

# Y 2020 Earnings Call

## Company Participants

- Alban de Mailly Nesle, Chief Risk and Investment Officer
- Andrew Wallace-Barnett, Head of Investor Relations
- Etienne Bouas-Laurent, Group Chief Financial Officer
- Jacques de Peretti, Chief Executive Officer of AXA France
- Scott Gunter, Chief Executive Officer
- Thomas Buberl, Chief Executive Officer

## Other Participants

- Andrew Crean, Analyst
- Andrew Sinclair, Analyst
- Ashik Musaddi, Analyst
- Dominic O'Mahony, Analyst
- Farooq Hanif, Analyst
- James Shuck, Analyst
- Jon Hocking, Analyst
- Kamran Hossain, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Peter Eliot, Analyst
- Pierre Chedeville, Analyst
- Unidentified Participant
- William Hawkins, Analyst

## Presentation

### **Andrew Wallace-Barnett** {BIO 18671460 <GO>}

Good morning, everyone and welcome to AXA's 2020 Full Year Analyst Presentation. It's good to have you with us. The presentation this morning will be made by our Group CEO, Thomas Buberl and our Group CFO Etienne Bouas-Laurent. Also joining us for Q&A this morning at the end of our presentation will be the CEOs of AXA in Europe, in France and AXA XL and our Group Chief Risk & Investment Officer.

Now sadly, we can't be with you physically in London this morning, but we're very happy to welcome you virtually here to sunny Paris. And to enable a fluid and direct interaction between our analysts and the management this morning, we've invited our analysts to

join us here by teams. And so welcome to you all as well. And if you've connected by the webcast, you can also ask questions, if you wish in written form. Please follow the instructions you've been given.

And now I'm very happy to hand over to Thomas for his introduction.

## **Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Andrew. And so good morning to all of you as Andrew said, we are very sad not to be with you in person and hope that hopefully for the next full year, we will be in the old physical format again.

Let me start with the key highlights of the full year of 2020 and those are four key highlights. The first one is very much around our revenues. EUR97 billion of revenues is almost stable relative to last year in a very difficult context. We've seen that the business momentum is good and that particular in the preferred segments, it has really been very good plus 5% in the last quarter of 2020 and we obviously are very confident that this is continuing throughout 2021.

Second, very key message is the stability and solidity of our balance sheet. 200% of solvency II coverage represents this very strong balance sheet and it shows that our shift towards technical risk and in particular the benefit from the integration of AXA XL into the internal model with 13% of benefit shows that we are very strong as a group in one of the most difficult crisis in the last 50 years.

Third message is about dividend. The Board of Directors has decided yesterday a proposed dividend per share of EUR1.43, it was important for us to get back to an attractive dividend and certainly to get back to a proposal of the initial dividend of 2019 full year.

Fourth important message is EUR4.3 billion reported underlying earnings. This has to be seen in the context of a very severe crisis, but it also has to be seen going forward many of the negative effects that we have seen in 2020 will not repeat. Therefore, we are very confident in our outlook. Also given the very good business momentum that we can achieve the 3% to 7% underlying earnings per share growth based on the normalized rebased underlying earnings of EUR6.3 billion.

If we now go a little bit in more detail. And before I do that on the numbers. I would certainly like to talk again about AXA's contribution to society during this very difficult period of COVID-19.

As you know we had many challenges. Starting with our employees. Around simple question: how can they continue to work in a safe environment; how can they continue to serve their customers; up to the point, how can we help our customers that have found themselves in very, very difficult situations and are still in some of the sectors in difficult situations; up to the point where we really wanted to make sure that as an actor in society,

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we do contribute to re-launching the economy and stabilizing the economy and this was very much the driven spirit of our 2020 engagement.

On the one hand, protecting our clients and employees, we've spent and paid over EUR1.5 billion in claims and solidarity measures to our customers and to society and we focus very much on how can be a guarantee a high employee well being in a situation that is very different and that requires to work at a distance. Supporting the economic recovery was very much around supporting the SME, making sure that we provide capital to the SME in order to relaunch growth, in order to relaunch investment, EUR700 million have been invested in France into SMEs to help them to prosper.

And certainly, when we think about the investment in people and research, we continued our engagement into research and certainly we recruited despite the difficult crisis 5,000 people in France and 30% of those 5,000 people have been young people in order to make sure that we are a very strong actor, a very active actor in a difficult situation of our society in this difficult moment of COVID.

Where has that led to? When you look at how the franchise of AXA developed, I'm very proud to say that despite those difficulties, our distributors, our employees and our customers have really seen an enhancement in their satisfaction. On the distributor side, we were able to increase the use of digital means from 67% to 91%. This was really the key to make sure that we could continue a good customer service in a time where we couldn't rely anymore on the traditional mechanisms. The digital investments that we have made, have significantly helped us to continue the very good service.

I mentioned earlier that employee protection was one of the absolutely key elements and first priorities that we have. We managed very quickly to transfer all of our colleagues into a safe environment of distant working and this was really the fruits of a very long-term, very intense strategy and engagement of investing into digital. This has led to the fact that our employee satisfaction has increased by 14 points during the crisis to 35 which is way above the benchmark of global high performing company.

All of this has resulted in an increase of our customer satisfaction, which made me personally very proud. In a period of a crisis, you have very difficult situations, you are faced with very tragic moments, but we did our best to help everybody to help our customers and I'm very proud to see that today in 94% of our markets we are at or above the market average in terms of customer satisfaction. This is a fantastic result and I would really like to thank all of my colleagues and certainly all of the AXA agents and the distributors for this excellent result.

If we go a step further and have a look at what has really happened in the underlying dynamics. It is very clear that we see some very promising trends that are significant opportunities for the future. One is clearly the growth in our preferred segments. I mentioned earlier that we've seen a dynamic of plus 3% over the first three quarters of 2020, but in particular, in the last quarter, we've seen an acceleration to plus 5%. This makes me very confident that we have a good momentum also for 2021. On the P&C profitability, we could also advance, if you exclude the effect of COVID-19, if you exclude

the abnormally high natural catastrophes, we managed to bring down the combined ratio to 94.2%. And lastly, we also continued during that very difficult period of the crisis to continue to shift our business mix away from general account, which has experienced a negative net flow towards more unit linked fee-based business which has seen a very attractive good positive inflow.

AXA was clearly the business that was mostly hit by COVID. Most of the other geographies had another business, which was mainly the personal line business that could compensate the negative effects. And as you see in a moment, we have a very high stability of Europe, of France where this compensation mechanism has worked very well. Since COVID is very much a crisis of the commercial line business and since XL did not have the opportunity to compensate with another business, we obviously see the biggest effect there.

However, we've taken very concrete measures at XL under the leadership of Scott who is with us today to make sure that we are very focused on our target of 1.2 billion in 2021. What have we done? We have. Firstly, be very, very disciplined in the re-underwriting of our contracts, making sure that we get the right profitability, making sure that we exclude the risk of COVID as much as we can, and benefiting from a very strong momentum in pricing. You've seen that up to the Q3 of last year prices have increased by 20% and in Q4, it even went beyond 22%. We've seen with the renewals in Europe that this trend of price increases is continuing and we are very, very dedicated to continue this very strong discipline on the underwriting side to make sure that we are using this great momentum of increasing prices.

At the same time, we have continued to take measures to manage our volatility down. Volatility on the natural catastrophes which means that we have increased our prudence by the higher cat load of 6%, but also managing down our volatility on the results of the long-tail business, through the adverse development cover with Enstar that we published this morning. All of this makes me very confident that we have taken the right measures, we have a strong base, we are confident on the reserves at XL and we will be achieving the 1.2 billion of desired target for 2021.

When we look at the other businesses, as I said earlier, we see very high resilience. France and Europe, the strongholds of AXA have managed to keep their result even between 2019 and 2020 despite the fact that we have experienced significant losses from the COVID. The balancing effect and the diversification effect has worked very well. We've also seen in other geographies, for example, Asia and the international markets that our pivot towards health has really advanced well. Health is now considered as the number one risk for everybody. It's on everybody's mind and benefiting from this trend being in a position of having such a strong global franchise on health will really help us to capitalize on this trend in 2021 and going forward. And certainly, on the investment management side, we have seen a very high desire for longer-term alternative and illiquid assets having one of the most important franchises on alternatives in Europe helped us really to accelerate our growth on the alternatives and to make sure that we have really boosted our performance there, which is also a good indicator of how this will continue going forward.

When we look at how does 2021 looks like, I am personally extremely confident why, because we have taken the right measures and the right decision at XL to really accelerate the turnaround, very strong measures on the discipline and underwriting, very strong measures on the reduction of the volatility on net cat and the long tail reserves. All of this in an environment that remains extremely favorable when it comes to price increases.

Secondly, we have a very strong foothold with France and Europe, very strong results despite that difficult crisis, sustained delivery over the crisis and we have a clear program a pace under the leadership of Antimo to continue this and certainly benefiting from the growth options in Asia in the international markets and in, AXA IM we are well-positioned, we are on the right trends be at the alternatives, be at the health business in order to make sure that we can achieve the 3% to 7% underlying earnings per share based on a normalized earning capacity of 3.6 billion.

This ends my section. And I would like to now hand over to Etienne. Thank you.

### **Etienne Bouas-Laurent** {BIO 16523089 <GO>}

Thank you, Thomas, and good morning, everybody. Happy to be with you to present our full-year '20 results and share some insights on the outlook for 2021 and beyond.

Let me start with Group revenues. Overall revenues were EUR97 billion, down only 1%, demonstrating the resilience of our business model in a challenging year. We recorded strong growth in the first quarter followed by the tough second quarter impacted by strict lockdowns. We did saw a rebound in the third quarter and an acceleration in the fourth quarter, which bodes well for 2021. Each of our preferred segments P&C Commercial lines, Health and Protection performed well proving the patience of our strategy.

Revenues in preferred segments, which represent around two-thirds of our total revenues were up 3% overall in 2020 and return to pre-COVID growth rates in the fourth quarter at plus 5%. Going forward, we are well placed to continue to grow in our preferred segments. Notably with continued strong pricing momentum in P&C Commercial lines and increased awareness for Health and Protection post-COVID.

Let's now move to underlying earnings, which of course were impacted by COVID and net cuts in 2020. AXA's underlying earnings were EUR4.3 billion in 2020 down from 6.5 billion euros in 2019 from three key items first, the non-recurring contribution from Equitable Holdings; second COVID impact, and third NatCat which were EURO.2 billion higher than in 2019.

If we look at it by line of business. Here are the key elements, which are important to retain. PNC's earnings excluding COVID and NatCat were 2% higher, driven by current year technical margin improvements. In life and savings, the technical margin was partly impacted by non-recurring items as already seen in the first half while investment margin remained resilient. In Health, we have a good top line momentum across geographies, and in Asia, in particular. However, earnings growth was offset by adverse regulatory changes in France. Asset Management performed well boosted by the Alternatives

Division. Holdings and others improved mainly from higher non-recurring investment income.

As Thomas just explained we have set the starting base for underlying earnings of our 2023 plan at EUR6.3 billion adding back COVID impacts and the excess cuts from 2020. This is in line with 2019 earnings on a like-for-like basis, which is a strong level considering the changes in economic environment.

Let's look at more details for each of our lines of business, starting with P&C. P&C revenues are up 1%. First, in commercial lines, we recorded 2% growth for the year with a strong rebound in the second half, plus 2% in the third quarter, plus 7% in the fourth quarter. Pricing momentum remained strong as Thomas explained notably at AXA XL with insurance prices up 22% year-on-year in line in the fourth quarter. We also had strong January renewals in insurance with prices up 9% year-on-year.

We expect to see continued pricing increases in 2021 and this will lead to further margin expansion. Personal lines revenue declined by 1% mainly from lower new business during lockdowns in France and Europe mostly in Malto. The number of contracts remained overall stable and pricing was flat. Moving to P&C earnings. The key point to highlight is that were earnings were actually higher adjusting for COVID and Cats, earnings were impacted by EUR1.5 billion of COVID losses and by higher Nat Cat charges notably from a very active (inaudible) season in the North Atlantic.

Looking through that we recorded higher current year technical profit which more than offset lower investment revenues. We also had slightly less favorable prior year reserve developments. As a result, excluding COVID and assuming normalized Nat Cat, P&C earnings were up 2%. The combined ratio shows a similar picture. The current year combined ratio ex-COVID and Cat improved by 0.5 points from both lower loss and expense ratios.

Going forward for P&C, we remain confident that higher technical profits will more than compensate lower investment revenues. As a reminder, our target combined ratio is 93% by 2023.

Let's now take a detailed look at COVID impacts, which are confirmed at EUR1.5 billion and in line with our initial June 2020 estimate. This continues to represent our best view of ultimate losses linked to COVID. In the second half of 2020, we saw additional impact in commercial lines notably at AXA XL offset by reduced frequency in retail lines. In business interruption, we have assumed so incremental claims from the introduction of new partial lockdowns and also from court decisions in the UK and Australia and as you know, some uncertainties remain in France.

In the other lines, credit, financial lines, liability and travel, we have anticipated some more impacts even if we have seen very limited claims so far. IBNR is at 90% for the slides. Even cancellations remain pretty stable. On the other hand and offsetting this additional impact we saw further benefits from reduced frequency in retail lines, notably in motor. In order to reduce our exposure going forward, we have revised the policy wordings for all

our non-damage business interruption contracts across the Group and strengthened the exclusion of pandemic triggers. The rollout of these revised wordings is ongoing as contracts are renewed.

Moving on now to AXA XL. We confirm the EUR1.2 billion target for 2021. First, some color on 2020 earnings. Underlying earnings were minus EUR1.4 billion impacted by COVID cuts and US riots. COVID impacts have been booked at EUR1.7 billion mainly from business interruption, event cancellation and other lines as I just explained.

Natural catastrophes were EUR0.5 billion above the assumed 4% cat load for 2020 linked to the high frequency of mid-sized storms in the Atlantic. We also had 0.1 billion claims from the riots in the US as mentioned in the first half. Adjusting for these free items, normalized earnings were EUR1 billion in line with guidance provided by Scott in December. In comparison with 2019, we did benefit from higher pricing, more than offsetting higher claims cost in long tail loans. For 2021, we are confident on our EUR1.2 billion underlying earnings target. We expect EUR0.5 billion earnings uplift from higher pricing and underwriting measures, net of claims trends.

The year is starting well on that front. Also remember, we are now assuming a more cautious cat load of around 6% of combined ratio compared to 4% previously and we expect, 0.1 billion headwinds from lower investment income. Although in 2021, we expect around 70% of products will deliver a combined ratio of 96% or below and the overall combined ratio for AXA XL to be 96%.

Let's now move to Life and Savings. Starting with revenues, you will see that our business mix continues to improve. Revenues were down 6% in 2020 driven by lower general outlook on savings in the context of COVID, especially in France and in Italy. Protection revenues were resilient at plus 2%, Unit Linked revenues were down 1% but a 3% including Unit-Linked products booked as mutual funds in Italy and venture. In France, we continue to see strong appetite for Unit-Linked products, which represent 48% of revenues in individual savings and this is 10 points higher than the market average.

Net flows also demonstrate clearly this change in the business mix. Less spread business, more technical risk, and more fee business in line with our strategy. Going forward, we expect a rebound in Life and Savings revenues as COVID impacts continue to recede with further growth from Protection and Unit-Linked.

Let's now move to earnings for Life and Savings. As you can see a very similar picture compared to the first half, earnings were down 7%, mainly driven by lower technical margin linked to a combination of factors already reported in the first half. Investment margin was stable at 67 bps as lower investment revenues were broadly offset by lower crediting rates. Expenses were lower reflecting good cost containment measures across geographies. The technical margin should improve next year from current levels, while investment margin could see some dilution given the low level of interest rates. Remember, our guidance is 55 bps to 65 bps for investment margin during the planned period.

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Moving now to our growing health business. Revenues were up 6% across geographies in Group and individual businesses. In Asia, revenues were up 9% mainly in China with higher volumes from new partnerships at AXA Tianping. We also saw higher volumes in Japan and tariff increases in Hong Kong. Underlying earnings were down 1% with the revenue growth being offset by a higher combined ratio. In France, the benefits from reduced frequency during lockdown were broadly offset by the exceptional tax introduced by the government.

We also saw increased claims frequency from a recent healthcare reform going forward, we expect Health earnings to go back to a normal growth trajectory broadly in line with revenue growth.

Moving now to Asset Management, which continues to be boosted by alternatives. Assets under management were up 7%, reaching a record high EUR858 billion. Alternative assets under management were up strongly by 14%. Net inflows were strong at EUR14 billion across all alternatives and our Asian joint ventures. Revenues were higher, driven by alternatives, which represent around 40% of total revenues. Underlying earnings were up 6%, largely reflecting higher assets under management, a strong performance in a challenging year. You can expect us to keep growing our high margin alternative franchise, which contributes around half of our profits. Alternative products continue to be very attractive in a low rates environment.

Let's move to net income, which amounted to EUR3.2 billion. Let's go through the key drivers. Net realized capital gains with EUR337 million, significantly higher than in the first half reflecting more favorable market conditions in the second half. For gains and losses on derivatives, we had positive from equity hedges and losses from interest rates and forex hedges. For a change in fair value of AXA and P&L assets, we saw a decrease in funds value from private equity, hedge funds as well as fixed income funds.

Exceptional operations reflect the impact from announced disposals, the impairment of some non-consolidated assets, contributions to solidarity funds and a change linked to the discontinuation of our management liability and financial institutions business written by AXA IM in the UK and the likes. Integration and restructuring costs are mainly linked to the integration of XL and restructuring initiatives in France and Europe.

Moving now to shareholders equity, which increased by EUR1.7 billion to EUR71.6 billion. Net income was partially offset by the dividend paid in July. Higher and realized gains from lower interest rates were broadly offset by forex impact linked to the strengthening of euro against major currencies and higher pension benefits. Solvency II now, as you can see a strong solvency ratio at 200%, the ratio was at 20 points of the fourth quarter, benefiting from 13 points uplift from the integration of AXA XL into the Group's internal model. These captures the diversification benefits from combining XL with AXA which resulted into lower capital requirements. The solvency capital requirement reducing by about EUR2.5 billion to EUR27.5 billion. Note that this ratio does not reflect yet the expected four points benefits from the disposal of AXA Bank Belgium. We remain confident the transaction should close in the upcoming months.



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Lastly, you will have noted that market conditions have improved since the end of 2020 and this bodes well for 2021. Turning to assets now. We remain very disciplined and have maintained a stable mix of high-quality assets. Our asset mix has remained stable with 80% in high quality fixed income. The average ratings AA for (inaudible) and A for a corporate bond. Other fixed-income assets are also of high quality. ABS is primarily CLO's and mortgage loans are highly secured. The remaining 20% of our assets are well diversified and include real estate and listed equities.

Our exposure to vulnerable sectors is very limited representing less than 2% of total assets following de-risking actions implemented in the first half of the year. As expected, we saw a slight reduction in our book yield, the reinvestment rate was 1.3% in full-year '20 leveraging our expertise in low risk alternative assets.

Looking now at cash at holding. We continue to benefit from unfold cash flexibility with more than EUR4 billion at full-year '20. This is above our desired range of between EUR1 and EUR3 billion. The main drivers of cash movements during the year were as follows. Firstly, a strong cash remittance from our entities at EUR4.8 billion, in the second half the capital injection in AXA XL was offset by remittances from Switzerland and Japan.

Second, we had EUR1 billion proceeds from the disposal of C E and EUR1.2 billion from crystallized gains on equity derivatives and commercial paper. These elements were partially offset by the EUR1.7 billion of dividend payment holding cost of EUR1 billion as well as a rebuild of cash flexibility at NTT level amounting to EUR1.4 billion.

Finally financial debt and give it as promised, we reduce gearing significantly over the past two years at a level now well within the 25% to 28% target range. The gearing ratio was 26.8% at full year 20 reduced by two points from full year 2019 primarily from debt repayments of EUR1.3 billion in April and EUR0.4 billion in December.

In conclusion, and before handing over to Thomas. Top line momentum is good notably with strong pricing and successful January renewals in P&C Commercial Lines. P&C earnings ex-COVID, ex-Cats were higher with current technical margin improvements. We have taken measures on AXA XL reserves and we are on track towards the 1.2 billion earnings targets for 2021. Growing profitable business in an attractive market cycle.

In Life and Savings, the business mix improved further and earnings are resilient. In Health, we have a good top line momentum across geographies, Earnings should grow in line with top line going forward. Asset management performs well boosted by alternatives. The solvency II ratio is strong at 200% and the holding cash position is above our guidance. The outlook across our key financial metrics is positive and we are confident on our planned targets as communicated last December.

Thomas, I hand over to you.

**Thomas Buberl** {BIO 16182457 <GO>}

Thank you. Etienne and coming to the conclusion again, you've seen that the year 2020 was a strong year in a very difficult context and that is what is most important, we have very, very good -- and good business momentum and good perspectives for 2021, which makes us all very confident for 2021. Why, because we've been very stable during the crisis, being able to have a revenue that is almost stable relative to 2019 with a good dynamic in the preferred segments, all of this based on a very strong balance sheet, 200% solvency is very solid enabling the Board of Directors to propose a dividend of EUR1.43 per share and being able to come back to a normality of dividends and certainly being very clear and very confident on a good outlook that we can achieve our 3% to 7% underlying earnings per share in 2021 based on a normalized earning capacity of 3.6 billion, which also means that the COVID losses as we have seen will not repeat in 2021. Thank you very much for your attention and we are now moving to your questions.

## Questions And Answers

### Operator

We have many questions and the first one is from Andrew Crean from Autonomous. Andrew, please turn on your microphone and go ahead.

#### Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, everyone and it is very good to see you all. I've got three questions if I may. Firstly, could you, you've said that XL's profit improvement of 0.5 billion is coming from pricing rising above the level of claims growth, could you give us some detail around that as to what level of pricing versus what level of claims inflation you have there? Secondly, could you give us a little bit more detail around the 143 dividends. Can you give us some insights into your discussions with the ACPR and just how intervention is there or no intervention is very clear. And then thirdly, your solvency margin once you sell bond, it will be 204, if you retain more earnings than dividends, it could be well above 210 by the end of the year. You have got some disposals in and I think there's room as well as disposal is coming. I mean how should we look at that relative to your 190 target? And is there any possibility of you being able to execute buybacks this year or even make up the shortfall in the 2019 dividend? Thanks.

#### A - Thomas Buberl {BIO 16182457 <GO>}

Thank you Andrew for your three questions. I suggest that we ask Scott to answer the first question, which was around how do we get to these 500 millions of pricing improvement above claim inflation and I will then take the second question which was around the dividend behind the scenes, what have been the discussion with the ACPR, and I would also take the third question on our solvency margin and the potential for a share buyback. Scott, let's start with you. I think you are still on mute, Scott.

#### A - Scott Gunter {BIO 20129741 <GO>}

All right.

#### A - Thomas Buberl {BIO 16182457 <GO>}

Now...

### **A - Scott Gunter** {BIO 20129741 <GO>}

Hi, Andrew. How are you doing? Good to see you. Yes. In terms of the 0.5 billion when we, the rate is going to earn in obviously, in 2020 that earns into 2021 plus the rate we're getting in the first quarter. We'll also down the earn-in for 2021. So we take these 2020 number, say for around for insurance around 17% rate and a use a lot of development back or claims cost inflation number around 4% to 5% and see the difference there. We have a 12 point margin on the portfolio that generates about 0.5 billion and that's kind of the rough sort of back of envelope map that we use to calculate that. Hope that answers your question.

### **A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Scott. Andrew, let's go to the second question which was around the dividend and the ACPR. As you can imagine, we've got a very fluid relationship with the ACPR. We've also had a very active dialog around the dividend, but not only because we also had a very active dialog around the question of our financial situations and stress test and as you can, you could see today the financial situation, the solidity of our balance sheet is very good at 200% solvency as the ACPR has clearly communicated last week that dividends should be looked at with the angle of prudence and our Board has certainly taken all of these considerations into account when they decided yesterday, but not only the ACPR considerations, a much wider and that's why it was very important for me earlier to also show you what we have done on a wider society basis and certainly for our customers at large because a dividend decision should be and is taken at AXA in a balanced approach across all stakeholders and given our financial situation, given the fact that the Board has considered that the decision of 143 is in alignment with the principles of prudence. We are very happy to announce that attractive dividend today to the market.

Your third question, on the solvency margin, it is absolutely true that we, if we conclude the transaction with AXA Bank Belgium successfully, we would be at 204 and we certainly hope that the generation of solvency from operating return beyond a dividend payment will also add to the stability of our balance sheet and the solvency. As you will remember, on the Investor Day, we have been very clear is that we want to target our solvency around 190%, but that we are not relating it to any share buyback or other criteria anymore share buyback was very much seen under two angles, one if we do make further disposals for disposals that were announced after the Investor Day on 1st of December of last year that those proceeds would be used after closing of the transaction to neutralize the earnings dilution and we said, further that when it comes to investments and looking where can we really deploy the capital that we would really do that with high financial discipline and always looking at where is the multiple of AXA at that point in time. And so this should give you a very clear idea how we are looking forward at this, it is important to know that COVID is not over yet, so we are very proud of having a strong balance sheet, but we want to make sure that we continue to build the strengths and keep the strengths up. Let's move to the next question.

**Operator**

Our next question is from Peter Eliot from Kepler Cheuvreux. Peter, please activate your microphone and go ahead.

**Q - Peter Eliot** {BIO 7556214 <GO>}

Thank you very much. Yeah. three questions from me, please. The first one was just looking at the reserves in excess of best estimate. I mean if I look at France, they fell by 0.6 billion across the year after being up I think at the half-year stage. I'm just wondering if you could explain what's happening there, especially for France. And the second question was just on the protection of the long tail lines that you've done at AXA XL and just wondering if you could give us a little bit more insights into that decision and maybe the timing, I mean, I guess, obviously, you've had that for some time, but certainly looking at it right now, some more insight there would be great. And the third one, event translation. And now I think I'm right that you now assume that events canceled up in end of 2021. As with 2024, but the cost is only increased by 0.1 billion and I have, I'm pleasantly surprised that it is so small. And I'm just wondering if you could explain again what you're assuming that doesn't it into the Olympics, for example, and any other plans at that would be very helpful, thank you.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Peter, for your three questions. I suggest that the first question will be answered by Alban De Mailly. The second question on the, sorry the first question was very much on the reserve movements in France. The second question was on the protection of the long tail lines. I would like Scott to talk about it. And certainly, when it comes to the event cancellation, I would also like Scott to talk about it, maybe a general comment on our reserving situation as you've seen and the slide is now being shown the reserving ratio has increased in the full year 2020 and despite the effect that we have the phenomenon, you mentioned in France, the excess reserve above as the undiscounted solvency II bell remain at a very comfortable level. The same is true as I said in my statement around XL. We have high confidence on the reserves. The reserve review at full-year 2020 has really shown that we are very comfortable, we have excess reserve of 200 million and certainly, when it comes to the COVID reserves as Etienne's pointed out, we've also been very cautious since 65% of these IBNR incurred, but not yet reported.

And so all of this is really with two angles. One is to keep a very strong reserving position for the Group, and secondly, to make sure that at AXA XL level, we really have managed well our volatility when it comes to the reserve. And then a last piece, which is around the prior year development, you have certainly seen that the guidance that we have given is 1.5 to 2.5 last year, we were at 2.1 which is below what we could have got. So I think we should keep this in mind when we talk about the reserves, Alban, if you could please talk about France in particular.

**A - Alban de Mailly Nesle** {BIO 20387796 <GO>}

So thank you for the question, and hello. Yes, I think, Thomas, you've said most of it, what I would just add is that the reduction in this amount comes from the prior year development, the positive prior development which at Group level is still well within the range that we have indicated and overall the ratio of reserves to a premium in France is very stable at 250%. So we have not deteriorated at all the prudence in (inaudible).

**A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Alban, let's move to Scott on the ADC. And the second -- the third question was on the event cancellation. Scott?

**A - Scott Gunter** {BIO 20129741 <GO>}

Hi, Peter. To answer your first question on the ADC first of all, our, as we mentioned earlier, we're comfortable in our current reserving position. However, as we mentioned during the Investor Day, one of our key priorities is really managing our earnings volatility. Thomas mentioned it during his opening comments around we're taking action around on line sizing net line sizing, we've taken action on Cat. We've been more prudent and our cat load. And so what we decided to do is another way to help manage earnings volatility is on the reserve risk side. So, obviously, working with the whole team, we decided that one we can help that earnings volatility is to purchase the ADC. So in my mind, it helps achieve one of those key priorities for us which is improving or reducing our earnings volatility.

With respect to the event cancellation when COVID first happened back last year, we took a hard look at our entire prior big cancellation portfolio and then you sort of make estimates about when things are canceled, when they're going to be canceled and the majority of the vast majority of the exposure was obviously from sort of a March to March basis. However, is out there were events that purchase coverage going into '21 and even in a little bit into '22, but it's relatively small compared to the rest of the Board.

So at the beginning -- at the end of last year, we looked at, I mean what's left and what's happening in those kind of events. Do you expect a lot of events to occur perhaps with fewer attendees or no attendees etc and we put a little bit more provision into event cancellation for the remaining part of the events that we insure. You mentioned the Olympics specifically, we've done our analysis and we're comfortable with it, we don't expect that the Olympics are canceled, we expect they will be able to handle that within the event cancellation reserve that we got set out.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Scott. Let's move to the next question.

**Operator**

Yes, we have another question from James Shuck from Citi. James, please turn on your microphone and go ahead.

**Q - James Shuck** {BIO 3680082 <GO>}

Thank you and good morning, thanks for taking my questions and congratulations on the new innovation for this Q&A. So I had three questions, if I may. I just wanted to return to the best estimate margins. So that's reduced from 8.7% to 7.5%. So you're eating into that best estimate margin a little bit and part of that has come from France, but the overall PYT for the year is 2.1 points. So if you adjust for that reduction in conservatism, it seems like

there's some adverse movement happening elsewhere. If you could just elaborate on that and whether you think 7.5% is an appropriate level going forward.

Secondly on the ADC and the reinsurance in general. So the ADC looks like it's costing 20 million in lost investment income, then we have the reduction in the retention rates on of course the reinsurance that you're buying. Just interested to know how that gets charged to XL. Does it that all come through XL or is it as this essential item that flows through and kind of equally with that, could you just elaborate on the long-term reserves are not forming part of the ADC, it looks like you have about 17 billion of total long terms, about 11 billion the transferring in 2019 and price. So maybe that is the -- maybe that is the answer. I'm kind of interested about the large loss potential and how that feeds into the aggregates. So all the reserves that are transferred to Enstar, do they still and we'll see it into the aggregate cover. And then finally, just a quick question on the funds generation, I saw this positive development, 1.2 billion operating experience variance for life and savings and that is partly driven by but sorry and then, there's negative on the P&C, I think minus 0.7, can you just elaborate a little bit around that. I saw that you had contract boundaries being a positive factor from Japan, is there any progress with conversations with the regulator around contract boundaries in France? Thank you.

#### **A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you very much James for your four questions, I suggest that they will be, the first one on the best estimate being taken battleground is 7.5 enough. Second question was on the ADC and how does it work with the rest of the reinsurance and the charging mechanism to XL and the central unit. Alban, should also answer that question. The third one is around the long-term results. What is the large loss potential and how does that fit in with the reinsurance structure. I guess Alban, that is also your question and on the owned funds, I give that to Etienne and the question, do we have any boundaries of contract discussion with the ACPR. Alban?

#### **A - Alban de Mailly Nesle** {BIO 20387796 <GO>}

So thank you very much for those questions. So the, on the first one, the best is EBIT margin, so you have seen that there is a reduction in fact, the other part of the reduction is with AXA XL with the use of the (inaudible) reserve and that's why we have A reduction there on the excess overall at Group level. Is the resulting amount at 7.5 in line with what we want. I think there is no target on that one, what I can tell you is it's above the minimum of our risk appetite and therefore we have margin there. The second part on the ADC, so it's going to be all charged to AXA XL any cost and in particular the loss of investment income, On the third one, the long-term reserve that would not be part of the ADC. So we, what we said is that it's the legacy XL what we mean by this is that the AXA corporate solution long tail reserves on the casualty liability or professional are not part of it simply because from an AXA standpoint, it's still two different triangles to put it that way and it was easier to tackle the XL part and we see also less volatility in the AXA corporate solution reserves that's focused on Europe. But then, I'm not sure I have understood your question on the large losses and how that feeds if you can say that again. So they can take that question.

#### **Q - James Shuck** {BIO 3680082 <GO>}

Thank you. The question is really around to the extent that you might see adverse development on the reserves that transferring to Enstar and do those reserves still feed into your Group aggregate cover. So any large losses, so they come back into the Group aggregate?

**A - Alban de Mailly Nesle** {BIO 20387796 <GO>}

Okay, sorry. So the Group aggregate covers property and property losses notably Cat. So it's not this same that's been covered. So the ADC covers long tail lines, casualty and professional that are not covered by the aggregate. So that's two different protection mechanisms. I hope I have clarified.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Is it clear James?

**Q - James Shuck** {BIO 3680082 <GO>}

Yes. Yes. Thank you.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Very good. So let's go to the first question, the on-fund generation, Etienne.

**A - Etienne Bouas-Laurent** {BIO 16523089 <GO>}

Yes, hello, James, I guess that your question relates to EOF report where you see that we have EUR3.5 billion of operating free cash flows, we had indeed some exceptional movements due to Japan impacting or the non-recurrence of an exceptional in Japan last year which impacts negatively the evolution, this year because it was a reinsurance contract. So I think the reference to the boundary of contracts, there was no evolution, this year and I guess that the EUF reflects this one-off in Japan for the life business. The second and favorable market conditions, which we will reduce the free operating cash flow in life. And then of course, the lower contribution from the P&C earnings.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Excellent. Thank you, Etienne. Let's move to the next question.

**Operator**

The next question is from William Hawkins from KBW. Please William activate your microphone and go ahead.

**Q - William Hawkins** {BIO 1822411 <GO>}

Hi, thank you. I hope that you can hear me. Also, just a little bit more detail to help understand the ADC. Thomas, how are you thinking about the all-in economic cost of what you've just on obviously ultimately this is an additional cost to the year on the original acquisition of AXA XL and you've given us the 20 million run rate, but I'm wondering how you're thinking about the economic cost of that transaction. And then,

secondly, to understand your view about the level of protection that you've got. How long if at all will it take to each through that 1 billion of cover, it's not at all unusual ADCs completely exhausted over some period of time. So will this one be exhausted or from your point of view is this really kind of title protection, So, the risk that it gets entered into alone exhausted is limited. So that's kind of point number one.

You've already, a question number two, please, you've already touched on this, Andrew, but I wanted to come back, the baseline that you set for earnings and the dividends that you've paid you've described both of them, actually you were talking about effectively being the same as 2019. So relative to your long-term business plan you've effectively lost a year of growth. It puts another way this year's dividend should really have been 1.5 if we hadn't had the catastrophe of the past year. So should we be looking really out to your reset as one year's worth of lost earnings growth and loss dividend growth or do you think that over the long term will be able, not the long-term, over the life of the business plan, we'll be able to make it back to what should have been the original trajectory

And then lastly, please I just wondered if you could be a bit more explicit on the outlook for running yield. I'm finished off taking in my model yet, but it does look like the Ekso investment income was about flat 2020 on 2019 and I think the rest of the world, took the brunt of the decline in investment income, which was about 250 million. How should we be thinking about the euro changes in non-life investment income for XL and the rest of the world? Thank you.

#### **A - Thomas Buberl** {BIO 16182457 <GO>}

Excellent, thank you William for your three questions. So, I suggest Alban that you speak again about the adverse development cover. Again what is important is to position the adverse development cover, as Scott mentioned it as a tool to reduce the volatility of the earnings, and since I have also said earlier that we feel very confident and very comfortable and confident about the XL reserves. You've seen that we have 200 million of excess reserves, Enstar has certainly looked at the reserves in detail, and we feel that this is the right time to really move forward and reduce the volatility on the earnings and the reserve movements of this long term block, but I would like Alban to go perhaps a little more into detail again on the economic cost and the logic at this point. And then we come back to your other two questions, I would do the dividend one and Etienne would do the one on the outlook of the running it. Alban?

#### **A - Alban de Mailly Nesle** {BIO 20387796 <GO>}

So on the ADC. I think the way we see it from me price standpoint is obviously there is a willing buyer and a willing seller, so it's as such, it's a fair price, and I think we see, it has the right balance between cost which is completely absorbable by XL in its earnings, it doesn't change the target that we have for this year, for instance, and a protection against volatility. If I take the second part of your question on the ADC, what we have booked in our reserves in full year 2020 is our view of the ultimate cost of those lines to at this point we don't think that the, it will be used up in a given number of years in the future, but there is volatility in those lines of business, we know that and we thought it was a good idea to put that behind us.



### **A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Alban and on the second question, William on the dividend, obviously last year and last year's dividend debate in the crisis was a very unfortunate one since France was very different in its treatment to dividend payment relative to other countries. For us it was very important to get back to normality in the dividend payment and therefore the 143 that you have seen, if you relate it back to the adjusted earnings and normally we've always given a guidance of 50% to 60% of adjusted earnings being the dividend, we've obviously gone very much beyond it as a very clear decision and sign to get back to normality in dividend payment. And from here going forward, we have said, clearly that we want to increase the underlying earnings per share between 3% and 7% over the next three years and for me, an attractive dividend trajectory should follow the development of the underlying earnings

Let's move to the next question, which is the outlook on the running yield, Etienne.

### **A - Etienne Bouas-Laurent** {BIO 16523089 <GO>}

Hi, Will. So two things, first, when you look at the normalized earnings of XL in 2021 in billion. Part of the difference to the 1.2,, which was our initial target is related to lower investment income and you will see that for '21 in the roll forward, we will have another minus EUR0.1 billion, which is reflecting the lower investment income yet.

### **A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Etienne. Let's move to the next question

### **Operator**

The next question is from Michael Huttner from Berenberg. So Michael, please activate microphone and go ahead

### **Q - Michael Huttner** {BIO 21454754 <GO>}

Fantastic and thank you so much this is going efficient, I'm not efficient as you are. I have three questions, really quickly in case I get cut of something by my picture. In France, what's the profit starting point, what I really want to know what's the profits for 2021 and it sounds funny, but the France results were fantastic, right, almost flat in a difficult environment. But in there. I counted and maybe I'm wrong 0.3 billion of COVID kind of benefit in frequency less business interruption, other stuff, maybe I'm wrong, and so that's my first question. The second is on AXA XL as Scott, you gave us a figure for 2021, the rate rises of 12%, but of course you don't have 4 billion or 4 billion of a change of commercial loans, you've got over twice of that. So there is this over twice that benefit to come. And I just wanted to, does it mean that we should put in for 2022 1.7 billion, that's a 500 million on top. And then the last one is on cash, so we have 4.8 billion limited for 2020. I really like this. I'm really lazy here, maybe you can say what we should expect for 2021, is it up or down in kind of order magnitude. So it's really lazy, I'm sorry.

### **A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Michael. Let's help you in your laziness if I use your words. Number one on France maybe Jacques de Peretti, you could elaborate a little bit on what were the tendencies in 2020 and how do you characterize the results. Scott, if you could take the second question on AXA XL and how do the rate rises really transfer and transform themselves into the required budget of 1.2. And then, Etienne, if you could take the last question of what is the expectation for cash remittance for 2020, is it 4.8 up or down. Jacq, let's start with you.

#### **A - Jacques de Peretti** {BIO 18970697 <GO>}

Thank you, Tomas. Thank you very much for these questions that underline the resilience of AXA France in this very difficult-to-time and the capacity both to be close to our customer, and also to be resilient in terms of results. We have, been touched by the COVID-19, of course, and let's say that we, have been touched by roughly 300 millions, net of key insurance on COVID-19, but this has been partly offset by cost reduction, first 100 million roughly prior year development, which has been already underlined, which was very strong in France and also a lower income taxes. So all of that leads to AXA France's underlying earnings to drop only by EUR47 million minus 3% compared with 2019.

#### **A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Jacq. Let's move to Scott on the second one.

#### **A - Scott Gunter** {BIO 20129741 <GO>}

Michael, I think I understand your question. We try to have a little more detail on how we ended up at the \$0.5 billion benefit in 2021 and roughly how we look at it is we have the rate that's earning in from '20 plus a little bit of '21 that we're getting in the first quarter and then when we look at that in conjunction with, for example, the loss cost trends, somewhere between 4% to 5%. It varies a lot by product obviously, loss cost trends, we look at, we have to build in things like the cost of reinsurance, some of the cost of our reinsurance and the insurance side as well as the retrocessional we buy on our reinsurance portfolio, we build those costs and those costs have gone up. So when you put everything into the mix, what falls out is about 0.5 billion of additional income, underlying earnings income for 2021, right. So there is a bunch, a number of factors in that, but that's what, that's kind of how we are looking at. Hope that helps.

#### **A - Andrew Wallace-Barnett** {BIO 18671460 <GO>}

Thank you, Scott. Next move to Etienne on the cash commitments

#### **A - Etienne Bouas-Laurent** {BIO 16523089 <GO>}

Hi, Michael. As you know, 2020 has been an exceptional year and with the lower operating free cash flow as you can see in the year-over-year report and therefore one might expect a lower level of remittance for 2021, so, and this is I guess in line with the discussion we had already during the IR Day.

#### **A - Andrew Wallace-Barnett** {BIO 18671460 <GO>}

Thank you, Etienne. Let's move to the next question.

## Operator

Next question is from Pierre Chedeville from CMCIC. Please, Pierre, could you please activate your microphone and go ahead. Thank you.

### Q - Pierre Chedeville {BIO 15076220 <GO>}

Yes, good morning everybody. The first question is relating to the asset management as we see a strong recovery since few quarters of the division and I have a question regarding performance fees this year against management fees, did we see a good resilience of performance fees in this context and also I wanted to be clear when Etienne said about alternative represented, 50% of revenues. I wanted to be sure that they have clearly understood. And overall a detailed question, I wanted to know, if one day you could consider a spin-off of XIM considering the valuation PEs that are much above in asset management industry event in insurance. Is it something that's good to consider, of course, while taking a majority stake of course? My second question is about the target of EUR6.13 billion in 2021. I wanted to know if it's a starting bond or if it's a target. I mean would it be possible for you to get to 6.5, for instance, considering the fact that we have an increased interest in interest rates in the US, but also in Europe, but could it improve as it general already said. So where are your investment margin? And my last question is regarding remote work, it seems to me that AXA wants to be a pioneer in this area and terms of organization. Can we imagine that we could see related capital gains coming forward due to the reorganization of work inside worldwide AXA? Thank you very much.

### A - Thomas Buberl {BIO 16182457 <GO>}

Thank you very much, Pierre for your questions. I suggest that Alban is taking the first one on the asset management, when it comes to the resilience of performance fees and Etienne is taking the question around is the target of starting point or an endpoint and I would like to quickly comment on your two other points.

First was the question of does a spin-off of AXA IM makes sense in terms of valuation. As you know, AXA Investment Management for us today is a very core entity to the AXA Group because it is important in the time of low interest rates, in particular, to be able to source the right amount of alternatives and be able to generate a good return for our customers. Therefore AXA IM is core and we are also very proud about the fact that we have such a leadership position on the alternatives and it is clear that if there is an opportunity rising that could make it interesting to grow our franchise in particular on the alternatives. We will certainly always have a look at it in the interest of our shareholders. However, as you mentioned yourself, what is very important for us is to keep control in a setting like this and you have to think very carefully whether this makes sense because again, today we have the necessary size, we have the necessary capacities, we can live very well by ourselves and maybe on your last question around the remote work it is true that AXA has been very good in transferring all of the employees in a remote service setting also being able to continue the customer service but we've seen no, let's say two extremes being 100% present and being 100% remote. I think all of us have experienced that and we understand that the two extremes is not the scenario that we probably desire

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going forward and therefore we were one as you said of the pioneers of pushing very much what we call the smart working principle, which is to find a good blend between physical presence because we do need to interact. We also do need to make sure that the culture of AXA continues, it continues to develop and it is also transferred to the new recruits. But on the other hand, we also want to respect the way people are more flexible in the way they work and so this is now and has already been, I have to say integrated in many of the real estate strategies of our local entities, for example, you see that in Belgium or in Germany or in many other entities, we already had a philosophy, were people where present for three days and had a remote situation for two days and this enables us obviously to create a very different workspace, a more collaborative workspace and we can really benefit from the technical and technological investments that we have done. It does obviously lead to concentration and reduction of our real estate and so we are continuously working through this now and making sure that we get to a ratio of around 0.6 workspaces purpose.

Alban, let's talk about the resilience of performance fees and thereafter Etienne around the 6.3 target or destination. Alban?

**A - Alban de Mailly Nesle** {BIO 20387796 <GO>}

So thank you for the question. There was also a question on the breakdown of revenues between alternatives and the core, so, yes, it's roughly 50-50 between the two, there is obviously less AUM in the alternative, but the average management fees is significantly higher than for core, hence all the benefit of the growth that we forecast for that part of the business of AXA IM, the alternative part. On management fees versus performance fees, performance fees were slightly down last year at AXA IM

**A - Thomas Buberl** {BIO 16182457 <GO>}

Excellent. Thank you, Alban, we move to Etienne.

**A - Etienne Bouas-Laurent** {BIO 16523089 <GO>}

Yes absolutely. So the 6.3, EUR1 billion is, of course, the starting point and not the endpoint and why so because we, if you take the 4.3 billion earnings achieved this year we have to add up the non-recurring COVID losses of 1.5 and the 0.5 excess net CAT of this year. All this adds up to 6.3 and of course, we want to achieve a growth from this point and we want of course to grow our earnings.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Excellent. Thank you, Etienne. Thank you, Pierre, for your questions. Let's move to the next question.

**Operator**

Next question is from Jon Hocking from Morgan Stanley. Jon, please activate your microphone and go ahead.

**Q - Jon Hocking** {BIO 2163183 <GO>}

Hello everybody, can you hear me?

**A - Thomas Buberl** {BIO 16182457 <GO>}

Yeah, we can, Jon.

**Q - Jon Hocking** {BIO 2163183 <GO>}

Yeah, I've got three questions, please. Firstly on AXA, Scott was talking about so once you introduce the earnings volatility going forward at AXA, you're going to have a very skinny reserve go to the 0.2 billion and on the realized you got to see to back that up. But is there a desire to rebuild that reserve buffer over time. So you have gotten but a bit more earnings protection and is that baked into the bulk of 1.2 billion this year and then the business plan thereafter. This is the first question. Second question just on the pick up usage at year end sort of 0.5 billion of use. Can you give a little bit of color, please in terms of what reserve adjustment is...

**A - Thomas Buberl** {BIO 16182457 <GO>}

Sorry I completely, I'm completely distracted.

**Q - Jon Hocking** {BIO 2163183 <GO>}

And then the final question, there is a slide where you've got the cash injections into business entities of 1.4 billion, I think a billion of that was the AXA adjustments in the fourth quarter, is that correct. And if so, what's the balance of the 0.4 and which are the entities for range do you set cash capital into, in the fourth quarter. Thank you.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Sorry, Jon, could you repeat your second question, because I think the microphone was not, (inaudible) was it the peak usage.

**Q - Jon Hocking** {BIO 2163183 <GO>}

Yeah. So when you get that going in the business.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Exactly. I mean. Okay. Okay.

**Q - Jon Hocking** {BIO 2163183 <GO>}

Whether that was all AXA or whether it's out of business as well?

**A - Thomas Buberl** {BIO 16182457 <GO>}

Excellent. Thanks, Jon. So I suggest, Scott, you take the first question, which was around bringing earnings volatility down, we have a skinny reserve buffer and we have the ADC now, is it in the plan to build up the reserve buffer. Etienne, second question for you on

the peak of usage and then also, third question for Etienne, the cash injection of 1.4 where is the 0.4 being used, Scott?

**A - Scott Gunter** {BIO 20129741 <GO>}

Thank you. Thank you, Jon for the question, As we look at our -- as we look at sort of 2020 and 2021 going forward. We want to make sure we constantly look at the performance of the portfolio at constant take, and make sure that we have adequate reserves. I think what happened in '19, '18 and 2019 and '18 and '17 with the social inflation it was definitely not to us, not just only to us, but the entire marketplace a shock to the system. You see a lot of that in the marketplace about what happened in those years and the action taken. So I think we've got with the ADC and with the reserves that we have, I think we've got that adequately covered of. And then we just have to make sure as we go forward, as we look at the portfolio constantly keep that in mind as we set our IBNR numbers for the 2021 2020 and to make sure that we have sufficient reserves on those portfolios. I mean I'm confident we're going to be able to do that.

**Q - Jon Hocking** {BIO 2163183 <GO>}

Thanks guys. Just to come back as, let's just give a gap between the rates and the loss cost inflation. Would you expect this reasonable to think you get posted run off for AXA in future periods?

**A - Scott Gunter** {BIO 20129741 <GO>}

Yeah, we are very we would look at it and from a math point, you can see that, but we're also very cautious on the social inflation. it was a big mover in those years. And we're not, it's not core over yet, right. So the loss cost numbers you make your best estimate. But yeah, I think it's a bit of a full there and if you could just say, okay, it's over. It's done, we go back to more traditional loss costs. So we're watching that very carefully and it could or it could get, things could happen, right. So we're very cautious on the social inflation numbers, particularly in the United States. So it's going to take a few years to figure that out, but I'd rather leaning a little bit more on the cautious side then sort of work at what happens with '18, '19.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Jon to add to it. I think what's very important is the ADC gives us a very good momentum not to reduce the volatility. Our aim is to build up the buffer over time, but the very focus is at this year to get to the 1.2 billion. If we are in excess of 1.2 billion, we will certainly think about increasing the reserve buffer. But as we go along and as those price increases that Scott has described earn through, we will certainly have the opportunity to strengthen the reserve buffer, not forgetting that at the AXA Group level, we have a very solid and sufficient reserve platform. Etienne, on the two questions. fee gap and cash injection.

**A - Etienne Bouas-Laurent** {BIO 16523089 <GO>}

Yeah, hi, Jon. So let's put it that way. The unallocated excess reserves, which amounted to EURO.5 billion at half-year, are now 0.2 billion. right. So we allocated 0.3 billion during the second half of the year. Regarding your third question on the 1.4, the 1.4 is not a capital injection because the capital injection is accounted for in the line of cash upstream and I

said in my introduction, that it has been this capital injection at XL has been offset by upstream from Japan and Switzerland in the second half of the year. So the 1.4 is purely the reimbursement of internal loans and especially at AXL France.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Etienne, and thanks, Jon, for your questions. Let's move onto the next question.

**Operator**

Next question is from Farooq Hanif from Credit Suisse. Farooq, please activate your microphone and go ahead. Please Farooq, could you activate the microphone. We cannot hear you. Okay. Okay. We're going to move to Nick Homes. Could you please activate your microphone, Nick?

**Q - Nick Holmes** {BIO 3387435 <GO>}

Yes, hi guys. Can you hear me?

**A - Thomas Buberl** {BIO 16182457 <GO>}

Yes, Nick. We can hear you.

**Q - Nick Holmes** {BIO 3387435 <GO>}

I'll keep it brief. Just one question, which is with Asia, can you update us on your plans, we've been fairly conspicuously silent on Asia so far, I think you had a target for 100 million customers in Asia by 2030. This may be an old target, but I just wonder if you could discuss the ambition that you have in Asia and what your plans are to get there. Thank you very much.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Nick, for your question. And it is true that we have been however, I have been mentioning Asia in my part, it is clear that Asia is a very important part of AXA because we have a very good presence across the majority of the countries, we have under the leadership of Gordon Watson the right team in place. And so when you look at the performances across the different countries, you have seen that in Japan, we have a very strong momentum on growth in the health space, we have in China as well, a very strong momentum on the health side, being the largest foreign insurer in China, Hong Kong has just this morning been recognized as the best issuer of the year and also with a very strong momentum on the health side, so we have very strong growth plans in place. We have the right talent in place and I have no doubt that we will get to the 100 million customers because we are only in 2021 today and we still have got nine years and 10 months time to get there. Let's maybe try and see if Faruk is now ready to have an activated microphone.

**Q - Farooq Hanif** {BIO 4780978 <GO>}

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Yes.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Yes.

**Q - Farooq Hanif** {BIO 4780978 <GO>}

Hello. Great, thank you. So three questions, please. Firstly on the reserve buffer you I mean, by 2023 when you no longer have reserve buffer because of IFRS 17. So I'm wondering whether you actually want to make sense for you to be in the upper end of your 1.5 and 2.5 or even above that, to use it up because academically it is not going to exist basically going forward, if you could comment on that, please. Secondly, on your Nat Cat program, I see that you have, you reduced your limits so your aggregate and individual kind of catastrophic losses. So I'm wondering in that context, what context whether the six percentage points budget for XL seem to be more on the conservative side. And then the last question is could you tell us now what the capital ratio is for AXA XR in the Bermuda and Solvency regime. Thank you.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Farooq, for your three questions. I suggest that, Etienne takes the first and the third one and that Alban takes the second one. Just to be clear, it is true that IFRS 17 will not channel the PYD's through the P&L, but as those reserves don't disappear they will just be added to the funds or the shareholder equity. Let's start with Etienne on the reserve buffer.

**A - Etienne Bouas-Laurent** {BIO 16523089 <GO>}

So, hi Farooq, and thank you for your questions. I think it's a bit early to speak about IFRS 17. I think and we are going to, before the introduction of our IFRS17 we are going to communicate a lot with all of you in detail. It's a bit early, it's true that this is an opportunity to review the reserves, to review the shareholders' equity. But so far, our main driver is to ensure that the earnings pattern as a group will not be impacted in a significant way. So this is where we are looking at and it's too early to make further comments on the individual treatments of different countries or different situations.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Maybe you take the third question as well the capital ratio at AXL is.

**A - Etienne Bouas-Laurent** {BIO 16523089 <GO>}

Yes, absolutely. And you remember Farooq that when we decided to proceed with the capital injection of EUR1 billion in November at AXA XL, what we told you is that it was designed to allow XL to capture any opportunities, business opportunities going forward in '21 and to be able to distribute dividends going forward into the plan. And what does it mean, it means that the capital solvency of AXA XL is well within our risk appetite framework and we have not changed our mind on this topic.



**A - Thomas Buberl** {BIO 16182457 <GO>}

And Farooq don't forget the ADC will add to the solvency of the local solvency of XL Alban for the year, on the Net Cat limits aggregation and the 6%.

**A - Alban de Mailly Nesle** {BIO 20387796 <GO>}

So, hello Farooq under Nat Cat as you pointed out, we have increased to 6% the cat load for AXA XL but what that means in practice is not only a budget number, but also the fact that as XL wants and it needs to be profitable with that cat load, it means price increases and a more stringent risk selection in order to make sure that we write business, which is profitable with that cat load, so that also has an impact on the exposure that we have on the property side on what we insure.

And then on the volatility at Group level around the total amount of cat. So what we have done, to a certain extent we have wanted to align the cat load to the recent cat losses that we've had over the last, say five years. We wanted also to focus on what cost us money in terms of volatility, which is a number on an accumulation of small to medium cat and that's why we put the emphasis on that part of the curve, the one in five, the one in 10 and we have slightly increased our risk appetite slightly for the one in 20 years. And that translates into the adjustments that we -- that you see on page B30 and I think that opportunity to highlight what I think is a typo, on that slide, between the retention and the capacity for the aggregate. The retention is 1.25 and the capacity is 650 because I think the slide could be interpreted in the other way around.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you. Alban. Thank you, Farooq. Let's move to the next question.

**Operator**

Next question is from Andrew Sinclair from Bank of America. Andrew, please activate your microphone and go ahead.

**Q - Andrew Sinclair** {BIO 17749036 <GO>}

Thank you. Hi, everyone. Three for me as usual, if that's okay. Firstly, was just on the adverse development cover, very helpful. I know it's been a lot today. Just I really wonder are there any sub-limits within that EUR1billion of cover that we should be aware of. Secondly, just on the reimbursement of cash subs. How much is left to be reimbursed between the different business units, lend money for XL? And thirdly was just, just I say, just going back to the XL reserve buffer, sorry, you were saying (inaudible) over EUR1.2 billion that you potentially look to further strengthen the reserve buffer in XL? How long would you keep going with that? What would be the level of buffer you think you would no longer look to build. Thanks.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Very good. Thank you, Andrew, for your three questions. And Alban, I think you should answer the first question on the supplements, second question on the reimbursements,

Etienne you're doing this and I'll get back to you on the third one around the reserve buffer.

**A - Alban de Mailly Nesle** {BIO 20387796 <GO>}

So on the first one on the ADC, the answer on the sub-limits is simple there are no sub-limits. We take the aggregate of the reserves and that amount is against which we are reinsured.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Very good. Thank you, Alban. Etienne?

**A - Etienne Bouas-Laurent** {BIO 16523089 <GO>}

Yes, we said one year ago actually that we intended to reimburse around EUR2 billion and we have reimbursed EUR1.4. So there is EURO.6 missing and actually the EURO.6 missing corresponds to the proceeds of our AXA Bank Belgium, which we will get in a few months,.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Andrew, on your second question, as it concerns for this year, our aim is to get to EUR1.2 billion on a basis of reserve that we consider adequate and that we are very confident about. You've seen the excess reserves, you've seen also that in the COVID reserves, we've been very conservative and you've seen the ADC to reduce the volatility. So we are very confident and very focused to achieve the EUR1.2 billion. If there is this year, possibility to grow beyond, we will certainly consider this to be part of an idea of reserve strengthening. However, it should not give the impression that the limit of the XL earnings is EUR1.2 billion. So, I do expect that EUR1.2 is the starting point for 2021. And then if we progress from there onwards and once we have our clear progression and we overachieved that. You have to always see this in this way, then we would consider to strengthen that reserve buffer because we look at the XL reserves as a part of the entire group. And what you see is that we are very well-reserved with XL, but across the whole group, we have even a larger buffer and as Farooq pointed out earlier, IFRS 17 will redefine the game once it comes and therefore we look at XL as part of the AXA Group and as the overall -- as it comes as the overall reserve base of the Group is concerned and again on this topic both XL and Group we feel today are very comfortably and very confident on the reserve base. Let's go to the next question.

**Operator**

Next question is from Dominic O'Mahony. Dominic. I'm sorry Dominic O'Mahony from Exane. Please go ahead, Dominic.

**Q - Dominic O'Mahony**

Hello, thank you for taking my questions. Three, from me as well, if that's okay. First, a very specific question, just on the cash flow dynamics. Could you remind us how much special dividend you released from the Swiss Life transformation a few years ago and if whether

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there's anything left to come from that, and indeed, whether it's already in the cash guidance that you gave us a Capital Markets Day? And then secondly thinking more broadly about assets to release capital from the Life (inaudible) of which this transformation is I guess a very good example. I think previously you suggested there might be a reinsurance transaction on AXA Life Europe, could you give us any updates on where we are with that. And more broadly, could you give us any sort of sense of how you think about releasing capital from those books beyond simple M&A. So for instance, is there an opportunity to replicate Swiss Life transformation in other areas may be in different ways.

And then the third question, more on the operations of the business. Thomas, you mentioned actually champing you've been only down 1%[ph] for a while now, does it enable you to do things that you weren't able to do before. You mentioned, of course, the expansion into health, could you perhaps give us a little bit more granularity on developments in that business. Thank you.

### **A - Thomas Buberl {BIO 16182457 <GO>}**

Excellent. Thank you, Dominic. I suggest that Etienne, you are talking about the first three questions so one was on the G/A 2020, how much was it, what is still left. Secondly, AXA Life Europe, what is the, where are we on the reinsurance transaction. And then thirdly, what and how could we release more capital from last back books beyond M&A and I will then come back Dominic on your last question (inaudible). Etienne?

### **A - Etienne Bouas-Laurent {BIO 16523089 <GO>}**

Yeah, hello, Dominic. So the cash flow, GL 2020, it's around EUR2.5 billion program as a whole of several years. In 2020, we had a positive cash upstream of around 0.9 and there is 0.5 left for next year. So, I mean 2021, considering the life back books, it's true that we say that half year that we were working on the reinsurance transaction with AXA Life Europe. It will be an internal reinsurance transaction aimed at increasing the solvency of AXA Life Europe and with the ultimate objective to as for the authorization to the regulator to distribute a special dividend. So this is ongoing and once again, I hope it will be and we will come to an end on this transaction before the 1H closing.

Are there any other transactions in the pipe comparable to this GL 2020, so the Swiss Life Group transformation as spectacular as this or not, I would say but you know that we are looking at various situations we have of course already in-force measures to reduce the amount of general accounts in our various countries. It's the case in France, we spoke about it, but it's also the case in Japan for instance where we have very active on in first measures. Second, we are looking at from time to time reinsurance transactions under the condition that it financially makes sense, right and more to come in the upcoming months.

### **A - Thomas Buberl {BIO 16182457 <GO>}**

Thank you, Etienne, and Dominic, on your last question on AXA Tianping. Health revenue in Asia has grown by 9% last year, which was primarily driven by AXA Tianping. So as you pointed out, we haven't been a 100% owner for a long time, but we immediately made

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sure that we also exercised our rights and powers as a 100% owner making sure we've got the right talent in place and making sure that we shift the business mix to health and execute the majority of this 9% growth that I've just mentioned is actually driven by AXA Tianping mainly from partnerships with digital platforms. We work a lot with we sure we work a lot with (inaudible), which are two very leading platforms through which we sell a so-called cancer drug and medical reimbursement product because in China, cancer drugs are extremely expensive and we are combining this insurance offering with a procurement offering through direct access through the producers of those cancer drugs. In addition, AXA Tianping has also concluded a collaboration with Beijing Life, which is also focused on how can we continue through cooperations to pushing a health product.

And then lastly, and since we are looking at China in a larger context, Hong Kong and AXA Tianping are working very closely together and this should also enable us, on the one hand, to benefit from knowledge transfer from Hong Kong into China, but also to make sure that the so-called GBA, the Greater Bay Area, which is the Southern China part, which is highly promising and where we've been one of the first ones to be present to also make sure that we bundle our forces to really be able to make a start and make a good growth in this area as well. Let's move to the next question.

## Operator

Next one is Kamran Hossain from RBC. Kamran, please go ahead.

### Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, good morning everyone. The first question is about P&C or would it be fair to say that 2021 should have a net benefit from COVID, as you said COVID mainly a commercial lines risk that's kind of gone away or is behind you, but personal lines frequency should continue especially in Q1. And the second question is, can you talk about how you're protecting against kind of secondary payrolls or in the money payrolls and so my understanding is that availability of cover there fell away pretty sharply at the January renewals, but any kind of color or comfort on that would be really helpful. Thank you.

### A - Thomas Buberl {BIO 16182457 <GO>}

Excellent. Thank you very much, Kamran, and maybe if you could be a bit more specific on your second question, which are those in the money payrolls that you are thinking about when you ask the questions.

### Q - Kamran Hossain {BIO 17666412 <GO>}

So I mean I think (inaudible) snowstorms, etc.

### A - Thomas Buberl {BIO 16182457 <GO>}

So I see it very clear. Okay, excellent. So let's. I will take the first question and then Alban will take the second one. And as we said the year 2020 has been highly driven by COVID and certainly by in many instances coverages that we will not ensure anymore. We spoke about the events of coverages in which at renewal. We have excluded the COVID coverage. So in the majority of our cases and we have launched an internal project to

really go. So all of the clauses of the so-called NDBI, non-damage business interruption to change all these contracts. This has to a large extent already happened, but there is still some work to be done in 2021 and obviously, those contracts would still have coverage, but it's the smaller majority-minority of the total contracts. And then, you obviously have the effects of confinements in which we still see a lower frequency of accidents, a lower frequency of cars moving, but the nature of these confinements are not the same anymore as we've seen in the first confinement.

The first confinement was really characterized by a complete still stand. Today we see confinements that I would characterize are more pragmatic in which there is a lot of movement on the roads and so if you imagine yourself being in Paris today you are in the same traffic jams as you used to be a year ago or two years ago. So we don't actually see a reduction more than I would say 5% to 10% of the activity when it comes to driving and moving cars. And so, and I believe that going forward, there will not be a net benefit from COVID, but I predict that we will see the same ironing out effect that we have seen in the year 2020 when it comes to France and Europe. Alban on the second question around the in-the-money perils and the protection against them?

#### **A - Alban de Mailly Nesle** {BIO 20387796 <GO>}

So for there for me, there are two. You mentioned taxes, but I'm sorry to say that, it's way too early to be able to give you any decent numbers because we've had a few claims but there is no conclusion that you can do from those few claims. We need to see what comes out of it and you've seen that estimate for the overall loss are extremely different from ones off to the other. So, I'm sorry, I can't give you any number on that.

On COVID, I think the more interesting part is the coverage through reinsurance, and you're right to point out that reinsurance, which sounds logic do not provide any longer, any reinsurance protection against COVID losses in 2021. If that was your question, Kamran.

#### **Q - Kamran Hossain** {BIO 17666412 <GO>}

The question was more angled towards kind of secondary payroll reinsurance protection and the availability of that still especially for AXA, it's unmodeled payrolls, things similar to the taxes based on that, maybe wouldn't people's models would be focus and whether you've been able to buy protection for those kinds of events, which we've been scheduled for the industry in the last three or four years.

#### **A - Alban de Mailly Nesle** {BIO 20387796 <GO>}

Okay, sorry. So clearly it is not, because it is not completely modeled and I agree with you with the industries modeling of wildfires in California is not at par with typical cat modeling. But it's not a reason not to buy protection against it. So we, our reinsurance cover would protect us against that kind of property losses that we would have coming from wildfires, and we have in our own cat load an amount which is obviously less precise than for other cats for that kind of periods.

#### **A - Thomas Buberl** {BIO 16182457 <GO>}

Excellent. Thank you, Alban, and thanks, Kamran for your questions. Let's move to the next question.

## Operator

Before we move on to the webcast questions. The final question from Teams is from [ph]Toma from HSBC. Thomas, go ahead. Thomas, could you please open your microphone, we can't hear you. Unfortunately, we cannot hear you. Okay. I think we can hear you now.

## Q - Unidentified Participant

Yes, sorry about that. Good afternoon everyone. Two questions left. The first one would be on the 13 points benefit in your Solvency II ratio coming from XL, that was about the five to 10 guided. So maybe you can mention there were any specific benefits from ADC cover, I guess. So, but maybe you could quantify this. The second question would be also related to Solvency II and just how you're thinking around inflation. And if you were thinking about factoring into your internal model inflation shock scenarios, given the potential long-lasting effect of COVID-19 regarding monetizing, you have something. Yes, what you're thinking about to do? Thank you.

## A - Thomas Buberl {BIO 16182457 <GO>}

Very good. Thank you [ph]Toma for your two questions. I suggest that Alban bonds at you treat them. The one is the benefits of the ADC in the model. Second one is on the Solvency II, how do we factor inflation in the internal model.

## A - Alban de Mailly Nesle {BIO 20387796 <GO>}

Good morning [ph]Toma. On your first question, the ADC is not in the 13 points, but I would -- you shouldn't expect much at Group level when it is in the model. The 13 points are indeed above the five to 10, that we had given as an estimate and it's true that it reflects the benefit of diversification that we have between excess risk and the others but ADC is not-- is not part of that. On inflation, so we do already have an inflation -- inflation module in our internal model. There are pluses and minuses to inflation. In minuses obviously high inflation will compound the cost of claims and therefore, but it's already included in our premium risk and our reserve risk. But it also have positive impacts, because high inflation also means higher interest rates and as you've seen with our sensitivities that's a positive to our solvency. So inflation is not a negative only.

## A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Alban. Thank you, [ph]Tamar for your question. Let's move to the next question.

## Operator

So we're now on to the questions from axa.com. The first question is from Ashik Musaddi from JPMorgan.

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**Q - Ashik Musaddi** {BIO 15847584 <GO>}

Combined ratio in France, excluding COVID was 88% and in Europe, excluding COVID was 92.6%, would you say that this is structural in nature and similar combined ratio could be expected going forward. Can you give us some color or negative impact of low interest rates on P&C earnings for the next few years, assuming rates don't increase going forward?

**A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Ashik for your question. I suggest we split the question in two. The first question, I would like Jacques de Peretti to give us an answer based on his experience in the French market. The combined ratio ex and risk COVID and then, Alban, if you could take the second part of the question, which is the negative impact on low interest rates in P&C. Jacq?

**A - Jacques de Peretti** {BIO 18970697 <GO>}

Thank you very much, Thomas. Concerning the French market, it's true that our combined ratio without COVID is good and better than last year and part is due also to the better payoff reserve for ADS compared with last year because at this part I cannot think it is necessarily possible each year on Jozsef[ph] part, definitely, we have a very good book which is improved, thanks to first our new products. Secondly, a reduction of expenses. The decrease of our expenses and the decrease that is coming, will come in the coming years and also the capacity, we still have to increase the rate. And on the commercial line, for example, this year we have proved that we were able to increase more than last year. So, we are very, very confident in the capacity to reproduce this sort of combined ratio next in the coming years.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Jacq. Let's move to Etienne.

**A - Etienne Bouas-Laurent** {BIO 16523089 <GO>}

If we are speaking about trends, let's take a step back. Years ago, the objective in terms of combined ratio was 100% because all the money was made on the investment result. And as you can see it's not anymore the case today. Today everyone is trying to reach levels, which are in the low '90s because the financial income is not what it used to be. If we were to have a further deterioration in financial income, there would be an adjustment on the technical result. So there is an offset in terms of trends which make the P&C business attractive for the long-term.

**A - Thomas Buberl** {BIO 16182457 <GO>}

Thank you, Etienne. Let's move to the next question.

**Operator**

The next and final question is from Frederic Tassin from Aviva. What is your view on the consolidation operations that are taking place in France?

## A - Thomas Buberl {BIO 16182457 <GO>}

Thank you Frederic for that question. To be impolite I would actually have to ask you that question, but I won't. So I think you see as a general trend and AXA has started this movement as early as 2016 in which we at the time segmented our portfolio in what are the large markets, what are the markets that we want to develop in, and then what are markets that we want to manage in a different way and where we also have a look, where we stay present or not. You've seen in our case that we have focused ourselves a lot on less markets on the core geographies and you will see the same happening now with other insurers. And I think that is a trend that has been accelerated in the crisis but is a trend that will probably come even more because insurance remains a scale business and so you need to focus yourself on your large positions. It is a business in which the regulatory complexity, which is often again very local has increased. So we believe that this movement is the movement that will go forward.

And the second observation that we see that it's not always the larger players that consolidates. In the case of the French market and the recent announcement, you also see that large mutual companies are using the opportunity to grow their franchise. We do not believe that this will have a significant impact on our position and since we are already very focused, and we have very leading positions that allow us to really be confident going forward and also be confident to fulfill the targets of our plan that we have announced last December.

I want to thank you because this was the last question. I want to thank you for your active participation for all your questions and for having been with us. I'm really sorry we haven't been able to see each other in person, but I really hope going forward that physical meetings will come back because it would be nice to see you again instead of talking into a screen. I wish you all the best. Thank you very much again and hope to see you soon. Have a great day.

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