymore. And you will see later in the presentation that net income will benefit from the reimbursement over the last years of this 3% tax.

Adjusted earnings explained mostly by plus 7% underlying – plus 8% underlying earnings, and also we have these capital gains mostly in equities, €674 million. You can see that net impairments are significantly down compared to last year. The markets are quite good, and this improvement translates into lower impairments. That's for adjusted earnings.

Now net income. Net income benefited from this 8% improvement in adjusted earnings. And we have the different elements, starting first with this mark-to-market of derivatives, minus €357 million. It's mostly these derivatives who don't benefit from the hedge accounting. And we have also the change in fair value of assets which are mostly mutual funds which are not consolidated, and as a consequence they are mark-to-market. This is due to the tightening of spreads, which explains the €222 million, so minus €134 million. Then we have the exceptional and discontinued operations, €124 million. I should give you four elements because we have a lot of big amounts offsetting each other. First the U.S. DTL, that means that as you know we have a net DTL position in the U.S. and the IFRS, which means that the drop in the tax rates makes that it was a good guy, €288 million coming from this U.S. DTL decrease.

On the reverse, in France we have a net DTA position, which means that it was a negative €191 million. And we have this refund of the 3% dividends that I mentioned before; it's plus €249 million. Unfortunately, this has been offset by another element, which means that we are managing some annuities in France, and a part of the indexation previously was paid by the state – we are referring to very old annuities dating from 60 years ago. And a good way for the French state to repay the refund of 3% was to stop paying this subsidy on annuities, which means that for us it's a negative of €206 million, which means that more or less in France unfortunately it was a wash.

So as a whole, nevertheless, after all these elements we have integration and restructuring costs. You remember that last year we had significant restructuring costs coming from Germany, from Belgium. Now we are at minus €148 million, pretty in line with the usual rate. So as a whole, net income is at plus 8%.

Now moving to the underlying by business line. I would say the old format, and you can see that as a whole we have plus €6 billion of underlying earnings, plus 7%. Looking and focusing on Life & Savings, it's plus 9% with, I would say, higher management fees offset by a lower investment margin. In P&C, minus 1% at €2.4 billion, with lower investment margin but also some nat cat, meaning that in the end we are at minus 1%. Strong growth in Health coming from the top line as well as an improvement in the technical margin. And Asset Management plus 32% at €540 million explained by higher management fees and also the operational leverage, i.e. the cost to income ratio going down.

Let's move to these traditional slides; this one didn't change. On combined ratio, so you can see on the left that we have a current year combined ratio going down by 0.1 point. Excluding the natural catastrophes, it went down by 0.3 points. You can notice that we have prior year reserve developments at minus 1.2% versus minus 1.3%, so we continue to take a prudent approach, and you'll get more details; maybe you will have questions in the AFR report. And all year, combined ratio moves down from 96.4% to 96.3%.

Let's move to the cost savings. We are on track. We achieved €0.5 billion after €0.3 billion one year ago. As a whole, we are quite confident that we'll achieve the €2.1 billion. And you'll remember that during the IR Day I mentioned to you this €0.3 billion savings coming from leaner central functions which makes us even more confident that we'll achieve this €2.1 billion.

Let's move to the balance sheet, and we are managing in our general account €575 billion. 82% are managed in fixed income. Nothing very different here. You can notice that we still have a duration which is pretty long, 8.2 years. What will I believe interest you is the yield on assets. It went down by 10 basis points in Life, 15 basis points in Non-Life, and the reinvestments yield has been 2.1% in 2017.

Let's move to the investment margin, and here you can notice that on inforce we have an average guaranteed rate of 1.8%; on new business close to 0.3%, so we have some flexibility. This flexibility translates into the investment margin because the investment margin goes down from 73 basis points to 69 basis points. I just told you that investment income dropped by 20 basis points, so meaning that we had some latitude and flexibility in order to decrease the remuneration to our policyholders. You can notice here that we are at 69 basis points versus 65 to 75 basis points guidance that we shared with you when we presented our Ambition 2020 plan. On the P&C yield, minus 12 basis points. I'm sorry I mentioned to you minus 15%; it's minus 12%.

Shareholders equity, so it's slightly down from €70.6 to €69.6. On the right, you have all the moving elements. And adjusted ROE, as mentioned by Thomas, went up on 13.5% to 14.5%. Solvency II ratio, quite strong. It moved from 197% to 205%. On the right, you have the sensitivity analysis. And operating return was 23 points, including 4 points of positive operating variance this year, meaning that it doesn't change. We shared with you that we were close to 20 points. Excluding this operating variance, we would've been at 19 points.

We have the dividends. We have the market impacts, which was positive. And keep in mind that we decreased our sub debt by €1.2 billion, and we had roughly €1 billion of buyback in order to offset the diluted effect of the benefits of the stock options and free shares, performance shares. Strong cash flow generation. It's moved from €6.2 billion to €6.3 billion; and 78% percent of remittance ratio, which is within the target of 75% to 85%.

So I'll hand over to Thomas for the conclusion. Thank you.

Thomas Buberl {BIO 16182457 <GO>}

Thank you very much, Gérald. As you have seen, the year 2017 has been a year of very strong earnings. And we've always said when we speak about the dividend, a dividend increase needs to be justified by very strong earnings. The board has taken the decision to increase the dividend in a very attractive way. All of these results as you have seen are really embedded in all geographies across all lines of business, and we have really implemented what we said a clear and decisive focus on lines of business that are growing, that are more profitable – and that's the most important – are the closest to the customer, Health, Protection, and Commercial line P&C. This is the driver of our results.

All of this has happened and will happen on the basis of an extremely strong balance sheet where we have, again, shown that we have improved our Solvency II position by 8 points to 205%, which is also the motor of a very strong cash generation with €3.6 billion. And we have continued our journey in the innovation. We have implemented many innovations. I have shown you a few ones in Health which I'm very proud about, acquisition of Maestro, movement into telemedicine with great success. And also a very clear and strong and decisive act when it comes to our investment policy as a sustainable actor of society.

Thank you very much for your attention and we will now go over to your questions. As Andrew said at the very beginning, we are starting with the questions in the room and we'll then see if there are questions in the webcast. Let's start with Nick.

Q&A

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes at Soc Gen. I had a couple of questions on Health insurance. Firstly, can you tell us more about your plans to grow the Health business? I mean, Maestro is obviously a very interesting acquisition but it's relatively small. I mean, what sort of appetite you have? Geographically, where would you focus? Things like that. And then secondly on Health, just out of curiosity, do you see it as more P&C or Life insurance? You're recategorizing a lot of your business. Just wondered what your thoughts were on that. And then just one very quick additional question which is how much has the recent volatility in markets hurt your Unit-Linked growth which, of course, has been so strong. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thanks, Nick. So I suggest that I'll take the first two questions, Gérald takes the third one. And while Gérald is looking up to the effect, I can answer the first two questions. Your first one was around growth in Health. Thinking back, we have six countries where we are very strong in Health, one of them being in the UK. Our aim is to really gain market share in these countries and grow our Health franchise with very innovative products. When you start in the UK, we have been gaining market share as the number two in the market because we are very, very innovative and very close to the customer, with a lot of innovation.

If you go to Germany, which is another stronghold, we have been gaining market share and climbing up the ladder. And you can look at this for all these six geographies. The key is, how can we grow with our customer base, how can we grow with services around our customer base. And if you look into Jacques de Peretti's business in France, they are already strong leader in Health. The fact that they have added wellness and telemedicine into their corporate offering has increased the retention and has also increased their chances of winning business. So there's a very strong focus in those six countries.

Everywhere else where we are not strong yet, there is a growth focus on Health. If you are in Nigeria, or you are in Indonesia, or you are in Thailand, or you are in China, or you are in Mexico, people will always talk to you at AXA about focus in Health, always with a question how can we grow in the base coverage, but also how can we grow in the services around it. And the services question in Mexico is a very different one as an answer to the one that it is in Nigeria where you have no medical infrastructure or insufficient medical infrastructure.

Your second question was around which type of business. And we have obviously Individual business, Group business, P&C, and life-like. My preference is to grow more in the Individual business, to grow more in the P&C/Life business. Because if you look at the target segments and target lines of business that we have chosen – Health, Protection and the P&C Commercial – this is basically all insurance risk and the way P&C mandate look at insurance, because Protection at the end of the day is the P&C part of the Life business. Gérald?

A - Gérald Harlin

Yeah. Your question about the recent volatility in Unit-Linked growth, no, we didn't suffer so much from this volatility. I remind you that we had a quite good start in France, and Jacques could comment on this. We have a good momentum in the U.S., and you know that France and the U.S. are the main countries for Unit-Linked. Keep in mind as well that if you take the example of France, we don't sell exclusively equity products. So we have structured products, we have different kind of products which smoothes the performance, making that in the end we don't suffer too much from this volatility. Clearly, I remind you that in France we have 40% of our Individual revenues for Individual savings which are in Unit-Linked, and this is not something which is declining; not at all.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's stay there and go this way. I think, Andy, you're the next one.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thank you. It's Andy Sinclair from BoA Merrill Lynch. Three questions please. Firstly, jumping to slide B62 if we can, I was just looking at the comments on the U.S. cash remittance there and just wondered if you could give us any update on what that means for the pre-IPO transactions?

Secondly, just wondered if you could quantify your net M&A budget that's unspent over the last couple of years given that you've done quite a few disposals, as well as relatively few acquisitions? And when do you really feel you're setting on too much? And, third, just wondering if you can give us any guidance on the outlook for the U.S. tax rate? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Good. So I suggest, Gérald, you take the first question and the third one, and I'll give a go at the second one.

A - Gérald Harlin

Okay. So starting first with, Andy, with page B62. So out of the €4.9 billion, we have €0.8 billion roughly coming from the U.S. That means that we have injected €0.8 billion in the U.S. But the equity part, that means that in order to reinstall the equity, we initially told you during previous meetings that it would amount to €1 billion and it would be much smaller, it's €0.3 million. And the rest, €0.6 million, will be repaid in 2018. So meaning that the impact of the recapitalization of the U.S. is smaller than what we could expect a few months ago.

U.S. tax rate, as far as the U.S. tax rate is concerned, we'll benefit – I would say, I mentioned in my presentation the one-off effect on the net income. So this being said, this is a one-off effect due to the fact that we have a DTL position under IFRS, and moving from 35% to 21% is a good guide. At the same time, going forward, we can expect to benefit from this lower tax rate. This benefit, I would say, it cannot be so precise because it's a bit complex, but let's say that it could be north from €50 million.

Q - Andrew Sinclair {BIO 17749036 <GO>}

I'm sorry. Was that north from...?

A - Gérald Harlin

North from €50 million, €50 million.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Okay. Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

On the second on M&A, in the Ambition 2020, we have stated that we have a yearly net M&A budget of €1 billion, which would result also in a 1% underlying earnings per share increase. When you look over the years, you're absolutely right, we have done some smaller disposals. We have also invested some money. I mean, if you look, we have bought Maestro Health and we have done some share buybacks on the dilution side. Last year, we did a little bit more. And we have hopefully an event coming up that will give us more means to redeploy capital, which is the U.S. IPO.

Our policy on M&A remains unchanged. If we have the means and if we see interesting and attractive objects and investment opportunities, they will only be looked at in the focus areas Health, Protection and Commercial line P&C; in our focus geographies, the 10 big markets; and the six high-growth market. That is unchanged.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Sorry. Just can you give us a figure for what's left of the net M&A budget?

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald, do you have a figure?

A - Gérald Harlin

Yeah. Give me a few seconds and I will give you a precise figure.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Sure.

A - Thomas Buberl {BIO 16182457 <GO>}

Good. We'll come back to your question later.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Perfect. Appreciate it. Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's continue with James.

Q - James A. Shuck {BIO 3680082 <GO>}

It's James Shuck from Citi here. I had three questions, please. Firstly, in terms of capital allocation within the group, you changed the disclosure somewhat and you're focusing much more on capital efficiency. I would like to get some insight into what the regional return on capital employed is, where there are underperforming areas and what your actual process is for allocating or freeing up capital within the group? And also kind of within that, if you're able to give any indication of what the capital is that actually is residing within the smaller entities that you identified at the Investor Day, the 26 or so that are there.

Secondly, the growth outlook. Kind of 6% or 7% of EPS growth is the target which you're kind of well on track for doing. I kind of look at France and Europe, ex-France, and they're growing at more like 2% or 3%, and they had a bit of a boost from fee income from higher markets. I would've expected France to be growing a little bit quicker than that. I appreciate it's a competitive market, but it's the digital poster child for the group. Do you expect it to be growing at the kind of group levels? Do you expect Europe to be matching those group levels? And if so, when can we expect that acceleration to come through?

And then my final question was just on the operating variances within the AFR because the operating variances are being driven largely by a positive revision to the best estimate liabilities over IFRS, which is mainly driven by Switzerland, UK, Italy and Spain. I'll be interested to know what the drivers of that were and why we haven't actually seen it come through in the IFRS PYD.

A - Thomas Buberl {BIO 16182457 <GO>}

So I suggest, Gérald, I will take the first two questions and would you do the third one. When it comes to the capital allocation, so we have a very clear framework of how we allocate our capital and also how we manage the companies. And essentially what we do is, we look at every entity, how is their return on equity is. Is it, first of all, above the capital costs? And then is it returning the way we want to return? And this is also then splits by line of business, and that is how we manage the entities. There is a CEO dialogue with all entities every half year where we basically have a look at these numbers and asked those entities to give us a clear idea and clear measures of how to improve the return on equity.

The new organizational model, which is called freedom in boundaries where we have a lot of empowerment locally, but where we have on the one hand a very clear competence in the center for allocating the capital and also for allocating the investment, means this enables us today to really give the capital where we have sufficient returns above clearly our capital cost and in decent markets where we are very happy with the returns. And that also will then make the decision easier of where do we withdraw from certain business and where do we also sell entities or change our mind. This has really helped us to be extremely disciplined. And when you look at the results, this is mainly driven by drilling down onto each entity, into each line of business, and managing them in a way that you can either get out of the misery of underperforming or we need to find a better owner for that business. And this is how we manage this on a very consistent basis.

The international markets, yes, there are many markets but there's not that much capital in it. If I remember correctly, Gérald, I think it was €4 billion that is in the international markets. But we must not get or misconclude from international equals (51:13) for sale. Again, international, we said those are the markets of tomorrow. The majority of these markets will be kept but they will be managed in a different way, which is more in a private equity like style. And then we obviously have some markets in there that will be sold, where we reduce our footprint. And I mentioned earlier, you've seen one example yesterday of Azerbaijan.

Your second question was on Europe and France. France to my mind has really delivered an excellent result, and we often forget what the year 2017 has looked like in France. When you think about the year 2017, all you think about is Emmanuel Macron. But when you think about what happened before May, we have forgotten the political turmoil, we have forgotten the uncertainty, and we have forgotten that there was no political clarity which has cost France to be in a very difficult and miserable situation in the first half of 2017. And given this situation and also given the fact that the competition between the traditional insurers and the bank insurers/assurers, in particular in the area of the P&C retail business after the implementation of (52:41) has significantly increased. I personally believe that the result at AXA France has shown as a market leader gaining market share are very, very good results.

When you look further into Europe, and it is true that I would've loved to see some more growth in some countries. The UK has done a fantastic job in dealing with a very difficult situation of (53:07) at the beginning of the year and managing very well through the cycle. If you look at the benchmarks of the UK insurer with AXA, we should be extremely proud of what we have achieved both in terms of growth and in terms of profitability. Belgium has delivered a fantastic turnaround case and is back on the growth track. Where I would love to see a bit more growth is clearly in Germany on the Life side and is clearly in Switzerland on the Life side.

If you look at the P&C side in Germany and Switzerland, we should be very happy with the result. So overall, I'm very happy with the results we have seen in Europe. If there's one area where I would like to see more growth, it's on the Life side, in Protection, and Capital-light. But this is clearly something on our agenda and that will be addressed with the new responsible Antimo Peretta who has a great experience of managing a fantastic business in Switzerland. Gérald.

A - Gérald Harlin

First, going back to your previous questions on the M&A, so in 2017 the net M&A outflows was minus €0.3 billion. This was on top of the share buybacks that we mentioned before of €1.1 billion. So on a net basis, we could say that it was €1.4 billion to be compared with our €1 billion budget that we announced at the IR Day.

Going back to the other questions relative to operating variance, indeed there has been an operating variance adjustment corresponding to 0.24 points of return on AFR. But this is AFR, meaning that it's mark-to-market. So meaning that any time you have an improvement in your reserve situation and an increase of your excess reserve, then by definition it's an additional return, which is completely different from IFRS accounts. In IFRS accounts, the reserves and the reserve release has been 1.2% as I presented it before. But what is quite interesting is to go back to the AFR report where you will see indeed what exactly what you explained about the operating variance. But on top, you will notice that in the reconciliation between the embedded value and the AFR, you have this adjustment from IFRS reserve to the value in P&C, and you will see that whereas one year ago we had a €5.1 billion adjustment, wow we have a positive €5.7 billion adjustment. So we could see that it's a kind of reconciliation. It's a net. That means it's in the AFR, it confirms that in the AFR. But it's different from accounting, meaning that these reserves could be released later in the future years.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Just to clarify, though. So, I mean, it looks like the margin over best estimate has actually increased because the...

A - Gérald Harlin

Yes, that's true.

Q - James A. Shuck {BIO 3680082 <GO>}

Okay. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

You can hand the mike to Jon and then we go this way.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Thank you. Jon Hocking from Morgan Stanley. Just one question please. In terms of investment appetite given the movements we've seen in yields particularly in the U.S. this year, have you changed your approach to new money in terms of investment allocation by type?

A - Gérald Harlin

No, we didn't change. I believe that, first of all, it's good news for us to have rates in the U.S. and long-term bonds at 2.95%, close to 3%; it's an excellent new. It's good news because as you know we have a gap between assets and liabilities, and our liabilities duration is higher than our assets duration. And second, because for the new business it's good. We didn't change it. I believe that the comments that I made six months ago about the fact that we are moving towards more illiquid assets, high-quality illiquid assets like ABS for example, but also commercial real-estate loans, loans – illiquid products is still even more relevant because in the meantime, for sure, we had a nice increase of the rates but the spreads as you know compressed, and the spread compression is something that we try to fight and we try to find some alternatives in order to increase our investment income.

As I said, we have been investing in fixed incomes last year in 2017 at an average of 2.1%, and we expect of course this year to invest at a higher rate; maybe it will be 20 basis points higher, something of this magnitude. So it's slow, so don't consider that I'm quite optimistic on the facts that we won't see anymore very extremely low interest rates. Nevertheless, the recovery will be slow because we have quite a compressed spread.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. Peter Elliott from Kepler Cheuvreux. Just three outstanding fairly specific or possibly related questions. I noticed that your average inforce guarantee in Germany has come down from 3.4% at the half year to 2.9%. Now I'm just wondering if there's anything in particular you've done there that has caused that. Secondly, on the Solvency sensitivities. The sensitivity to interest rates is a lot lower than it was before. Again, just wondering if you could comment a bit further. And finally, on the slide that we were just on, I was surprised that the Life yield was coming down sort of so much quicker than the P&C yield. I was just wondering if you could just explain that phenomenon. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Okay. Gérald, do you want to tackle the last two questions and I do the first one?

A - Gérald Harlin

Absolutely. Let's start with Solvency and the sensitivity. The sensitivity is always low – it's always lower when the rates are going up. And here, keep in mind that we have the U.S. and that we have the U.S. which is in equivalence. So of course, when rates are going up we should have our Solvency going up. And here, we have the effect of the U.S. Nevertheless, we could say that the convexity when rates are going up is a bit lower, and this explains most of the movement.

About the Life yields and the P&C yields, mostly for one reason. Why 20 basis points in Life and why down 12 basis points in P&C? Due to Turkey because in Turkey we are investing at 8%, so that's the only country – yeah, 8%. So we are imposed with a 30% drop on our prices in TPL, but nevertheless we are investing at a higher rate, and that's why it helped us. Just to give you an idea, today the contribution to earnings of Turkey was €70 million.

A - Thomas Buberl {BIO 16182457 <GO>}

On your first question in Germany, first of all, it's very good news that the guaranteed rate comes down. Actually it's today below the market average whereas it used to be above the market average. The reason for it is threefold. First of all, we have really focused our new business sales on businesses with very low guarantee, and it follows exactly what you've seen on the one slide that Gérald has shown earlier with the spread. The guarantee in the new business is very close to zero, so the dilution, I would say, of the inforce brings the overall guarantee down.

The second point is you had, at a time in Germany, still tax benefiting Life insurance contracts that are now running off. This is one part why the guarantee has come down.

And then there's a third element which obviously we have done across the whole group, but particularly also in Germany, is to work significantly on the inforce and really to see how do we bring the guarantee down because there are ways of bringing it down, and how can we also make sure that if people need cash we can accommodate their wish. But overall, we shouldn't be complaining about these numbers.

Q - Peter D. Eliot {BIO 7556214 <GO>}

So to come back on – sorry, just on the new business point. I mean, the average guarantee you're showing there is still 0.9%, but is it the mix rather than the guarantee on traditional or – So the new business guarantee you're showing there...

A - Thomas Buberl {BIO 16182457 <GO>}

Yes.

Q - Peter D. Eliot {BIO 7556214 <GO>}

...is still 0.9% which is what it was before?

A - Thomas Buberl {BIO 16182457 <GO>}

Yeah. But you have to see – so in Germany, there is a particular situation. You have new business and new new business. So you have the so-called dynamic, which is I have concluded a contract in 1950, and every year there is an automatic increase of the contribution at the rate of the old guarantee. This brings your average guarantee of the new business artificially up. And then you have the new new business where we are very close to a very, very small guarantee, and that's a blend of those two.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. Michael Huttner from JPMorgan. Three questions. So on the U.S. pre-IPO which you presented on the 14th November, and I know you gave the details, but could you just, for simplicity's sake, actually give the figure? I remember a figure of €2 billion back then and I got confused by the numbers, and I'm a bit slow. I'm sorry.

A - Thomas Buberl {BIO 16182457 <GO>}

Sorry, what figure was it exactly?

Q - Michael Huttner {BIO 1556863 <GO>}

So on the 14th of November you gave a figure of €2 billion pre-IPO, and today you gave a lot of figures. But I got confused. I saw minus €0.8 billion and I panicked here.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald knows what you're talking about.

Q - Michael Huttner {BIO 1556863 <GO>}

Yeah, absolutely. And then aligned to that, if you could maybe explain a little bit the cash remittances, this figure of €4.9 billion or €5.7 underlying; I don't know how you look at it. That cash remittance as I understand it then, it includes all this pre-IPO, post-IPO. So the U.S. will kind of come through that figure. Is that right or is the figure we're seeing a kind of underlying? And the other question is on the over earnings or under earning issue or under reporting really where your reserves are increasing more than you're showing in terms of combined ratio. Can you explain a little bit where that comes from? It's really because I'd like to be able to model going forward 23% 2019. So if I have a bit of confidence there, that'd be lovely. And my last question is just a numbers question. You gave Turkey, so I'm just trying my luck if you could give the contribution of the Asian JVs in AXA Investment Management. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald, four questions for you.

A - Gérald Harlin

Okay. Thank you very much. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

I'll help you with a few. But you don't...

A - Gérald Harlin

First, the pre-IPO. I'm sorry if I confused you. But when you go to the presentation that we made on November 13, nothing has changed except that in the net numbers that we presented at that time, it's where we had – you remember that we have €2 billion cash positive net. So it was €2 billion cash positive net, so no change. What I said is that out of this €2 billion cash positive net, this is after the capitalization of the U.S. of $0.3 billion, that's net in the €2 billion. But there is a difference. That means that €4.6 billion, which is also in the net €2 billion, will be reimbursed in 2018 with some shares of the subsidiaries that we have to keep at the group, level €4.6 billion. So you could say from an economic perspective, it's not €2 billion but €2.6 billion, taking this into account. So that's the first point.

Pre, post-IPO cash remittance. Michael, the way it works is that this year we had the remittance ratio and remittance. There was a drag for the U.S. coming from this, €0.8 billion, I just described. This year we didn't benefit from any dividend coming from the U.S, so that's it, and we don't expect that it will last a long time. So we hoped that there will be a dividend, but this year it was instead of last year we had – I remember that I told you that we have an average level of €600 million dividend capacity from the U.S. So instead of this, we had a drag of an injection to the U.S. of €0.8 billion.

Under-reserving or over-reserving, let's put it this way. So long as the AFR are mark-to-market and all the reserves are booked in a best estimate liability basis, this year we had I would say a decrease of the best estimate liabilities because you had good developments, good expected developments, but we cannot expect that every year you will get exactly the same. And that's why, to be honest, I said that on a recurring basis we are much more expecting €19 billion or €20 billion rather than €24 billion like it was. Maybe we'll have good developments. We are always, I could say, a bit cautious which makes that we have more positive and negative developments, but that's it. But I cannot promise you that next year we'll have again such type of evolution in our reserves.

Turkey – and so you asked for the earnings coming from the Asian JVs. It's right. So from Asia, let me go through. Yes, so Thailand, €77 million; Indonesia, €57 million; the Philippines, €21 million; €15 million from China.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Michael. Let's go over to this side. We'll start here in the front.

Q - Colm Kelly {BIO 19140684 <GO>}

Thanks. Colm Kelly, UBS. Three questions. One on the Life & Savings investment margin and the guidance of 55 to 65 basis points for 2018 to 2020. I mean, how we should be thinking about that now in the context of the actual margin of 69 bps reduce – the rate of decline has reduced year-on-year. The new business reinvestment rates are 40 bps higher year-on-year. And then in the context of what we've seen in recent trends, normalization of interest rate, policy and central bank intervention, should we see that target now more conservative rather than best estimate? That's the first question.

Second question is on capital. Obviously, very strong headline Solvency. If we think more about own funds and the growth of own funds, the own funds has been largely flat, which is logical given the focus on improving the quality of the capital, so it's a positive trend. At what point should we think about both growth in own funds and improving quality simultaneously in the context of own funds growth being a proxy for shareholder value growth and future distributable cash and capital to shareholders? That's the second question.

The third question is on operating free cash flow. We've seen 2% growth year-on-year in the operating free cash flow from segments. It seems like there was a large reduction in the required capital for P&C within that, I think a third reduction without which we wouldn't have seen that much growth in that number. And again, logically thinking about this with Solvency capital, on capital-intensive back book business running off at a high rate, new business capital being less intensive, I would expect that operating free cash flow number to grow at a much higher rate. So perhaps just the reasons for the lower capital requirement for the P&C and what growth rate should I expect going forward on the operating free cash flow. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you. Gérald, if you mind I take the first question and you do the question two and three.

A - Gérald Harlin

Okay.

A - Thomas Buberl {BIO 16182457 <GO>}

So our Ambition 2020, which was based on the assumptions if you remember, we basically modeled it according to what is in our hands; that's the operating performance. What is not in our hands, that's the capital market, equity, and interest rates. And from there we have taken two scenarios or two or three scenarios with flat interest rates, with slightly rising – with rising interest rates. And these assumptions have always been based on a middle scenario where we have over time slightly rising interest rates in the U.S. and Europe.

We always talk now about rising interest rates. Yes, it's true. We see it in the U.S. We have clear indications in the U.S. that it will continue. In Europe, I would say it's the first days of spring, and the spring is not there yet when the sun is shining once. And therefore, I would be cautious still in Europe. And this guidance that we have given, and since it's 10-basis point guidance, is the guidance that was just not picked on one scenario. But on a assumption that is larger, you should keep that as a given also for 2018 and going forward. Gérald, question two and three.

A - Gérald Harlin

Yes. I'll start with question three, and you can see it on page 22 of the embedded value and AFR report. And indeed, it's a very small difference because in P&C the change in required capital was minus €140 million in 2016; minus €96 million in 2017, so it's really a small difference. And as you know that it could come from different elements, including the asset allocation, the business mix and so on. So it's difficult. It's not a sizable, I would say, difference that could find its origin in a clear business decision. It's just a blended rate, and that's what I can tell you.

On your second question about own funds, I just wanted to make two remarks. So first one, and again it's something that you can find in the AFR report. You remember that at the last IR Day we mentioned that the Life & Savings Solvency II future profit included in AFR was €13 billion, and now it's increased to €16.2 billion, which is quite good news. Which makes that in the end, and you can see it in page B55, that we have a quality of capital which improved because indeed we have – it's on the screen here – you have a 85% of Tier 1 capital, plus 7 points which is quite noticeable. So in other words, it means that the quality of our capital, as measured by AFR, as measured by the real value in a Solvency II context, the real value of our company, clearly improved. So that means that it's earnings plus quality of capital which improved.

A - Thomas Buberl {BIO 16182457 <GO>}

Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Thanks very much. It's Farooq Hanif from Credit Suisse. Just a quick question on the U.S. RBC ratios, a numbers question. There will be potentially an increase in capital requirements if the NAIC increases the charges to allow for that. What will the impact be? And then another thing, I believe the regulators are allowing you now to use fair value for your hedges and liabilities in advance of a change in regulation on VAs. I don't know if that's true, but have higher interest rates therefore helped your RBC ratio year-to-date? You're shaking your head, so the answer is obviously no.

Second question is just on costs. So you still got more than half of your costs to deliver into the cost savings that is. Should we expect an acceleration, therefore, in the expense margins decline in Life and P&C now? Will it be noticeable and in which areas? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So let me try and do question one and three and, Gérald, you do two. So on the RBC ratio, it is clear that the changes of the NAIC – and the question remains when does it actually come in place – there will certainly be impacts on the RBC ratio. We have tried our best to anticipate with all the changes pre-IPO that we've shown you in our Investor Day in November to anticipate as much as possible. Today, from what we know today, what will come or most likely come, we assume that there's very little changes in what we have already done. But the question remains. It's not done yet, and it's also a question when does it come. And, obviously, we are following that very closely.

When we look at the costs, it is true that we are, when you sum up the €0.3 billion and €0.5 bilion, so we are at €0.8 billion, relative to €2.1 billion. You're absolutely right in saying you are not beyond half, but we are also not beyond half of the time. If I may remind you, we still have three years. It was 2016 to 2020. And what I said last year in the same place is we are operating in environments where cost savings require a certain pre-work, which is called social dialogue. And therefore you will certainly, by nature, see a slower start and then you get to a normal run rate.

So I would assume that what you have seen now will continue going forward. Again, our aim is €2.1 billion. We have said in November with the additional €300 million that we have shown you in November about restructuring of the group and the regions, it contribute to the €2.1 billion, we can get into an acceleration. So, today, I have no evidence that we should not be making those €2.1 billion.

A - Gérald Harlin

About the VAs and interest rates, still we can say that the rise of interest rates deteriorates the RBC, doesn't improve it. Nevertheless, and what I can tell you is that even if we anticipate the decision of NAIC to apply to the DAC the new tax rate of 21%, we will have in the U.S. an RBC ratio that would be above the 500% that we mentioned at the last IR Day. So I'm quite relaxed on that side and we have a strong position – a strong capital position in the U.S. So that's quite obvious.

A - Thomas Buberl {BIO 16182457 <GO>}

But the question is actually how does it play out because the tax rate is hard coded, and so that is one of the pieces where we don't know yet how it's going to work. But it should be positive, as Gérald said.

Q - Johnny Vo {BIO 5509843 <GO>}

It's Johnny Vo from Goldman Sachs. Just a couple of questions in relation to some of your peers that have U.S. operations, and it's notable that within the equivalent framework they have adjusted the CAL calculation down to increase Solvency. So this is obviously an option for you guys and would obviously boost Solvency given your Solvency ratio is now over 200% and the U.S. is providing a small drag. That's the first question, is it something that you're considering, adjusting the CAL for Solvency II purposes?

The second question just relates to given that Solvency is really no longer a constraint for the group, what are the constraints for the group to lift the payout ratio to the top end of the range or indeed start initiating buybacks? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

So I start with the first question, and then Gérald will complement. I think what is important is to see what are the rules for the CAL; and the rules for the CAL that the EIOPA has put down is that the minimum is 150%. So everything above 150% is a luxury where you have the disposal of going up and down. 150% is the limit. Gérald will tell you in a minute what we are planning for the IPO.

A - Gérald Harlin

Yeah. So you know that we decided, and I believe that we mentioned it at the IR Day, Johnny, we have decided to recapture the Arizona business and this recapture should take place roughly in the first half of 2018. So what we did for the Solvency II calculation is that we anticipated this recapture. So long as we anticipated these recapture, it had a cost because we lost a significant part of our DTAs. So long as we decided to put everything in New York and no more for GMxB to rely on Arizona, we decided to move from 300% to 200% CAL.

And so, this decision has been taken with the full approval of ACPR. I remind you that we have a lot of companies, including Allianz, which are 250%, as explained. It was a wash, so that means that it was a total wash. And in the end, we consider that it's far better, it's normal to rely for GMxB on Arizona now because the regulatory environment could change. It's much safer to be in New York now.

A - Thomas Buberl {BIO 16182457 <GO>}

And this is also one of the anticipation of the new NAIC rules when we look at what we have done in Arizona. Your second question was on the payout ratio. So the payout ratio was something that was defined based on our Solvency II framework. We have said we feel very comfortable in the range of 170% to 230%. When we are below 170%, we do need to think about the payout ratio. When we are above 230%, we also need to think about the payout ratio. In that scale, between 170% and 230%, we want to position the payout ratio between 45% and 55%.

When you think about dividend policy, you should always be predictable and should also make sure that your dividend policy is sustainable. I think you would not appreciate if the payout ratio would jump around every year if the dividend would jump around every year, and therefore my aim is to have a sustainable divided development that is clearly based on operational improvement. It makes no sense if we're eating the stock to show a nice dividend, and therefore you can see this year we had a very good increase in the underlying earnings per share of 7%. We have a very good Solvency position. We said fine, we can increase by 1 point so we can show a dividend increase of almost 9%.

And so we will look at this every year-on-year because I think it's in your interest also to have a partner and the company that really manage the dividend in a positive way without any surprises.

Andrew. Sorry, Ralph and then we go to Andrew, sorry. Then it's easier from a microphone logistic.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yeah. Thank you very much. It's Ralph Hebgen from KBW. Just a follow up, quick one to Gérald on the numbers again back to the RBC ratio. This just goes back to the detail as you just outlined, that part of the $1 billion capital strengthening previously shown on the slide to go into the U.S. is now going to be repaid probably in the second half of this year, and that's I think a €600 million short-term loan. Would that not reduce the RBC ratio, or in other words the 500%? Did you anticipate repaying that in the second half of 2018 when you disclosed the 500% on the slide?

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald.

A - Gérald Harlin

Yeah. No, and these loan, the €6.6 billion loan, will be repaid in kind as I told you. But I can tell you that answering the previous question when I said that I was quite relaxed and the fact that even after the NAIC, we take into account the decrease in the tax rate, we would be above 500%. This includes, of course, this anticipated movement.

A - Thomas Buberl {BIO 16182457 <GO>}

Andrew.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Hello. It's Andrew Crean for Autonomous. I'm sounding like a scratched record, I think. You're talking about acceleration in growth in underlying earnings, going from 4% to 7%, and you're excited by that. I'm looking at your underlying pre-tax, which in the last two years is growing by 1% and followed by 1%, and that's in line with revenues which I think were flat. And that doesn't really look – and that's really the sort of driving force of the business. That doesn't really look like very exciting growth or within the 3% to 7% range. What's happening is your tax rate in the United States is at 1%, and I just kind of need some guidance as to where that tax rate is going. I know the element change and the tax reform will benefit you by €50 million as you've said, and that would lower the underlying tax rate. But you've got these huge one-offs which are coming through at a bigger rate. And really, if we're going to judge your performance against the 3% to 7%, we need to be able to do it against what is a sustainable rate of tax. So could you confirm that 1% is the tax rate for the States from here ever after? Or if it's not, what is your reserve of tax one-offs which still to come to benefit you?

A - Thomas Buberl {BIO 16182457 <GO>}

I remember that question from last year. Gérald?

A - Gérald Harlin

Yes. First of all, I would like, Andrew, to tell you that when you said that the pre-tax underlying growth is quite modest, that's your message, this is not true because we had some one-offs. And I'm sure that you had time to look at it. And if you go through the MD&A, you will have all these elements. And going through the MD&A makes that it's true that a change pre-tax could look like close to 3%. But indeed taking into account, and we could go sweet when you want, and I'd be pleased to do it, we would be close to 6% pre-tax excluding this one-off. And there are some one-offs which are in the U.S., and you noticed that in the U.S. we had some model change; we had some adverse mortality elements. And restated for all these elements, but it's not limited to the U.S. – we had also some other countries – honestly we would be close to 6%.

As far as the U.S. are concerned, we still have – as you know we had some reserves that we released which makes that, and you can see it in the MD&A, we can see that the rate is quite low but we don't see why in the foreseeable future it would change a lot. That means that we still have some reserves. And at the same time, when I told you just before that we would have a benefit from the lower tax rate of €50 million plus in the U.S., this takes this into account so that means that we have some reserves. At the same time, the DRD, and I don't want to enter into too complex explanation, but as you know we benefit from DRD. And when rates are going up, by definition we have more DRD because these DRD are coming from the Unit-Linked business and from the underlying assets. And when these assets are going up DRD is going up, and that's the reason why you have a decrease in the tax rate in the U.S. this year. But so long – unless you would consider that the market could decrease, nevertheless it's something that we can take into account.

Q - Andrew J. Crean {BIO 16513202 <GO>}

How big are these U.S. tax reserves?

A - Gérald Harlin

These tax reserves, I cannot – it's a few hundred million. And you understand at the same time that – let's wait for the full presentation of the U.S. accounts that didn't take place yet, and we'll come back to you on these elements.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Okay. We can discuss it in a minute.

A - Thomas Buberl {BIO 16182457 <GO>}

Michael?

Q - Michael Huttner {BIO 1556863 <GO>}

I'll try to ask it in a very polite way. Well it's the same question you've had, which is buybacks versus deals. Allianz, when they came to London last week, they said that one way to look at it is to think about cost of capital of 9%, and this would be a buyback versus deal decision. Of course, if an acquisition then requires capital then it might be a different number. I just wondered if you can give a little bit more indication of where you're kind of – where the needle is bending at the moment. You've been incredibly balanced, which is very nice, but it'd be quite nice too to have a slightly better kind of feel if when you get this kind of windfall hopefully later this year. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Michael, the needle is extremely straight and will remain straight for a bit of time. Why is that the case? We've – look, I mean, we are doing share buyback every year to compensate for the dilution. This will not change and will continue. The only area where we have been considering share buybacks is in the event of the IPO. And what we have said is the following, and this is still true. We have said that in case we do the IPO, we will have some funds to reallocate into the lines of business that we want to grow in. Those lines of business are Health, Commercial line P&C, and Protection.

As we've always been developing business, and as I have learned from my predecessors, that as long as you have good ideas you should be considering the investment into these businesses, and only if you have no alternatives you should be looking at share buybacks. We've been extremely clear. Our priority is to reallocate, but we are not stressing out about it or we are not forcing it. If we don't find anything in a given timeframe, we are extremely happy to buy back our own shares. That will give you comfort that we, on the one hand, try our hardest to shift the risk profile of the group, but that we are not forcing the needle there or there. And look, at the moment I don't even need to waste my time to think about it because the IPO hasn't taken place. When the IPO has taken place, we'll come back to your question. Andrew?

Q - Andrew J. Crean {BIO 16513202 <GO>}

Just following-up on that question. What is a reasonable timeframe because if you get the proceeds and they're sitting in your pocket earning whatever they're earning – not very much – it's painful to you and it is critical by the time particularly with where valuations are at the moment?

A - Thomas Buberl {BIO 16182457 <GO>}

So you've given the answer yourself. I mean, essentially a $0.01 in the bank is a pain. And if we go back to Ambition 2020, we have promised a underlying earnings per share growth of 3% to 7%. Every $0.01 that lies in the bank not employed is a drag on those 3% to 7%. So we will have a very strong incentive of deciding relatively quickly after the IPO has happened and the money has hit the account what to do with the money and where the needle is bending.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Okay. Great. Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

James?

Q - James A. Shuck {BIO 3680082 <GO>}

Not to label the point a bit more, but I'm not that familiar with the health market really in Asia, and therefore I don't really know what pockets of business might be up for sale. Is it actually possible to spend several billion on a health insurance company?

A - Thomas Buberl {BIO 16182457 <GO>}

For sure. Maybe you shouldn't look into Asia. Look, we have a very clear list of opportunities. We've gone through every country, and by every country I mean the 10 plus 6. We have looked at it and we know exactly what we are after, and what I think is important is to look at it from a different angle. The money doesn't – we are not only considering to allocating the money in the emerging markets; we are also looking at allocating the money in traditional markets because there you have synergy and there you talk about scale. Where, I mean, Health in the UK is impossible because we have an issue of market share at some point. But Health in other countries is very well an opportunity, and there are possibilities.

Q - James A. Shuck {BIO 3680082 <GO>}

So there's no particular problem on supply, it's just about getting the maths to stack up for you. Is that right?

A - Thomas Buberl {BIO 16182457 <GO>}

The supply is never obvious. You need to try hard. Are there any more questions in the room here? Blair?

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. It's Blair Stewart from Merrill. Just one the U.S., one characteristic of the results season from the competitor companies is adverse mortality and some question marks over the integrity of some of the processes and models in some companies, and I guess you've been touched by both of those things. How confident are you that these are blips or bad luck aspects rather than structural?

A - Thomas Buberl {BIO 16182457 <GO>}

Look, I mean, when you look at mortality, it is true that it is a market phenomenon and that we have also learned our lessons also going back in the past. When you look at what has hit us, it is actually some events on the extreme I would characterize it and not events that are in the core of the business. I mean, the first change was very much about mortality of people that are 100 years and beyond, so that I would call on the outskirts. And the recent one was for mortalities beyond a very large amount of mortality sum, so those I would consider as outliers. The business in itself is working well and the wheels are turning well. We have done our homework, and in particular in the process of the IPO we have been looking at this very carefully.

And we mustn't forget, I mean, if there is always a issue in the U.S., if you have an experience, Protection does work like P&C. You have the chance to adopt your premiums. Yes, it's not easy in the U.S. Yes, you are facing litigation sometimes with the cost of insurance, but it is possible. And we have taken a very clear and disciplined approach to it, not being pushed back by potential litigation.

Any other questions in the room? Any questions on the webcast? You are shaking your head. Last chance for any questions in the room. Michael, only if it's a polite one, and only if it's not about the needle.

Q - Michael Huttner {BIO 1556863 <GO>}

No, no, no, no. On the timing, so...

A - Thomas Buberl {BIO 16182457 <GO>}

That is picking needles, yes. On the timing of the IPO or what?

Q - Blair Stewart {BIO 4191309 <GO>}

No, no, no, no. Say you'll receive the money on a Friday, do we expect a press release on a Saturday?

A - Thomas Buberl {BIO 16182457 <GO>}

This is a very tricky question. Look, I'll answer that question when I'm in the position of having the money on a Friday. Today is not Friday and tomorrow is Friday, but I will not have the money tomorrow. Let's come back to that question. Let's cross that bridge when we come to it. My pockets are still empty.

Thank you very much. Thanks for your questions. Thanks for your attendance. And I wish you a good rest of the afternoon. Thank you.
