Q4 2018 Earnings Call

Company Participants

- Alban de Mailly Nesle, Group CRO & Head-Group Insurance Office
- Andrew Wallace-Barnett, Senior Vice President & Head-Investor Relations
- Gregory S. Hendrick, Chief Executive Officer-AXA XL
- Gérald Harlin, Group Deputy Chief Executive Officer & Group Chief Financial Officer
- Jacques de Peretti, Chairman & Chief Executive Officer-AXA France
- Thomas Buberl, Chief Executive Officer & Director

Other Participants

- Andrew J. Crean, Analyst
- Andrew Sinclair, Analyst
- Colm Kelly, Analyst
- Farooq Hanif, Analyst
- Johnny Vo, Analyst
- Jon M. Hocking, Analyst
- Michael Huttner, Analyst
- Nicholas Holmes, Analyst
- Oliver Steel, Analyst
- Peter D. Eliot, Analyst

MANAGEMENT DISCUSSION SECTION

Andrew Wallace-Barnett {BIO 18671460 <GO>}

So good afternoon, everyone. Welcome to AXA's Full Year 2018 Results. A warm welcome to those of you on the phone, on the webcast, and of course those of you here in London. We're joined here in the room by a number in our management team, by our CEO Thomas Buberl; by our Deputy CEO and CFO, Gérald Harlin; we also have our CEO for France, Jacques de Peretti; our CEO for AXA in Europe this year, Antimo Perretta; our CEO for AXA XL, Greg Hendrick; and our Group Chief Risk Officer, Alban de Mailly. Welcome to you all.

And with all the people present, I'm hoping we'll be able to answer clearly and thoroughly all the various questions you may have on the results. And as per usual, the Q&A session will be at the end of the presentation and we'll be happy to take questions from those of you on the phone or on the webcast. Please just follow the instructions you've been given. And we will as usual give preference to questions from people here in the room.

And it's now my pleasure to hand over to Thomas.

Thomas Buberl {BIO 16182457 <GO>}

Thank you, Andrew. Good afternoon to everybody and everybody online as well. Very happy to be with you today to present the full-year 2018 earnings. When we look at the headlines, I would like to mention four topics to you. The first one is it was a year of excellent operational performance. You have seen that the entities have really performed well. We have reached record earnings levels with AXA we have never seen despite the fact that we have been hit in Q4 by high natural catastrophes, mainly on the XL side. This was the first quarter of XL that we consolidated and it was an abnormal quarter of natural catastrophe. The integration of XL into AXA to make a new joint force is progressing well, I'll come back to it later. And as a result of this, the board of directors has decided yesterday to propose to the shareholders a strong dividend growth of 6%, very much in line with the trend on the underlying earnings.

When we look at the underlying earnings in detail, you see an increase from €6 billion last year to €6.2 billion on a like-for-like basis without the FX movement. And this, given the fact that we had a reduced ownership in AXA Equitable Holdings, Gérald will come back to it. We have a rough ownership at the closure of 80% in the year of 2018, and secondly, as I mentioned, despite the fact that we had high natural catastrophes in the fourth quarter mainly coming from XL. The underlying earnings per share is up plus 3%, there this is obviously on a basis where the foreign exchange movements are considered. When you look at the adjusted earnings per share, they move up by 1% and the dividend is moving from 126% to 134%, which is a 6% increase given a payout ratio at 52%.

What is very good for these earnings is that they are very balanced in terms of growth and profitability. We have achieved a 4% growth of revenue to €103 billion for all of AXA and this growth has very much been fueled by the growth of the preferred segments. Those preferred segments are the Commercial line business, the Health business and the Protection business. Why have we taken those segments as preferred segments? They are the ones that grow the most and they are the ones where we are the closest to our customers because those are inherent risks where people are interested to be helped to reduce the risk and to jointly make a better journey.

On the Health side, we have achieved a 7% growth, which is very much across a couple countries and Jacques is here. Certainly AXA France has contributed a lot to this Health growth, but also other countries.

On the Protection side, we have achieved a growth of 3%, again coming from very different jurisdictions and well diversified and it really shows now that this focus on the preferred segments is really carrying weight and we can manage to grow and to also differentiate ourselves in those areas. And then the Commercial line, P&C business, it has grown by 5% and this is mainly due to the fact that the AXA entities and certainly the AXA entities in Europe and France have worked very well on growing their franchise more, but also that XL in the last quarter of 2018 has grown by 10%, which is really a remarkable growth. So this really shows that the preferred segment strategy is the right one. What is important today that when we talk about preferred segments, it is not just a wish that we have going forward. Today, more than 50% of our volumes are already in those preferred segments. And once we have fully exited AXA Equitable in the U.S., 80% of our volumes will be in those preferred segments.

When we look at the geographies and that is another very important thing, the increase of 6% in underlying earnings doesn't come from just one geography. It's very well diversified across the geographies; everybody has contributed. And what I'm very proud to say is that certainly Europe, if you take France and Europe, those two geographies make two thirds of AXA's totality. Growing by 10% in underlying earnings is really a great achievement. But we also see that Asia, AXA Equitable, and also the International markets have significantly contributed to these results.

AXA XL, as I mentioned in Q4, has been hit by abnormal catastrophe losses. And this is really why the contribution of AXA XL to the 2018 numbers remains at minus €200 million. This is due to the fact that we had €500 million more losses than we had on a normal basis due to a Nat Cat. So essentially what has happened, to make it simple, what you normally experience in one year with XL, we have experienced in one quarter and it was very much an abnormal thing that has happened.

How is the integration of XL progressing? And I can tell you that the progress on the integration is moving fast, but that we also, on the business momentum, see very good news. We started firstly to integrate the reinsurance. So, Alban de Mailly and Greg Hendrick have worked a lot. How can we bring AXA and XL together, what are the diversification effects because there is a significant diversification by putting the two together since our main risk used to be European windstorms and now with a large U.S. exposure, there's a much higher diversification. But we also aligned the joint program to the AXA approach of the risk appetite, which is done, which is implemented and as we have shown you last year, on a combined basis, which has led us to reduced maximum exposure.

Second topic is the Commercial approach. We only had a few months after closing. I remind you that closing was on 10th of September. Nevertheless in virtually every geography, there was a very strong momentum of, on the one hand, aligning who does what, so that we don't run after the same customers or that we'd even poach customers from each other, that the focus is very much on how can we get together to new customers. And if you look and I'm again taking the people that are in the room, Jacques de Peretti, together with the teams of Greg Hendrick, have really achieved to get new customers.

The angle was very much around how can we take customers where we never had a chance because we didn't have the U.S. footprint because we didn't have International exposure to really create new momentum. They have together created significant business in France.

If you take Antimo Perretta, same thing in Europe. We worked a lot, in Germany, in Switzerland to already get new customers. And even in the International markets, certainly in Turkey, we've also managed to have a very high Commercial momentum despite the fact that we only had a very short time together, but we have invested a lot in the cultural integration of both companies, making sure that people get to know each other, making sure that people can work together quickly and I think that starts to pay off.

On the synergies, we are well on the journey. You have seen that we have announced last week to the social partners in Europe the organizational integration in Europe. This is well underway. We want to do this in a responsible way that we have always done it at AXA. And today, I see no reason why this shouldn't work out in a good way.

Lastly on the asset allocation. We've also started to reallocate the XL assets, remember, the XL assets were invested in a very conservative way because of a relatively limited balance sheet. Here, together with AXA, we've got, on the one hand, means to invest very differently according to the asset allocation of AXA, but also we have a much better access to alternative assets through AXA IM.

When we look a little bit forward to what has happened around the beginning of the year, we can say that the Q4 growth, I mention it earlier, was very good, 10% revenue growth. Now if you ask yourself will that be repeated going on, I would say we have to be cautious on this one. If you take the 10%, there is probably a 5% of recurring in there and a 5% due to some larger contracts. So I would say from this probably, and Greg is nodding, that 5% going forward is a better assumption than 10%. The renewal rate was also positive. So on the insurance side, we managed roughly to put price increases through around 4% with a retention ratio of 90%. On the reinsurance side, it's a little bit lower, around 1.5%, but similar retention rate. So the renewal has gone well and Greg and his team are working very hard on making sure that the plan that we have for this year will be put in place.

Subsequent to that, we have experienced the rating upgrade of AXA XL to AA minus and we have – Greg and his team have received the various prestigious client recognition event award, J.D. Power, again last year in the third row and they are obviously working very hard that this will become a normal event every year.

All of this leads us to the conclusion that we will reaffirm the targets that we have communicated at the Investor Day in November, which is €1.4 billion of underlying earnings by 2020, assuming that we have a normalized net cap experience of 4% of gross earned premiums. We've also been active apart from obviously integrating XL in scaling up pay-out to partner. And I give you two examples out of many examples that we have. One is on the medical teleconsultation. We've spoken quite a lot about this. We are today certainly in France the leader in telemedicine. This is fueled, A, by the early investment that we have done. We have two approaches in France. One is through AXA Assistance; the other one is through Qare, which is a venture that we have incubated ourselves. But also the momentum in France, due to the fact that the French state has decided to reimburse teleconsultations as of the 15th of September of last year, has really fueled our efforts, you see here the numbers. We have a massive uptake in those consultations. Those have a very, very high satisfaction ratio, therefore also the repeat usage and you have more and more physicians coming onto the platform and really wanting to make sure that the availability of medical advice does increase through a better usage of capacity.

On the other hand, we take another example from the other end of the planet, in China, we have concluded a cooperation with WeChat. For those of you who are frequently in China, WeChat is the thing in China, where everything is done. So we have focused ourselves there on the 140 million travelers that go out of China and to really focus on the needs of Travel Insurance, which is a massive space for us and this good collaboration, which is extremely digital, because everything is basically done and settled in a digital way. We will expect a lot from this going forward.

All in all, we are well on track with the Ambition 2020. On the underlying earnings per share, if you take the average across the years of beginning, from 2016 to now, we are at plus 5%, well in the range of the 3% to 7% that we have indicated on the 21st of June in 2016.

On the free cash flow, very similar message. The ambition is to have a cumulative free cash flow of €28 billion to €32 billion by the end of 2020. When you look at where we are in terms of cumulative free cash flow, we are well underway with a contribution of €6.6 billion in 2018.

On the adjusted return on equity, we are at 14.4%, again well in the range of 14% to 16% that we have also increased last November during our Investor Day. And then on the solvency ratio, €193 million, which is again well situated in the range of €170 million to €220 million, again a range that we have adapted down from €230 million to €220 million last November.

I will now hand over to Gérald Harlin, who will go into the detail of the business performance. Thank you.

Gérald Harlin

Thank you, Thomas. Good afternoon. So let's go through the – yeah, let's go through the underlying earnings. So, underlying earnings are up 6% at €6.2 billion. I should add that it's at constant FX as usual, but this time, so long as we don't consolidate AXA Equitable Holding at 100% anymore, but only at 81%, we should say that this 6% includes the negative impact from this drop of roughly 19% in the consolidation of AXA Equitable Holdings. On the right-hand side, you can notice that across the board, we have good performance in all our markets and I propose you now to go through this market, starting first with France.

France is a very strong performance, plus 10%, explained by the higher technical margin as you can see on the top right that our P&C combined ratio improved by 2.3 points, health as well by 0.8 points. Second, we had a lot of expenses across the board, I would say that in all the lines of business and we benefited from higher Unit-Linked management fees coming from markets being at higher level on average. On the reverse, we have lower investment income, but that's the case in other countries and in line with what we announced before. As a whole, plus 3% in revenue, plus 12% in Health, which is strong, plus 5% in Protection.

Europe now, and in Europe, we are plus 10% as well, which is, again, very strong performance with higher technical margin in different countries, Switzerland, UK and Ireland, Germany and Spain. You can see on the right that Health combined ratio is down 1.3 points, which is good. We have lower corporate tax rate in Switzerland and Belgium. In Switzerland, it went down from 21% to 20%; in Belgium, from 34% to 30%. And like in France, we have lower investment margin. Revenues up 3% on average. Asia now plus 5%, with a higher technical margin in Japan Life, higher Unit-Linked management fees in Hong Kong, again, same reason. It's due to the average level of markets, which was higher in 2018 than it was in 2017 and higher contribution from China, as a whole, China increased by €43 million.

You can see on the right that we have gross revenues increasing by 4% and on the bottom right, you can see that the point that we made, we mentioned at the last IR day, but it's worthwhile being repeated that 87% of our business of our gross revenues are concentrated in P&C, Health and Protection, i.e. our priority segments.

Let's move to AXA XL and as mentioned by Thomas, we suffered from two major Nat Cats in Q4. And that's why on the bar chart on the left, we try to explain the contribution of minus 0.2% for the full-year 2018 of AXA XL. Let's start first on the left and with AXA XL with normalized Cat Nat, I remind you that we consolidate one quarter, the last quarter, Q4 and with normalized Cat Nat, we should've been – we should have posted €0.2 billion of underlying earnings. Indeed, due to Hurricane Michael and California wildfires, we have €500 million in distributed – €540 million of Nat Cat in excess of normalized level, which means that we reported a Q4 2018 loss of €374 billion, minus €0.4 billion relative to XL. Then we add €0.141 billion of underlying earnings for the full year coming from AXA SA, AXA Corporate Solutions and AXA Art, and as a whole, we end up with minus €233 billion corresponding to the contribution of AXA XL in our 2018 account. As explained by Thomas, we have revenues of 10%. Excluding two large contracts, we would have been at plus 5%. And as mentioned again, we benefited 4% price increase in 2018 and the renewals in January were quite good with plus 4% in insurance and plus 1.5% in reinsurance.

Let's move to the United States now. So plus 4% in underlying earnings contribution in 2018 with different elements. Let me go through these elements. First, the higher Unit-Linked and mutual fund fees, plus €0.1 billion. Then we have a higher investment margin due to the higher level of assets under management, €0.1 billion; then we have model and assumption change, which are partly offset by lower tax one-off, plus €0.3 billion, minus €0.2 billion and the tax one-offs were last year in 2017, so it's plus €0.1 billion. So, all these three elements correspond to plus €0.3 billion. But this offset by the – what I explained at the beginning, meaning that following the IPO and the November sell-down. We reduced our ownership from 100% to 81% on average because we ended the year at 59% including the MEB and roughly 52% excluding the MEB. And as a whole, it's a drag of €0.3 billion, so plus 4% on a net basis. APE, plus 6%, which was good. Far better in the second half of the year because we achieved an APE level of 9% in H2. As far as AB is concerned, AB revenues, plus 5% and management fees, AB management fees increased on average by 0.9 basis points due to a better business mix in favor of – with more private clients.

Let's move to International now. Strong performance as well, plus 28% explained by different countries. Mexico first with higher technical results, in P&C and Health. Turkey, higher investment income, we've been investing at 8% in Turkey. Russia, a strong technical performance and higher volume, AXA Bank Belgium, from lower commission and lower expenses; so as a whole, plus 28%. P&C combined ratio is strong. It's quite high at 100%; but keep in mind that in these countries, we are investing at higher rates. We are not in Europe and you will note it also, a strong improvement on the Health combined ratio, minus 2.1 points. Revenues, plus 5%, with a strong plus 11% in Health and again on the right hand, on the bottom right corner, we highlight the fact that 88% in International business is – 88% of our revenues are in P&C, Health and Protection.

Last AXA IM, AXA Investment Managers grew plus 6% in underlying earnings, with lower financial charges with some different mix in term of taxation, which was positive and higher earnings from Asian JV, which was offset by lower management fees, third-party net inflows plus €3 billion and we acquired Quadrant Real Estate, which is a U.S. alternative asset manager in real estate debt. It adds €8 billion of AUM to AXA IM. I remind you that we are presently even before this acquisition, with €73 billion of AUM, the number one asset manager in real estate and just after this acquisition will be at €81 billion.

Let's move to the financial performance now and starting with group earnings, I commented it already, so I move directly to adjusted earnings. As you can see on the third line here, the realized capital gains amounted to €841 million, higher than last year. But the market condition, the equity market condition in Q4 meant that we had to suffer some more impairments in 2018, €440 million versus €127 million a year before, meaning that the net contribution from realized capital gains is €307 million instead of €455 million one year ago and we end up with adjusted earnings at €6.5 billion.

Let's go through the net income. As we announced it already on the 28 of November, we impaired the goodwill of – the U.S. goodwill $3 billion. So that's the most important part of the €3.1 billion that you can see at the bottom line, minus €3.1 billion. We have also some adjustment changing fair value and forex, you are used to it, but this year, on top of the freestanding derivatives, which represent a negative contribution of €137 million, we have the widening of the corporate spreads. You noticed that in the last quarter, we had a widening of the corporate spreads, which explains that we have a lot of mutual funds, which are mark-to-market and this was a contribution of minus €326 million. On top of this, we have exceptional and discontinued operation, minus €451 million. Most of it is coming from Switzerland, with the impairment of intangible, but we got it already in the first half and integration and restructuring cost, you can imagine that with such a huge transformation in our group, starting first with XL and AXA Equitable Holdings, we have a higher cost for restructuring and integration €332 million, so, in the end, net income is at €2.1 billion.

Let's move to this traditional slide on the combined ratio and our combined ratio, starting first with the current year combined ratio, which would move up from 97.6% to 99.1%. In blue, you have the cost of Nat Cats. Last year, it was 2.5%, this year 4.2% and this compares with the natural levels which would be around 3% that we mentioned to you at the last IR Day in November. We have prior year reserve development at 2.1% versus 1.2%

last year. 2.1% is exactly same number for the first half and we announced you in August here that we should be in the high end of the range and that we wouldn't be very different to 2.1%; it's in line and which means that in the end, the all-year combined ratio goes up from 96.3% to 97%. As you can see on the top right, all-year combined ratio, excluding sales, would have been at 94.9%, which would be an improvement of 1.2 points versus full year 2017. Last but not least, we increased our guidance on prior year reserve development from 1% to 2% to 1.5% to 2.5% on the full AXA Group scope.

This increase of the guidance relative to prior year reserve release is not something that we decide. It's justified by the fact that like in June, as you can see on the left, our P&C reserving ratio is moving up, P&C reserving ratio, I remind you is in a technical reserve, divided by net earned premium, we are at €230 billion, very strong level of €230 billion – and the IFRS P&C reserve in excess of the (00:31:20) that you will see also in the own eligible fund report moved up from €5.7 billion to €7.1 billion.

I propose you now to hand over to Alban, who will report on the two next slides relative to the reinsurance and the Nat Cat costs.

Alban de Mailly Nesle {BIO 20387796 <GO>}

Good afternoon. So the purpose of this slide is to review the losses that we had in 2018 from natural events and natural catastrophes coming both from the legacy AXA scope and the legacy XL scope and there are too many messages from this slide. The first one is 2018 was definitely a heavy year in terms of Nat Cat, heavier than average. But second, at the end of the day, the deviation that we incurred was very consistent with what we showed you in November 2018 and that's the graph that you see on the right hand side.

So if we go into detail, on the left hand side, you have the table with all the natural events losses that we had in 2018. It's a bit of a theoretical exercise, because it's both AXA and XL along the whole year, whereas we only consolidate XL from Q4 only. The numbers that you see in the table, the shaded numbers are the ones that we consolidate and that you will find in our P&L in 2018. At the top, that's the AXA perimeter and you will see that the amount that you have here for the AXA perimeter is extremely close, if not equal, to an average amount of natural events losses for a year on AXA, on the AXA side. On the XL side, we have the detail by quarter and the first three quarters were very much in line, a bit higher than a normally average year for the AXA's perimeter.

But as Thomas and Gérald said, it is the fourth quarter, which was highly unusual because we had, in one quarter, the equivalent of the full year of Cat losses in that quarter that we have consolidated in our 2018 accounts.

And when you do the sum of all those natural losses, net of reinsurance growth of tax, you come to €2.05 billion of losses. That compares that's what we showed you in November to an average year of losses from natural events for the whole AXA XL perimeter of €1.5 billion; i.e. in excess of €500 million, which net effect is €400 million. And €400 million is very consistent to, again, the graph we showed you in November for a 1-in-10 year experience, which is exactly what we had in 2018. So we had that amount of loss and it was in line with what we could expect from such a year.

We show that graph on the potential deviations because that's exactly how we think about our risk appetite for natural events, when we think of 1-in-20 years losses, and what is the amount, what is the deviation that we could have was a 5% for the deviation. And that's the way – that's what drives the structuring, the design of our reinsurance program. We want to achieve that result. So that's what I'm going to show you on the next slide, that's the way of our reinsurance program is designed. So first now in for 2019, the 2019 program, it covers both AXA and XL's exposure to natural event, one common program.

Second, the preliminary comment on such a program is that you want to be covered for any kind of year, a year where you have a very small number of large events or like in 2018, where you have a greater number of small to medium-size events. So, that's the way we have designed our program and it's made of three components. The first one is how we protect our insurance business AXA and XL. And you see on that graph that we protect that insurance business through (00:36:11) Protection and we buy, so you see European windstorm, North America hurricane, North America earthquake and other perils. You see detachment points and the capacity we buy. We buy a capacity so that we are protected for those periods up until a 1-in-200-year event. So that's on the insurance side.

We protect our reinsurance business through Cat bonds and alternative capital. And the third component is the aggregate. And that's absolutely key component of our reinsurance structure. That's what helps us achieve the target I showed you on the previous slide, which is not to lose more than 500 million net of tax with a 5% probability. So, how does it work? When you look at the shaded areas of the first two components, insurance and reinsurance, we put all those amounts, the shaded; i.e. the retentions that we have or potentially also the excess losses that we would have above our Protection. We put all that in the same basket, subject to a €50 million deductible per event, insurance and reinsurance.

When that basket reaches €1.45 billion and everything above that is reinsured, ceded to reinsurance, subject again to €50 million deductible per new event. So, with that, you see that we are protected against extremely large events, (00:38:00) that you have on insurance or a large number of small to medium events through the aggregate. And that's how we achieve the deviation and the risk appetite that I showed you on the previous slide. Gérald.

Gérald Harlin

Thank you, Alban. So moving back to the balance sheet, and to this traditional slides on our investment portfolio. So, we are managing our General Account invested assets correspond to €615 billion, mostly invested in govies and corporate bonds. And you can see at the bottom left that that's the license savings, yield on assets stabilized at 3.1% and dropped on P&C side from 3.3% to 3.2%. Keep in mind as well that we have been investing in different countries where the rates are much higher than in Europe. We have been investing, on the right hand side, we've been investing €70 billion in fixed income.

57% in investment grade credit rating single A, 2018 govies and sovereign, average weighting AA and 7% in ABS investment grade, and below investment grade credit is limited to 7%. As a whole, we have been investing, as you can see, at the bottom right at 2.5%.

Here, we are dealing with investment margins. So we are quite happy to announce you that our investment margin stabilized, roughly speaking. We moved up from 69 basis points to 70 basis points. I remind you that when we presented our plans in June 2016, we assumed that our investment margin would drop to 55 to 65 basis points. Same, quite good pattern as well on the P&C yield because the P&C yield dropped only by 8 basis points, where we are expecting a drop between 10 and 20 basis points.

On the left hand side, you can see that our spread above guarantee still increasing, still improving, be it on the new business or on the inflows, confirming that as I said in the previous meetings, guaranteed rates are no more a problem, no more an issue at all at AXA.

Shareholders' equity, cash shareholders' equity moved down from €69.6 billion to €62.4 billion. You can see on the right hand side what are the main elements explaining it. Keep in mind that due to the equity drop, there is a change in net unrealized capital gains, OCI, minus €3.9 billion. We have the dividend; that's what's paid, €3 billion and the impact of AXA Equitable IPO, minus €2.8 billion, plus the net income positive 2.1%. The adjusted ROE, which is calculated on the average shareholders' equity is at 14.4% versus 14.5% one year ago. Here, we have the Solvency II ratio. Solvency II ratio is at 193%, well within our 190% to 200% guidance that we gave you as soon as in March when we announced the XL transaction and of course well within the 170% to 220% target range. Debt gearing, 32% in line with our guidance. And I repeat and I confirm that the target crunch by 2020 will be below – between 25% and 28%. Here, traditional slides on Solvency II, so you have the roll-forwards starting with 205% last year, operating return plus 24, dividend payment minus 12, market impact and of course the equity market and minus 4 points. US IPO plus 13 and sub debt, XL acquisition minus 33 points, we ended up with a Solvency level of 193%. And you can see the sensitivities which are not fundamentally different from previously. And last point, it's on cash flows and we have a strong cash flow generation, it's €6.6 billion instead of €6.3 billion one year ago. And if I exclude the €2.6 billion, you remember the €2.6 billion correspond to the restructuring of the U.S. debt. Excluding this, we have €5 billion of remittance, €5 billion divided by €6.6 billion, it's a 76% remittance ratio within the guidance of 75% to 85%.

Now, I hand over to Thomas for the conclusion.

Thomas Buberl {BIO 16182457 <GO>}

Thank you very much, Gérald. As a conclusion, 2018 with all the changes on transformation has been a very pivotal year for AXA. We started in 2017 to implement a new organization that was more de-central based on the principles of simplicity and empowerment. You can see that this organization is bearing fruits because all the geographies have really increased their operational capabilities, have really delivered an excellent operational performance. And at the same time, we have started shifting the portfolio significantly towards technical risks through the significant transformational leap, AXA Equitable Holdings against AXA Group.

I remind you again when we started this journey right after the financial crisis, AXA was focused 80% on Life & Savings. When we have completed the journey on this picture and fully divested from AXA Equitable, we are focused on 80% of technical risk, P&C business, Health and Protection. For 2019, our priorities are very clear and I repeat them again because it's good to remind ourselves of them. After these movements in 2018, our focus is one to continue successfully the integration of AXA XL. Secondly, to continue the sell-down of AXA Equitable Holdings and subsequently certainly to reduce our debt gearing to the range indicated to you in November, 25% to 28%. At the same time, continuing our successful journey on delivering Ambition 2020, but also making sure that the elements we presented in November certainly on Asia, to accelerate in Asia and also to continue to scale up the innovations that we have put in place where we now have decided what we are going to do going forward.

Thank you very much. And we are now moving to the Q&A session. As Andrew said at the beginning, we give priority to the room, but we will hopefully have sufficient time to also get to all questions on the line. Who would like to start? Farooq, you are the first one with your arm up.

Q&A

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much. Farooq Hanif from Credit Suisse. Going back to the reinsurance structure, could you tell us what reinstatements you have on each of those covers, so what's the reinstatement policy? Could you also tell us what the cap bond retention is and how this whole reinsurance program has changed versus what you told us in 2018 and has that been significant? And second question area is on cash flow. Does that €6.6 billion – basically does that imply that really you're over €7 billion on a normalized basis on cash? And therefore – and also you're at the lower end of the remittance ratio. So I'm just wondering whether you expect a material improvement in HoldCo remittance? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Very good, Farooq. Thank you, so I suggest that Alban de Mailly will answer the three questions around reinsurance, reinstatement, the question of the cat bond potential and what has changed relative to 2018 and Gérald will ask the question around the cash flow; is €6.6 billion just a basis that is not normalized. Are we really at the lower end of the rate of remittance ratio. Alban?

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

So, on the reinstatement, by nature, you wouldn't have reinstatement on the cat bond side on the aggregate either, but you do have reinstatement on the insurance protection that are on the left hand side of the graph. On the cat bonds, the outstanding amount is $1.2 billion and the change versus 2018, I'd say it's a completely different program in the sense that you had two different companies, XL on one hand, AXA on the other hand and we had united that through the common additional reinsurance layer that we had put in place, as you will remember. So, comparing the two programs as such doesn't make a lot of sense. I think what makes sense is the result of the program and you see on the previous slide that the effect of the program is somewhat similar because we want, with the 1-in-20 year, to have a loss which is no more than €500 million net of tax, net of reinsurance. And that's what matters to us at the end of the day. It's the effect of our reinsurance program.

Q - Farooq Hanif {BIO 4780978 <GO>}

(00:48:40-00:48:47)

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

It depends on the protection.

A - Gérald Harlin

On your question relative to the cash flow. So, starting from €6.6 billion cash flows. If you refer to what they presented at the end of November, I'm sure and your question is related to this, meaning that we said that when we will exit AXA Equitable Holdings, we said that the average remittance of AXA Equitable Holdings was roughly €0.5 billion and that progressively we should benefit from a level that would be circa €1 billion coming from XL there, which means (00:49:27) of €0.5 billion. But I said and I want to be clear, I said that it would be medium term. So this is a trend and I repeat what I said at that time, meaning that the switch from AXA Equitable Holdings to XL should be positive with a maximum of roughly €0.5 billion, but it will take some time. But yes, that's the trend. And that's also the positive of such a confirmation.

A - Thomas Buberl {BIO 16182457 <GO>}

Oliver?

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel at Deutsche Bank. So first question is coming back on the operating cash. I mean, if we assume the €6.6 billion rises going forward, you're going to break way through the top end of your €28 billion to €32 billion cumulative range. So, I just wanted you to comment on that.

Secondly on cash, the European cash numbers seem to push up quite sharply year-on-year. So I was wondering what's driving that. And then actually, we stick on cash. What is the holding company cash at year end? I think you said in November that you expected it to be between €1 billion and €1.5 billion. And actually since I'm here, can you let us know what the first quarter remittance from Switzerland would be on the back of the capital saving that you put through there?

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Oliver for your cash-rich questions. Gérald, why don't you take them also?

A - Gérald Harlin

Okay. Operating cash, yes, I believe that – I already said that we were quite comfortable on the fact that we would be, for the whole period, for the five years in the high end of the range, yes, that's true. We will be the high end of the range and that's good. Second, the cash at the holding level, we had at the last – we were at €1.8 billion at the end of last year. And that's also where, you understand that we were at 32% in term of debt, but we had some cash in profit (00:51:41) and we don't calculate it was the case in the past, but we don't calculate the gearing ratio net of the cash. Okay.

What was your remaining...?

A - Thomas Buberl {BIO 16182457 <GO>}

On the second question on the European cash, I guess that's the German effect that you want to comment on and there was a fourth question on the Q1 remittance in Switzerland?

A - Gérald Harlin

The Q1 remittance from Switzerland, you know that we had – we should benefit roughly from €1 billion coming from Switzerland from Jan (00:52:14) 2020. If you remember that (00:52:20) 2020, it was CHF 2.5 billion and we said that it will be spread between 2019 and 2020, it's still true.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's stay there and go to Andy.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andy Sinclair from BoA Merrill Lynch. Three for me. Firstly, just the increased guidance for reserve releases, but you've not changed your overall combined ratio guidance targets. Is this really just one pocket into another, or is there some extra conservatism in the combined ratio targets now?

Secondly, just looking at the growth in AXA XL's reinsurance revenues, up 16%. Can you tell us just about what ways you've been growing and how much of that 1.5% reinsurance January renewals is from business mix change or is that risk-adjusted? And thirdly just on France, really impressive growth this year. Just do you think that will be possible to continue to grow from that strong base given the Gilets jaunes backdrop?

A - Thomas Buberl {BIO 16182457 <GO>}

Good. Let's take them one by one. Gérald, the reserve releases and changing the guidance in the combined ratio. Greg, you would talk about the growth in reinsurance. And Jacques, you'll talk about the impressive growth and the Gilets jaunes in 2019.

A - Gérald Harlin

Okay. Let's start with the combined ratio. So it's clearly, I would say, it's not neutral. It's really because we have excess reserves that we are quite comfortable that we can raise our target reserve volume from 1% to 2% to 1.5% to 2.5%. Your question about the combined ratio, where we had the target combined ratio, which was in the old perimeter of the group and we said that we would be between 94%, 95%. So we were below 95% excluding sales. I believe that it's not so – the trend is the same. Don't consider that we won't – that our objective is not like we did in the past. We still improved the combined ratio and consider that this will help us improve our combined ratio and for the targets, we have to integrate XL in the future. So that's why we didn't restate it. But clearly, the objective is still to improve our combined ratio.

A - Thomas Buberl {BIO 16182457 <GO>}

Greg, on the reinsurance?

A - Gregory S. Hendrick {BIO 1649843 <GO>}

Yes. On the growth for AXA XL re in the fourth quarter, reinsurance is a very light quarter in general for us. On the reinsurance assumed side. We are – in the fourth quarter of 2018, we experienced growth with a specific contract that we have with a U.S. personal lines and small commercial carrier, which has very, very limited Cat risk in it. So it's a good diversifier for AXA Group, both limited Cat downside and lines of business we're not present in. That growth rate is not, as Thomas alluded to in his remarks, that growth rate is not indicative of full-year growth rate, we would be more kind of low-single digits. On the 1.5% rate increase, that is rate-adjusted across the entire reinsurance segment for the January 1 renewals, a little bit more in casualty. So say 2%, 3% and a little bit less in short-tail property, right around 1%. I don't have a growth figure, I'm going to give you for the 1.1% (56:05) for reinsurance. I'll just say that we did look at that rate increase on the reinsurance Cat treaty inward side and decided to not deploy quite as much capital, capacity as we did coming in on the renewals and so we've got room to be able to grow if rates, as we think they will, improve during the course of the year on the U.S. Cat risk.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Greg. And we go to Jacques on the growth and the Gilets jaunes.

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

Thank you. Let's say that AXA France has delivered a strong growth this year, but it's in a steady momentum and we had delivered this type of growth last year. We delivered this growth this year and I hope we'll continue. We are taking advantage of a very strong footprint in France definitely and that help give us the capacity to move our model and to increase the expertise of our people and to better satisfy our clients. So we are growing our activity, we are growing our profitability and we are doing that on all the business line, if you look precisely. So I don't consider it won't stop. It is very strong and solid growth. And concerning the deal itself, let's say that the (57:32) are mostly behind us. You know that the movement is now fading. The government took very good decision in December to quiet the situation. And concerning, let's say, the morale or whatever, everything is green in France and things are going well and the damage are very, very strong – are very, very little. Let's say maybe €10 million, that's all and it's behind us. So Gilets jaunes I don't consider has an impact on our business.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Okay. Thank you for that.

A - Gérald Harlin

Just to correct, it's not €1.8 million, but it's €1.7 million. I want to be precise. I'm sorry for that.

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. Let's stay over there (58:24), I can't see through the light, I'm sorry.

Q - Johnny Vo {BIO 5509843 <GO>}

Jonny Vo from...

A - Thomas Buberl {BIO 16182457 <GO>}

Jonny, sorry – yes.

Q - Johnny Vo {BIO 5509843 <GO>}

...from Goldman Sachs.

A - Thomas Buberl {BIO 16182457 <GO>}

Goldman, yeah.

Q - Johnny Vo {BIO 5509843 <GO>}

Just the first question, I guess just in XL and the guidance of the 1.5% to 2.5% PYD. I notice that XL had a reserve release in the fourth quarter. I think that that guidance does not include any reserve release from XL. So what happened? Why was the reserve release there in the first place?

Second question is just in regards to the payout ratio. So the payout ratio is currently 52%. I guess as you start switching or selling down AXA Equitable and switching to XL, should we see that payout – would you move through the payout range and how can we see that and get comfortable with that? And the third question is just the manifestation of the diversification benefit that you're going to get. Is this a diversification benefit at a consolidated Solvency level or should we see more fungible capital moving from entity to the HoldCo and lower capital requirement in the entities? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. Thanks, Johnny. So I suggest Gérald, you do the first question. I'll take the second one and Alban, you take the third one.

A - Gérald Harlin

Okay. So your question about the prior reserve release, we mentioned about XL that you could not expect in the short term, medium – short to medium-term, any prior year release. The one you are referring to, Johnny, concern AXA Corporate Solutions. On top of my head, we had €60 million, but it concerned AXA Corporate Solutions which is a mature company; so it's quite logical. So as far as the future is concerned, I mentioned the 1.5% to 2.5%. But don't expect anything from XL.

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. The second question on the payout ratio, I was waiting for this one. You have seen that on the November Investor Day, we have moved our range up to 50% to 60%. And we have always seen the payout ratio as a resulting variable of the dividend that should be corresponding to the underlying operating earnings. And as you see, we have increased the operating performance by 6% and also decided to increase the dividend by 6%, the payout ratio being a resulting variable, so we are not looking at the payout ratio to be increasing over time in a systematic pattern, but rather to be a resulting variable of the dividend growth that should correspond to the growth in the underlying performance.

So to give you an example, if we have a splendid year of 2019, we could as well imagine to go back to €50 (1:01:23) again, so that the fluctuation we will use, again dividend should correspond to underlying earnings and performance development. Alban?

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

And on the diversification and fungibility, the diversification benefit is mostly at group level, the calculation of the solvency at that level. But now moving more from a Life-oriented group to more P&C-oriented group, capital is naturally more fungible in the P&C business than in the Life business. But you wouldn't see that in the way, for instance, we calculate solvency at XL level, which will be a new debate. In terms of the fact that we will capitalize XL like we capitalize XL France and others and that makes as such our capital more fungible within the group.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you. Let's move over to Jon.

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

Jon Hocking from Morgan Stanley. I've got three questions, please on XL. First of all, just looking at the aggregation of risks, which seems to being the problem in 2018, just on the slide where you talk about the €50 million deductible. Is it right to think if you had ten events of a €50 million deductible, you'd hit your 1-in-10, 1-in-20 earnings guidance. So how should we think about that aggregation of risks and if you sort of back-test this one-to-one sort of circumstances do you hit the sort of 1-in-20 earnings guidance, it's the first question.

And then the second question, just looking at the – again on the sort of A29, where you're showing the tails to earnings. I just wonder what this looks like if you go further into the tails. If you look at the sort of 1-in-100, 1-in-200 earnings, are there any scenarios here when that cap actually becomes a capital issue either for XL or for AXA Group potentially?

And then the third question, again on XL, the rating upgrade, does that actually have any business impact for accelerated lines of business you can get into you couldn't previously as a standalone entity? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So I suggest, Alban, you take the first two questions and Greg, you do the third one on the rating upgrade.

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

So maybe yeah – on this slide, the €750 million, you need to keep in mind that on average, the normal year is €1.5 billion. That €1.5 billion would be made of the natural losses. So you can have two losses at €750 million and nevertheless still be within the normal year that we should have at €1.5 billion. But we would be protected above that level through the reinsurance protection that we buy and through the aggregate. Am I answering your question?

So, if I have smaller events, that's what I described with the aggregates. And obviously if you have thousands of small events, it's no longer a 1-in-20 year. But if you have smaller events, then that would go to the aggregates subject to the €50 million deductible today. That's why I said we are protected either for a large string of small events or a small number of large events and anything in between.

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

Okay.

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

Then your second question was on the 1-in-200. You may remember that in the end of November at the IR Day, we showed that 1-in-200 cap year, not event, which is an eight-point solvency hit. So, it's not a capital issue. It's nothing like the same on the financial crisis.

A - Thomas Buberl {BIO 16182457 <GO>}

Greg, on the writing one.

A - Gregory S. Hendrick {BIO 1649843 <GO>}

Yeah. I think if I just add one thought just – there are other protections that apply just to AXA XL on a proportional basis; so we buy a net property quota share. We buy some protections on the Cat treaty reinsurance book as well that are in addition to what Alban has outlined there. So, there's that protection as well.

On the rate upgrade, the specific business that benefits the most is the reinsurance assumes, particularly outside the U.S. Inside the U.S., A.M. Best is the more normal rating agency that's followed by the buyers of reinsurance whereas outside, it's almost exclusively S&P. And there, we do get opportunities and have had now already, looks at business on the casualty assumed side internationally that we didn't see before. To give you any kind of thought about it, it's in the kind of 10s, not even 10s, single-digit to low 10s of millions of dollars of premium; so not a big pickup. It does help you though when you're out marketing – it's a softer marketing pickup that you're able to say being part of such a great group, we're AA minus and be able to wear that proudly.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. I had two questions. First one is on those extra prior year development, so I worked out at €300 million. And I'm just wondering where is the €300 million? Is it extra earnings, the 3% to 7% range because we didn't have it before? And also on that extra €300 million, the 1.5% to 2% that's on a huge volume opinion. What I notice is that the excess reserves have gone from €5.7 billion to €7.1 billion to €1.4 billion and France and Europe, each earn about €1.5 billion. So, if they come from that move, the underlying earnings wouldn't have been €3 billion, they would have been €4.5 billion. I just wondered how can you have earned an extra €1.5 billion, where was it? Tell us, that'd be lovely.

And then the other point is on slide A30, you show all the numbers except the one we're interested in, which is XL, it's, there it's all grey, and I'm kind of saying why did you show it? And the other thing is there was an article in Artemis I think on Thursday saying that I think it was quoting you, Mr. Hendrick that you were buying more and I was wondering whether that reinsurance buying would actually increase throughout the next year or the next round. Thank you so much.

A - Thomas Buberl {BIO 16182457 <GO>}

So just – thanks Michael. I suggest Gérald, you take the first three questions around the €300 million PYD, is it extra earnings, yes or no? The second question, where does the excess reserves come from? And then also on the A30, the real numbers you didn't see. And Greg, you are taking the last one on the increased buying of reinsurance.

A - Gérald Harlin

I would like just to start by one of your questions, which is what about the €7.1 billion versus the €35.7 billion. So let's be clear. The €7 billion – and I believe it will answer to the rest of your question. The €7.1 billion is not in the account yet, the €7.1 billion is part of your solvency. I remind you that the Solvency II ratio is calculated based on the best estimate assumption of your liability. More or less, to grow in an IFRS 17 environment, it might not be too different. But it's not the case today. So that means that you know that we have been always cautious on the way we reserve and we have a cautious way of preserving and on a regular basis, we are relatively (01:09:02).

So, it's our direct interest to have the right level and the right number because it helps our Solvency. We did it and I would say that the P&C reserving ratio is an early indicator of this situation. That's why we moved from 209% to 213% and sorry – and beyond this, it will flow through the earnings, I'm sorry. It will flow through the earnings going forward. And your other question says yes, it will help us – it was the previous question. That means that it will help us drop the combined ratio. It will help us improve our underlying earnings and next the cash flow. Is it clear? That's exactly what it is.

But – last point, I'm sorry, last point, you noticed as well that we are at 2.1 points of prior reserve release. When you compare with our peers, we are more in the low end of our peers.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's go to slide A30 and before you do the reinsurance, I think Gérald wanted to quickly address the third question on the AXA XL numbers that you were missing, A30.

A - Gérald Harlin

But what are the – I'm sorry, but I don't understand exactly your question.

A - Thomas Buberl {BIO 16182457 <GO>}

Yeah, take the microphone.

(01:10:41-01:10:46)

A - Gregory S. Hendrick {BIO 1649843 <GO>}

Exactly, yeah. So, let me see if I can, so... Alban answered it best earlier. There isn't an AXA Group, there is isn't an old legacy AXA Group covering or old legacy XL covering. There is an AXA Group cover that protects, so that insurance protection applies to all of AXA Group, which includes AXA XL. Clearly in reinsurance, we only write in AXA XL, so those protections are specific to the reinsurance part of AXA XL. And then the group aggregate protects again all of AXA Group and current AXA XL.

Q - Andrew Wallace-Barnett {BIO 18671460 <GO>}

(01:11:22).

A - Gregory S. Hendrick {BIO 1649843 <GO>}

Oh, there's – okay, now yes, the bit in the middle is made up of many components. There's a cap on component, which is about €1.2 billion in force at varying retention levels based on industry loss. So, it's not net loss cover. We then have, I just mentioned it earlier, we then have a number of protections that are mostly proportional in nature around a property quota share that protects all of AXA XL's property rights, some quota share protections of varying kinds and varying geographic coverages. Hence why you don't have a lot of numbers there, because it is a – we think it's a very smart and intelligent way to buy it, but it doesn't fit neatly unfortunately on a piece of paper. The very most important part to take away from it is that regardless of what's actually in that box in the middle, the column on the right sweeps up everything that's left over. So regardless of what the exact details are in that middle, that right size picks up everything that comes out after all the other protections.

Q - Andrew Wallace-Barnett {BIO 18671460 <GO>}

(01:12:28)

A - Thomas Buberl {BIO 16182457 <GO>}

Yeah. That's...

A - Gregory S. Hendrick {BIO 1649843 <GO>}

Yes. So, if you try to take it from purely a legacy XL lens, yes, we bought more both as a participation of the AXA group cover now, group covers, sorry, but also for us, the strategy on the catastrophe assume book going forward or has been and going forward will be unless we can generate a sufficient return to retain the same level net, we're going to continue to build out our alternative capital business with New Ocean, we're going to continue to access third-party alternative capital and continue to reduce that net participation until such time as we see the returns meet our threshold. So in the aggregate, we bought a little bit more, but it really is important to shift this perspective to the AXA Group perspective.

A - Thomas Buberl {BIO 16182457 <GO>}

Mic?

Q - Andrew Wallace-Barnett {BIO 18671460 <GO>}

Yes, sorry, just on the New Ocean, I beg your pardon, I'm sorry, I shouldn't be so, but it's such a nice opportunity and I thank you for that. The figure, New Ocean is €1 billion; that's a figure I thought of the assets or whatever they had. Is this going to help us here?

A - Thomas Buberl {BIO 16182457 <GO>}

Yes.

A - Gregory S. Hendrick {BIO 1649843 <GO>}

The – there you go Thomas got it.

Q - Andrew Wallace-Barnett {BIO 18671460 <GO>}

(01:13:34)

A - Gregory S. Hendrick {BIO 1649843 <GO>}

Yes.

A - Thomas Buberl {BIO 16182457 <GO>}

Yes. And I think actually we might also want to say that, this is, let's say, in alternative capital, XL has been one of the very first companies being active in there. We have a very clear intention to increase that, not only for XL, but for the overall AXA Group. And we are currently working on a strategy of how to do it; because we've got all the pieces. We've got the piece within XL. We've got to group risk management framework and we've got also on the AXA Investment management side the distribution piece. So this is clearly one of the priority of the XL integration that we haven't talked about a lot, but there is another upside potential because the approach of originate-to-distribute is certainly something where we want to focus more. We don't only need to originate and keep everything; you need to smartly decide what you keep, what you reinsure and what you cede to (01:14:28). Let's stay on this side here, then we'll move over to Nick.

Q - Colm Kelly {BIO 19140684 <GO>}

Thanks. Colm Kelly, UBS. Going back to your operating free cash flow, suppose there's been some questions on the upside to that. I'm going to think about it in a slightly different way. So I take the €6.6 billion number. There is a number of positive one-offs in that, particularly in the UK P&C side.

If I take that out, the cash flow looks flat or slightly down year-on-year. I think this time last year, it was flat year-on-year and even if I normalize going forward for the lack of the U.S. business and adding the AXA XL whole contribution, it won't necessarily get me a bigger number. So can you provide more detail on the specific drivers of growth in the operating free cash flow because ultimately that will dictate the trajectory, the growth trajectory of the sustainable dividend from the business? That's the first question.

Second question is on capital and on the diversification. So I know there's €2 billion in capital synergy expected and we fully understand the diversification from the U.S. Nat Cat versus your windstorm aspect, but there's also the lost diversification from a lower amount of market risk on the balance sheet against cap risk or insurance risk for longevity and things like that. So can you break down the €2 billion synergy number into that assumed between U.S. Nat Cat (01:16:09), and also, that assumed to be loss through lower market risk on the balance sheet?

And then, just lastly, there was a question at the Investor Day around the return on the economic capital for the XL business. I think there wasn't full line of sight on what that economic capital looks like at that point. Perhaps could you update on that number now that there is more visibility on that hopefully? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Colm. I suggest Gérald, you answer the first question on the cash flow and the last question return on economic capital and Alban, if you would answer the question on capital diversification and the breakdown of Nat Cats additional diversifications versus lost diversification for market risk? Gérald.

A - Gérald Harlin

On the operational free cash flow, I could say that in P&C business, it's relatively simple. So, it's a direct function of the profitability and that – it means that so long as we have the – we're still planning to improve our profit in term of P&C business, it means that naturally, we can expect to have cash flows going up and so that's it. And it's much more complex with the Life business. But here – and that's what's represented last time in the IR Day. So really, I don't believe that you can conclude that we would be at the kind of cap in term of cash flow.

Q - Colm Kelly {BIO 19140684 <GO>}

...follow-up on that. So, absolutely, P&C growth expected to come through, but the Life cash flow is not growing and that's not in the context of that increasing push toward Unit-Linked, Health and Protection products which are capitalized and the more-capital intensive backlog running off, so that's something that I would be expecting some growth in cash flow to come through pre-tax (01:18:06) impact on the U.S. this year. So my forward-looking projection is one of reducing Life cash flow of increasing P&C. I suppose it's just more a clarity on should I see the Life cash flow increasing from here in addition to the P&C cash flow increasing because that's not what we've seen in the last two years?

A - Gérald Harlin

It will naturally decrease when we build a decrease of share in AXA Equitable Holdings. But you look at the cash flows from AXA Equitable Holdings, it's not been so huge to this date really you can consider it. We are in a transition phase. But clearly you can consider it that it will be a direct function of the future. Take the example of XL. XL this year, we've been producing new kind of cash flow and we can hope that of course there will be the situation we've been discussing today, but there will be natural cash flows. And you remember that from (01:19:06) took the example in November of €1 billion, coming from XL, which is quite consistent, with €1.4 billion target that we see for 2020. So I'm quite confident of that.

Q - Colm Kelly {BIO 19140684 <GO>}

To give you a simple rule of thumb, so $1 of Life earnings transfers roughly into $0.40 to $0.50 of cash, where the same $1 of P&C earnings transforms into 70%, 80% or sometimes even 90% cash. And so when you replace 20% of the earnings that AXA XL represented, with 20% of the earnings that AXA XL represents, you've got this cash richness increase on 20% of your earnings at least.

A - Thomas Buberl {BIO 16182457 <GO>}

Alban, for you?

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

Yeah. On diversification, it's a complex question you're asking. I would say first, diversification on the P&C side is not only about Cat, it's all the business that's diversified because the reserve risk that you would have in XL or in France diversifies with the same one that you would have in Germany and Switzerland. So it's all P&C diversified.

Second, that's the opposite on the financial risks. When you add €1 of equity, €1 of credit, there is little diversification because we all know that when a financial crisis (01:20:33) comes, all asset classes around the world are hit. So, there's in the financial risk, little diversification. And then the third piece is diversification between financial risks and P&C risks. And there again, I don't think we would be even with the sale of AXA Equitable and the acquisition of XL, at the optimal point and we could still write more P&C risk and nevertheless have more diversification. It's a feeling more than the number, I haven't tried it. I'm pretty sure of it because precisely, P&C diversifies better and more than financial risk.

Q - Andrew Wallace-Barnett {BIO 18671460 <GO>}

(01:21:14)

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

The €2 billion, the fact that with the integration of XL in the internal model, we gained 5 to 10 points of solvency, as we showed the moment of the acquisition, comes more from the whole diversification benefit we would get. And that one comes mainly from the P&C side more than the financial side.

A - Thomas Buberl {BIO 16182457 <GO>}

Then I think there was a last question from Colm on the return on economic capital of the AXA business, are there any updates from the Investor Day, yes or no?

A - Gérald Harlin

No specific, I believe that you will see in our eligible (01:21:58) that we mentioned that XL Group acquisition means that from the numerator that we will get in term of available financial resources, will have €10.5 billion. Then, for the time being, we don't have more precise figures, but it gives you a good idea. When you compare these figures to the expected earnings at the end of 2020, gives you, I would say, a good idea. But we will come back to you – we have the opportunity in the future to see more precisely, it goes back to the previous question, precisely, what will be the marginal increase of the short-term economic capital coming from AXA XL? But any way, diversification should be good, but that's not exactly the precise answer, but it should be viewed with a good idea.

A - Thomas Buberl {BIO 16182457 <GO>}

The next one, next to Lars, I can't see.

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

Thank you. Peter Eliot from Kepler Cheuvreux. If I could just come back on Johnny's question. First of all, actually on the payout ratio. Thomas, you gave in your answer you'd linked it to the underlying earnings power of the group. I mean, I guess the whole point of increasing the payout ratio at the Investor Day was to communicate the additional cash generating ability of the group and you've shown very good cash numbers. So I was surprised that you didn't include that in your answer and over time, I would hope that the dividend could go up a bit more than underlying earnings. But perhaps if you could just clarify that point, it'd be very helpful. Secondly, I mean, there's very strong set of results. So if I had to pick one slightly weak area, I guess the value of new business looked a little bit light.

If I look at sort of, I think, plus 4% in the nine-month stage and minus 1% like-for-like at the full year, so there was a fairly big drop in Q4 from a number of areas, but Asia high potential stood out, was having nothing at all in Italy, very little. And I'm just wondering if you could comment on that and perhaps also where you see the margins going in the future after the drop reduced the business mix, but perhaps some comments around where we see that going would be very helpful. And then finally, if I could just add one on the Nat Cat. I'm probably being very stupid, but what would be very helpful to me would be to understand if you look at the 2018 results, what would that would have been if you had taken no action at all so if the program was as it was 12 months ago, what the reaction – did we get any benefits in 2018 or is it just there to protect for even worse years in the future? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Peter. I would suggest that I'll answer the first two questions and Alban will go to the third one. So on the payout ratio, you are absolutely right. We are increasing over time, as Gérald said and over time, I would say more in the medium term, the cash richness of our earnings. I think I was more saying until the end of the plan in 2020, I would not expect a massive additional cash richness to come from the earnings and therefore, the driver is very much the underlying performance. You are absolutely right.

When we have gone through the transformation, when XL is really at this €1.4 billion of earnings that we are targeting for 2020, there clearly we will consider the cash component in the dividend and we obviously always, as much as you do, are aligned on the fact that we want to have an attractive dividend for our shareholder.

On the second one, which is the question around the value of new business, I agree with the numbers you stated. When you look at our new business margin, it's – and also when you look at it relative to competitors, you would have noticed that it's very high, it's probably one of the highest in the industry. And so, in some geographies and you mentioned Asia in particular, we are seeing that – and let's take Hong Kong as an example, because one of the drivers is the Hong Kong business. You see that the margin has been extremely high and that we somehow were pricing ourselves out of the market. And therefore, we've taken action in launching a new product where we find a better balance between growth and profitability. And if you look at the Hong Kong numbers and how we have moved there, we've clearly seen an increase in the overall volume, but we had to give a little bit on the margin to be competitive and you see the same in many other places.

Zakia (01:27:05) has been growing heavily on the (01:27:10) benefits in France, which is also an area that has structurally lower new business margin than, for example, the affluent business on the Life side. So it's very much a business mix question. But overall, when you look at the margin and what we have produced in terms of new business value out of that, I'm extremely happy about where – about the fact where we are also relative to our competitors. The third question, wait for Alban.

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

So, perhaps I should say that we shouldn't focus on any given year in particular. What matters is the distribution and the fact that the reinsurance program is robust, whatever the profile of the year, that's a very, very important point. Now looking at 2018, I would say two things, first, the gross loss because what I showed earlier was the net loss, the gross loss was €3 billion. So you had €1 billion of losses that were ceded to external reinsurers. And part of that was, I would say, the usual program that we would have anywhere, XL or AXA. Part of that was taken by additional protection that XL had put in place following the 2017 experience and that's notably a 15% quota (01:28:25) if I'm not correctly on the property program.

Conversely, we had also put in place that common reinsurance once we did the transaction to protect us against extreme yields, more than 1-in-2020 and that one was not triggered in 2018.

A - Thomas Buberl {BIO 16182457 <GO>}

Nick?

Q - Nicholas Holmes {BIO 21515144 <GO>}

Nick Holmes at SocGen. Three quick questions. The first is on Specialty Insurance. Looking at XL's revenue growth, it was just I suppose a touch disappointing at 3% the Specialty. Wondered if you could give us a little bit more color on – especially the outlook for Specialty.

Second, quickly on AXA Equitable, nobody has asked yet for an update on your disposal plans, you probably can't say very much, but anything...

A - Thomas Buberl {BIO 16182457 <GO>}

That's why nobody asked that.

Q - Nicholas Holmes {BIO 21515144 <GO>}

Well, perhaps, let me rephrase the question...

A - Thomas Buberl {BIO 16182457 <GO>}

Yeah. It's okay.

Q - Nicholas Holmes {BIO 21515144 <GO>}

...is it entirely opportunistic, or do you have a timeframe in which you are theoretically kind of working? And the third question is also nobody has asked about Asia and

Tianping, your last acquisition, if you can call it that, wondered if you could just give us an update, obviously it's very exciting potential that Tianping has in China. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Yes. So I suggest that Greg, you treat the first question on the Specialty and the 3% growth, what is the outlook and I would deal with the other two on Equitable and China (01:30:18)?

A - Gregory S. Hendrick {BIO 1649843 <GO>}

Sure. On specialty interest, the problem with all of the aggregate numbers is the real story gets lost some time. So in Specialty, we have two big blocks of businesses and I talked about it at Investor Day. One was the industry classes, marine, aviation, energy. Those experienced loss activity during the year. They're in states of correction and there, we actually shrunk the book during the quarter of about 4% in those classes. We grew what we call the niche, so the political risk, the crisis management, the fine art. We actually grew that 21%. Now granted of a smaller base, it's a growing business for us at AXA XL. So, underneath that, that's what's really driving the Specialty not being as robust. I don't think there's any reason to expect that would change. We have work to do on some of those lines of business as an industry aimed at AXA XL on those industry lines, but we're going to continue to see growth on the niche side.

A - Thomas Buberl {BIO 16182457 <GO>}

Nick, on AXA Equitable and the disposal plans, our position remains exactly the same. We are now at a holding roughly around 50%. So, we've done the first part of the journey, which was necessary also certainly to finance the AXA transaction. Now, we're in a phase where we are indeed opportunistic and the opportunism is around three things. One is the question, what is the market sentiment in the U.S.? You've seen that the Equitable share price has been ranging, let's say, between $24 and $16. When I looked earlier, it was at $19.53, so close to the $20 that we IPO'd it at the 10th of May last year. So, we are looking at this market sentiment. Second one is the question the liquidity of the stock, and thirdly is clearly also the question, how much is the improvement plan that the management has put forward as the IPO story. How much is that already reflected in the price? You've seen in the numbers that the team in the U.S., under the leadership of Mark Pearson, has achieved a very good balance between growth and profitability and they have got very clear plans of how to increase the return on equity in the U.S. And so, we will decide as we go along. Again, there is no pressure to do it. We want to be opportunistic, but on the other hand, we also want to continue the transformation and making sure that we get to those 80% of technical risks that we said earlier, so that really things are there to focus ourselves on then continuing to build on this strategy. So we'll have a look at it. There are certain windows coming up and that every window will have a look, are these conditions met or not?

On the AXA Tianping, rightly so, so we have announced in November that we are going to buy the remaining 50% of AXA Tianping to be the full owner of AXA Tianping. This will make us the largest foreign insurer on the P&C side in China. The strategic outlook is very clearly to say we want to grow in the motor business, but in a very selected way. The main strategic opportunity is around the Health business, where we do see that there is a massive opportunity. Just to give you a very illustrative example, the average Chinese has to queue up for 4 hours to get a 10-minute consultation at a doctor in a public hospital. I don't know who has the patience of doing that for a long time. There's a large private health sector developing and we want to take this opportunity. In this deal obviously, we are now in the face of closing everything out and there's still a bit of time until the closing. However, from the first day, we had the opportunity to take over the full management of the company.

So, Xavier Veyry, who is the CEO of China, is now fully responsible, he is in charge and he is already making the necessary changes that will lead us to implement successfully the strategy. As you have probably also read, the Chinese regulator was for a long time without a big chief. The big chief has now been named, who is the ex-Chairman of ICBC. So, we hope that on the regulatory side, we will also get now the necessary support to close the transaction. But there's, at this point, no worry that things will not go according to the plan that we have announced on the 28th of November. Andrew.

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

Good afternoon. It's Andrew Crean with Autonomous. I want to take you back. At the beginning of Ambition 2020, you said that there'll be a hockey stick effect and that the growth would start to accelerate in the back years. You're 60% through it and you're already at 5%. I want to get some comments around that. I mean, could you tell us what the impact of lower tax rates in the forward years in France, Belgium and Switzerland would be on the EPS? Could you say whether you think you can maintain the spread guidance with at 70 basis points, so that we don't need to forecast 55, 65 and whether that would be – whether that, obviously would be a positive?

And thirdly, I think the hockey stick was largely about the fact that the cost savings would come through more strongly as years passed. You haven't mentioned costs at all. Is that still true and can you give us some numbers around them?

A - Thomas Buberl {BIO 16182457 <GO>}

I suggest I will go on the third piece of the hockey stick and Gérald, you'll talk about the lower tax rates certainly in Europe and the spread guidance. I guess the hockey stick effect was due to my conservative German nature because it is true that we have planned the Ambition 2020 in a very careful way. We certainly accelerated certain things and coming back to the cost savings, you will remember that the new organizational model that we put in place has also come with a significant cost savings, which is well underway. If you look today, where we are on the cost savings journey, the total target was €2.1 billion. And we are well underway. I think we are at €1.5 billion roughly of cost savings. So we are well on this journey and there's no worry that we should not get there. Tax rate and spread.

A - Gérald Harlin

Tax rate, in France, you know that the tax rate decline is something which is an evergreen commitment, meaning that we expected the tax rate in France would decline. But we are still at 34% and with the gift that has been promised to link to the yellow jacket, it means that it will take some time for rates in France to decline.

To be clear, it took place in countries like Belgium, like Switzerland, so we can consider just to answer of your question. It's a one-off of a few points, maybe 2 points, 3 points that will be spread – in term of EPS, that will be spread over a certain period of time. But again, France is a significant part of our business and for the time being, keep in mind that what we publish, €1.6 billion that we published in France is still calculated with a tax rate of 34%. So it's upside for the future. But I cannot tell you when it will come. And about the 70 basis points, I believe that, look, I cannot tell you that it will be absolutely stable at 70 basis points. But I have a good – I'm quite confident that we won't go to the 55, 65 that we announced before and just for one reason because we have flexibility and more flexibility when time goes because we don't have any kind of commitment. If you take the example of France, we have been paying 1.9%. And it's quite competitive compared to our peers. So it's maybe I would say we could expect maybe to be between 65 and 70, but I have to check, but that's maybe something that could be reasonable.

A - Thomas Buberl {BIO 16182457 <GO>}

Andrew, just on the cost savings, I have to correct myself slightly, it's not €1.5 billion, it's €1.3 billion, but not too far away from it. So 60% completion and this obviously does include that we still have two years to go for it. So the conclusion remains the same. I have no reason today to believe that we are not going to get to that €2.1 billion.

Q - Andrew Wallace-Barnett {BIO 18671460 <GO>}

(01:40:03)

A - Thomas Buberl {BIO 16182457 <GO>}

The €1.3 billion, so the €1.3 billion is a combination of run rate savings, but also cost avoidance. So if I have today €1 of cost and with inflation of salaries and so on, I would have gone to €1.3 billion, but due to savings, I ended up at €1 billion, this is also €0.3 billion savings. So it's a mix of both. But all the geographies are contributing to it. And as we showed you I think two years ago, certainly also the large change in the organization to slim down the center, to slim down the regions has contributed to that as well. Other questions in the room? Michael, again.

Q - Michael Huttner {BIO 1556863 <GO>}

I just had one, so the – and I suppose it's the International business, you know the – which is very nice, but you remember a year and a half ago, you have had the memory of hoping that some of these smaller countries would be sold and we'd have lots of extra cash and then maybe you can raise your dividend as well. But can you talk a little bit about what's the – where we are now in this process, that'd be lovely? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So what we said two years ago that these international countries are all countries that are outside of the 10 large countries and the 6 countries we want to focus on going forward.

This was already at the time when the U.S. was still part of our universe. Tomorrow, you replace the U.S. with XL, you are still at 10 countries. So those 23 countries, if I remember correctly, or 26, we said we want to manage in a sort of private equity manner.

So we gave them a very clear target in terms of what is the cost available for them to manage this portfolio like in a private equity setting and they have very well adjusted to it. You have seen that they have a very, very nice increase of the earnings, which means that most of these markets are very much now in line of getting maximum growth and maximum profitability out and so you've also seen that over time, we have started to reduce our footprint and we've seen that we've started in Azerbaijan, you've seen that we have worked on Ukraine. AXA Life Europe was also part of it. And so, we are always looking at this portfolio, where do we have the critical size, where do we have a significant market share, where do we also have the prospects of being in a good position and this makes up the decision what they are going to do with it. But again, a portfolio like this has such a great performance and it is also nice to have it as a contributor.

Q - Michael Huttner {BIO 1556863 <GO>}

Any more questions in the room. Michael...

A - Thomas Buberl {BIO 16182457 <GO>}

Yeah, really the power of the microphone.

Q - Michael Huttner {BIO 1556863 <GO>}

Yes. It's the cash flow, not the microphone. Maybe so we spent today a lot of time asking and hearing about reinsurance and Nat Cats and plus or minus and all this kind of stuff, which is great, but it's not your business, it's not your business. Your business is to deliver every year, you know that lovely cash earning. If I were you now and I've been following (01:43:39) and Zurich and all sorts of companies which have had that. What they very simply did is they upped the expected loss number. And then there were no negative variances because you only have positives then. So at what stage would you say, well, let's start spending half now of all this stuff and just up this number. You've got the cash to do it. You've got this €300 million from the PYD. If I were you, it'd be such a simple decision and the share price would go up, because then the perceived volatility you see would be down, anyway.

A - Thomas Buberl {BIO 16182457 <GO>}

It's a wish. We've certainly seen that we have gone a slide where I mean the increase of the PYD guidance is a very clear sign that we want to grow. I mean we have increased the guidance to 1.5% to 2.5%. We are slightly – very well-positioned in the middle with 2.1%. As Gérald mentioned earlier, we are still quite far away from our competitors and this has not been done at the expense of reducing the overall reserving levels. It has been done with increasing the overall reserving levels. We have always been very prudent on this one and we want to stay prudent because again, reducing reserves just to optimize profit and cash flow streams at the end is a very short-term game.

So, we will continue this, but I think going back to, because you have been asking this question now along the PYD, well look, I think if there is one hidden very interesting message is exactly that. If you calculate what is the effect of a higher PYD guidance also going forward, this certainly has got a profitability impact. And if you then take the slide side remark of Gérald on IFRS17, which might have the implication that the reserving levels might also change and flow through to earnings quicker than we've expected. Then we've got very good approaches to your answer.

So, are there any questions online? Lois?

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

Thank you. Just to finish off, we've got three questions from Thomas Fossard at HSBC. First question, what is the management view of the AXA XL full-year pro forma normalized combined ratio in 2018, which would provide a reasonable base for comparison with the 95% combined ratio target expected by 2020. Second question, taking the pricing increase achieved in 2018 and the rate expectations for 2019, the cumulative price increase would be running at 8% at AXA XL. How does this compare with the pricing assumptions embedded in the 95% AXA XL combined ratio guidance?

Third question, could you please quantify the cost synergies that you have managed to extract following the placement of the integrated reinsurance program? How does this compare to the circa $100 million saving target? Thank you very much.

A - Thomas Buberl {BIO 16182457 <GO>}

So I suggest Gérald, you take the first question which was very much around the normalized combined ratio and comparison 2018-2017. Greg, if you could take the second one on the achieved price increases and what it would mean for the combined ratio target of 95%, and Alban, if you could take the one on the cost synergies due to the integration of the two reinsurance programs.

A - Gérald Harlin

That means that in the XL, the AXA XL combined ratio should be in high 90s in 2018. I cannot be more precise. We have our contribution in Q4. But as far as the total year is concerned, it won't be integrated; it won't be part of our earnings, so I would say high 90s.

A - Thomas Buberl {BIO 16182457 <GO>}

Greg?

A - Gregory S. Hendrick {BIO 1649843 <GO>}

Sure. The pricing increase would be one component of the movement that we need to make to get to the 95% combined ratio that we outlined for 2020. I would say it's probably about two-thirds of the rate increase we need, which may come in the form of rate increase, but also it can come in on many other ways, which is rebalancing the mix of the business. I talked a little bit in the answer to the Specialty question, lower on some lines like marine, aviation, where we have not been achieving strong combined ratios, more where we are doing well. It could be in underwriting, what we call underwriting actions. So, we're specifically targeting very narrow defined actions within each book of business to improve the results. But that's kind of the trajectory we're on to get to that return, as I said the combined ratio in 2020. So it's part of it, but it's not all of it.

A - Thomas Buberl {BIO 16182457 <GO>}

Alban?

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

And on the €100 million synergies on reinsurance. So, we almost managed to get to €100 million, it was slightly below at the end of today, but only slightly below.

A - Thomas Buberl {BIO 16182457 <GO>}

Lois, any other questions online? Last call for questions in the room.

Very good. Then I would like to thank you for your attention and thank you certainly for your questions and wish you a great rest of the afternoon. Thank you.
