

S1 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
- Scott Gunter, Chief Executive Officer
- Thomas Buberl, Chief Executive Officer

Other Participants

- Andrew Sinclair, Analyst
- Ashik Musaddi, Analyst
- Farooq Hanif, Analyst
- James Shuck, Analyst
- Jon Hocking, Analyst
- Kamran Hossain, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Thomas Fossard, Analyst
- William Hawkins, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the AXA Group Half Year 2020 Results Analyst Conference Call. To introduce the speaker and begin the call, I will now hand over to Andrew Wallace-Barnett, AXA's Head of Investor Relations. Sir please go ahead.

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Well, good morning everyone and welcome to AXA's 2020 half year results. A warm and virtual welcome to all of you on the phone, and on the webcast. Here on the call this morning from AXA, we are joined by our CEO, Thomas Buberl; our CFO, Etienne Bouas-Laurent; Our CEO for France, Jacques de Peretti; and CEO for AXA in Europe, Antimo Perretta; our CEO at AXA XL, Scott Gunter; and our Group Chief Risk & Investments Officer, Alban de Mailly Nesle.

So welcome to all of you as well. All of those present here from AXA will be very happy to answer any questions you may have on the results. As per usual, the Q&A session will be at the end of the presentation and we will take questions from those on the phone. All those joining by webcast, please just follow the instructions you've been given. We will be giving priority to those who are joining by phone. It's now my pleasure to hand over to Thomas.

Etienne Bouas-Laurent {BIO 16523089 <GO>}

Thank you, Andrew, and good morning, good afternoon to all of you. Welcome to the half year results 2020. I will start with the key highlights on Page A5 if you've got the presentation in front of you. What are those key highlights? Number one, our business profile that we have significantly shifted over the last couple of years, towards more technical risk, is well positioned for the current market dynamics and you have seen it.

The Company is very resilient. We are benefiting from a hardening pricing cycle in P&C commercial lines and certainly also one of the strategic segments, the health business is growing nicely and it reaffirms our strategic positioning and our strategic priorities. When you look at the revenues at minus 2%, very resilient due to the fact that we had a very strong growth in the first quarter. And then obviously the second quarter was impacted by Covid-19. The earnings are at EUR1.9 billion for the half year, which is a very good result, given the fact that we have been impacted in all industries with COVID-19. If you look at it relative to last year, it's minus 48%. If you take COVID out, it is plus 1% and it is very much in-line with the guidance of EUR1.5 billion of net claims from COVID-19, that we have given on the 3rd of June.

COVID-19, as you well know, is in the insurance industry, an event, a crisis that impacts mainly the commercial line business. And therefore, we have seen the major effects in the commercial lines business and a very good resilience across all other lines of the Group. At this point in time, in a crisis that is challenging for all of us. The balance sheet has proven to be very resilient. This is also due to the fact that we have shifted our business profile. 180% solvency ratio is the solvency ratio at half year and we are expecting upsides from disposals, roughly 6% and also from the integration of AXA XL into the internal model of AXA Group in the second half of 2020, this is between 5% and 10%.

At the same time, the cash remittance from entities remained strong. You've seen that we have upstreamed dividend for most entities and we have -- at the same time, reduced debt gearing to the debt gearing range of 25% to 28%, that we have aimed to be in by the end of 2020.

You have certainly also seen that our regulator, the ACPR has issued a second communication around dividends on July 28. Their first communication in the month of May was around postponing dividends from being paid in April to October. This most recent communication was about not paying dividend for the whole year, for rest of the year 2020. Therefore to be in alignment with this very different position of the ACPR, the Board of Directors has decided not to distribute the exceptional reserve to shareholders that we have built and this is also very much in-line with the communication of the 3rd of June, where we have said, 50% of the dividend is being paid. The second half is being

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subject to the regulatory financial and economic environment and here we've clearly got a change in the regulatory environment, in that the ACPR, our regulator has expressed themselves much earlier than we thought on the question around dividend for the rest of the year.

If you go to the slide A6, you see the growth of the minus 2% in revenue split up by the different lines of business. P&C is slightly down. This is due to the fact that we had a confinement and that activity was certainly very limited for many of our customers. Health business has been performing very well, as I said earlier, one of the strategic pillars of AXA and we feel very comfortable and also confident in pursuing our strategic efforts to strengthen and grow our Health business.

Life and savings, has been the business that has been going back the most minus 8%. However, if you look into the mix of this minus 8%. You see that the majority of the reduction is in the general account business and that the unit-linked business and the protection business has performed well, despite the fact that we were in a crisis.

If you go to A7, which is around the underlying earnings. You can see a couple of things, number one, these underlying -- the underlying earnings of EUR1.9 billion for the half year of 2020. It's very much in-line with what we have already communicated on the 3rd of June, which was the EUR1.5 billion COVID claims. And so if you take out COVID-19, and AXA Equitable, which we don't have any more. You come to a reduction of 48% relative to last year. However, when you take away the COVID claims, we can clearly see that there is a progression of plus 1% underlying earnings, which demonstrate again, the resilience of AXA Group in a very adverse financial environment.

If you go one slide further to slide A8, you see the repetition by geography. First is clearly the fact that most of our geographies and most of our businesses are very resilient, because when you look at last year versus 2020, including COVID, you see that most geographies France, Europe, Asia and International are exactly at the same level, as they were last year. So the negative COVID effects and the positive COVID effects, mainly from a lower frequency in Motor and higher growth in health, have really compensated, one each other and shown high resilience.

Obviously, we have also reacted very swiftly to the crisis with a very disciplined management of general expenses and keeping the investment margin stable. I said earlier, COVID 19 is essentially hitting the commercial business, and therefore, you will see that the main impact for AXA is the AXA XL, because AXA XL is predominantly a commercial business and has no opportunity to diversify it away with businesses that are benefiting from the COVID 19 crisis. When you look at AXA XL, as a zoom, because we have certainly changed the CEO this year. You can see that the underlying trend is very positive, very positive why, because ex-COVID, we would have been at plus 9% of revenue growth. This is certainly due to the fact that Scott Gunter and his team is very focused on a very disciplined underwriting.

And secondly, the underlying earnings ex-COVID, would have been EUR0.5 billion. And if you then were to exclude the EUR100 million, that we had to pay for civil unrest, you

would be at EUR0.6 billion, which is very much in-line with the EUR1.2 billion that we have aimed for before COVID has arisen, for the whole year.

What is very reinsuring about AXA XL is that the pricing actions and the pricing trends are continuing. So in the insurance sector, you still got despite the crisis, plus 14% price increase. And if you dig a little deeper, for example, into the US business the price increases are around 23%, and when you even go further into the lines of business that have for example, experienced social inflation, you see that the price increases in excess casualty for example are at plus 80% for this year. On the reinsurance side, you finally also see more decent price increases at 7.5%.

Scott and his team have been very fast in putting in, a new organization that is simpler, that is more accountable and that is really focused on underwriting discipline, and when you look at the dynamic between top-line development and claims inflation, you clearly see that top-line is growing more than claims inflation is growing, which is the ultimate test of a healthy insurance business. At the same time, we have continued with the underwriting actions that we have already announced at the beginning of the year. Reducing our property cat exposure, we have dropped it -- the revenue has dropped by 11%. This is a reaction of a reduced exposure, despite the fact that we could achieve 10% price increase. And when you look at the line sizing in casualty, we have really gone through the portfolio and reduced the maximum risk limits from 50 million per risks to 25 million per risks.

So, I'm very pleased with the transformation at XL. We are still in the hardening cycle and AXA XL should after COVID really show the fruit of this transformation. When you go to slide A10, you will see the effects on the balance sheet. The balance sheet is remaining very strong and resilient. The Solvency II ratio is at 180%, with the expected upside that I mentioned earlier. One upside coming from the further disposals, around 6% [ph]. The other one coming from the integration of AXA XL into the internal model between 5% and 10%, both of these should be happening in the second half of 2020.

Cash remittance remains very strong. As I said, we have upstreamed most of the dividends from the local entities. Cash remittance is at EUR4.9 billion. So the company is very solid. There should be no reason to believe that dividend would not be able to be paid, certainly the second half. However, as I told you we do need to respect the recommendation of our regulator. That has been very clear and very strong not to pay, any more dividends going forward for the year 2020.

These 180% solvency at first year -- at first half 2020 also include the accrued dividend based on the 50% pro rata of the full year '19 initial proposal of EUR1.43. If I summarize and look forward, AXA Group is well-positioned for the future, given the current market dynamics, we continue to see hardening pricing cycle in P&C commercial line. As I said earlier plus 14% in the first half of 2020, despite the crisis. We see a continuing growth in the profitable health business, we have benefited from plus 9% on the revenue side, and plus 7% growth on the earning side. The business profile is now well-adapted to the low interest rate environment, we shifted dramatically from financial risk to technical risks. Today 74% of our revenue is in the target segments P&C, health and protection.

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We've also leverage the crisis to accelerate on the digital interactions with our customers, making sure that our employees could work and perform customer service very smoothly and very fast, during the lockdown and we have clearly stated and continued that we want to keep up the leadership, around climate transition despite the time of crisis, we recently published the Climate Report, in which you have seen that AXA is exemplary with having an investment portfolio that only has 2.8 degrees of Celsius warming potential, relative to market average that has 3.6, this is for us a clear sign that we want to and should continue this journey on being the leader in the climate transition.

Thank you very much. And we are now moving onto the part of Etienne Bouas-Laurent, with the financial performance. Good morning to everyone and thank you Thomas. The objective of course of my presentation, is to go through the P&L and the balance sheet of AXA's 1H '20. As you all seen, no COVID-19 is impacting materially our earnings and much less, our balance sheet, which remains extremely solid. Starting with the underlying earnings, amounted to EUR1.9 billion, this part was already commented by Thomas, I would like to highlight one thing related to the EUR1.5 billion. It's the fact, that it's completely consistent with the June 3rd disclosure, which was made so two months ago. This number has been confirmed during our closing. It doesn't mean that they might not be adjusted deviation in the second half. But this is our best estimate, taking into account all the elements we have at the moment. If we look at the performance by line of business. Property & Casualty is of course the most impacted line of business by the COVID, it's down 72%, but up 3% excluding COVID. Life and savings is down 9%, hit by lower technical margin, which itself is resulting from the COVID crisis. So it's an undirect impact. Health is up 7%, reflecting a continued strong new business and business momentum. Health is not the only one line of business going up, there is also asset management, benefiting up 5%, benefiting from higher assets under management. And holding segment is as well up, thanks to a very strong cost discipline across the Board. Let's move now to our largest line of business, which is P&C. As you can see, our revenues are resilient, with a hardening prices, offsetting lower volumes. On the commercial lines, after a normal Q1 2020, the COVID crisis impacted Q2, the acceleration in prices, highlighted by Tomas's introduction, was partly offset by lower volumes and this lower volumes are generated by two things. The first one is that, part of our insurance premium are indexed on the business activity of our customers. So it's a mechanical effect, notably on business lines like marine or aviation, it's mechanical. The second one is on SME clients, we took some support measures in terms of insurance premium to support our most vulnerable customers, notably on the French market. On the personal lines, you see that after stable Q1, Q2 was down 4%, mostly because during the period of lockdowns, there was hardly any new business, so -- and notably on the motor side. So a pretty expected results. Moving to the profitability, the combined ratio was up from -- was up 6.6% to 101.7 % more than this increase is due to COVID-19 impacts, on the -- excluding COVID, the combined ratio is down by 0.1%. It results from higher nat cats, 3.4%, slightly above the normalized level and certainly above last year, which was at beginning first half. Offset by -- more than offset by first better prior year reserve developments. Up to minus 0.5% and second by a very strong cost discipline, you will see that on all the lines of business, you will see that there is a positive evolution of our expense ratios across the Board. I am speaking here, but general expenses, excluding the commissions that overall [ph] effects. The underlying earnings, excluding COVID are up 3%. This results from -- this slight improvement of common ratio minus 0.1%, excluding COVID. And -- on the other side, on the resilience of our investment income, notably in the first half, with an investment yields only slightly

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down by 10 bps to 2.7%, even if the investments, it might be a little bit lower in the second part of the year, partly for seasonality effect. Let's make a zoom on the COVID impacts, the EUR1.5 billion. They are, as was said by Thomas, mostly impacting the commercial lines, while the personal lines, benefited from a drop in claims frequency, during the confinement period. I'm speaking here mostly about the motor business. So business interruption is the most impacted line of business. It was expected. If there are still some uncertainties related to the second part of the year, as of you all know, on the legislative and litigation sites. However, we have booked some incurred, but not reported claims to try to estimate what the impact could be, and this is within the EUR0.8 billion, which are net of reinsurance. The claims here are impacting not only AXA XL, but also France, UK, Germany and Switzerland. Event cancellation, EUR0.5 billion, remains bank in-line with the first estimate, which was given with our Q1 release in May, beginning of May. The other lines refer to liability, D&O, travel and credit, where most of the notifications will occur at a later stage, we think. So it's still an estimate. And lastly the solidarity measures of 0.2 are related to the support of our most vulnerable SME customers in France, as I said earlier. Regarding the geographies, excluding-COVID, you see that the earnings is up 3%, so it's a good performance across the Board. The explanation of the following the Nat Cats, you remember that we have slight negative, the impacted XL with Australian events in January. And the UK with the storms, as well in Q1. The positive prior year reserve development impacting France and Europe, and relatively stable investment margin with some positives at XL and some negatives in Europe. Relating to AXA XL, you remember that we had a budget of EUR1.2 billion for this year, excluding COVID construction. So you might have expected EUR0.6 billion, in 1H. We here we show only EUR0.5 billion, and the main difference comes from the US Riots, which occurred -- and which we are absolutely not expected. The rest being pretty inline with our forecast. Let's move to life and savings. Gross revenues are down 8%, but as highlighted in introduction of Thomas, there is some good news in that, because our capital-light products are up, I referred to protection and unit linked, while the capital heavy products are down. I mean, the general account. So -- and this trend is true not only on the top-line side, but also on the net inflows side. You will see that the unit-linked particularly is a good surprise because in the previous crisis, we tended to have massive surrenders on unit-linked. Here the clients, I think, we are more mature and our distributors as well. And then we have some positive arbitrage notably in France from GA, from General Account to unit-linked. The General Account savings were down -- particularly down notably in France and Italy. Let's move to the profitability. The profitability as you can see is down 9% due to lower technical margin, partly offset by the strong cost discipline. So these lower technical margin, I told you in the introduction is the indirect consequence of the COVID crisis, why first because with the lower interest rates, we had to adapt and update the discount rate on the annuities on -- in France, notably from 2.5% to 1.5%. There were also lower surrender benefits because we granted grace periods for the customers, not respecting their payments. And lastly, in France, we extended, disability covers for employees, which was the direct and these during the confinement period. The investment margin was particularly resilient in 1H, notably due to very much lower, crediting rates in France. The investment margin might be a little bit more under pressure in the second half of the year. The lower general expenses, reflect as I said the cost savings initiatives, which we have taken from the very beginning of the crisis, with the objective which was shared with all the managers and employees of the Company to offset the lower revenues with lower expenses. And I think, this plan works very pretty well. Let's pursue now on a positive note, with health business, which continues its strong performance across all geographies and in both individual and group lines, as reflected in the gross revenues evolution. The combined ratio was slightly

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up, which might seem counter-intuitive because the current year loss ratio is benefiting from the lower frequency, which might revert in the second part of the year, but which was very, very good in the first half. And benefited as well from the strong cost discipline, across the group, but the offsetting element was the less favorable prior year results development in some countries, not only in Europe and France. All of these, with a pretty stable financial income, resulted in underlying earnings up 7%, which is a great news. Asset management is as well going up, so not only health, benefiting from higher assets under management. You see that the gross revenues benefited from this higher assets, which are due to two aspects on the one side positive net inflows in 1H, both alternatives and core assets. And second due to market appreciation effect versus 1H '19, notably on the fixed income part. And this, because the fees are lower on the fixed income side, you see that the growth revenues are increasing, at a lower pace than the average assets under management. The cost income ratio once again, solid cost discipline, allowing a slight improvement, as a result underlying earnings up 5%, which is a very good performance in the context. The net income decreased by 39% mostly reflecting the high financial market volatility. Net realized capital gains. As you can see, EUR98 million, reflect two realities. On the one side, the normal capital gains we realize each year of around 0.4 [ph] per year, which is unchanged. However here higher impairments, offsetting these good performance on notably on real estate and equities. The second adjustment is the economic hedges. You know, that we had reinforced our hedges on equity, just before the start of the crisis, it's reflected in these solid number with a plus EURO.4 billion gain. The change in fair value is -- this accounting noise reflecting the mark-to-market of AFS P&L assets. Here, it's mostly hedge funds and private equity. These values can still continue to fluctuate until at the end of the year. For me, it's something which does not reflect the P&L reality but more shareholders equity reality. In an ideal world, we would love these to be booked in the OCI part. Exceptional and discontinued operations is 50%, due to solidarity funds, which are not tax deductible, mostly contributed in France. But not only some other countries, we had to do that as well. And 50% due to various assets depreciation. The integration and restructuring costs are related to the pursuit of the integration of by XL by AXA, and some restructuring provisions like the most notable one being in Germany, with the disposal of our banking portfolio and the goodwill and related intangibles are pretty stable, from half-year to half-year. It's time now to move to our balance sheet, which remains as we said very resilient. Shareholders equity is remaining very stable. While, the adjusted return on equity is subject to the COVID earnings impacts. So pretty mechanical. Not much to say, the change in net realized capital gains reflect some gains on the govies and the corporates, mechanically as a result of the macroeconomic conditions. Equities slightly down, but partly offset by hedges, which some part of them not being in the P&L. So the net income -- for the period and the dividend are pretty balancing each other, and there is strengthening of the euro, are generating negative impacts on the ForEx and other up to EURO.9 billion. I propose to move to the solvency part, which is certainly more weighted and expected than the comments on the shareholders' equity, So Solvency II ratio 180%, pretty stable versus 1Q '20, which was already disclosed at 182%. We've -- as was said in the beginning upsides still expected in Q4 and I would say, significant upsides expected in Q4. So, if we go line-by-line, the operating return is 1 point only in the second quarter, reflecting the impact of COVID in the discrete quarter. The dividend accrual for 1H '20, was explained by Thomas, in the beginning. We are accruing 50% at half year of the announced dividend of last year, which was EUR1.43. It's not a decision. It's purely the continuity of the methodology, we are using each year, when accruing for the dividend to be paid in the following year. Markets impact excluding ForEx minus 1 point. To be frank, based on the sensitivities what

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might have expected a slight plus and not a slight negative. It's due to the fact that the changes in market conditions in 1H have moved quite a lot and the sensitivities needed to be updated that which is disclosed here on the right hand side. And the main factor is that with the lower interest rates level, the impact of the volatility adjusted on the corporate spreads is getting to zero. And therefore, the evolution of the market impact is been in the quarter, but might have been slightly more positive, based on the -- from the sensitivities. The debt repayment of EUR1.3 billion performed in April, was expected as well minus 4 points. And as the discussed already and presented by Thomas, -- following the very strong statements of this ACPR and the very clear discussions we had with them. The non-distribution of the second part, second tranche of the dividend, contributes 6 points positive to this number of 180%. Regarding the Q4 indicative outlook, I would like to highlight that the two main transactions running, which are the sale of AXA Bank Belgium and the sale of AXA Eastern in the Central Europe. Operations is running well in-line with expectations. And so we are very confident that the disposal will take place at the end of the year. Again, the transaction had been announced in 2018, and there was a joint and mutual agreement between Cinven and us to terminate the sales agreement. Certain conditions were not met by the agreed looks to update. And therefore given the complexity of the transaction and -- including the regulatory complexity of the transaction we are preferred to stop it. We are working actively on alternative solutions to optimize the liquidity of this Company, which we should not forget has positive cash flows, which are expected. So it's a profitable operation. We wanted to improve a little bit the solvency and the liquidity. So the solvency, we would have had the gain of 1 point, which we've not get further to the decision. However, on the liquidity, this was a EUR1 billion transaction. We are working on alternative solutions, notably with reinsurance schemes, external or internal to reduce the required capital requirements, sorry the capital requirements in order to bring some -- upstream some further cash to the holding. So this objective is still valid up to the end of the year, and we'll keep you updated on this. Let's move to the assets. What we can say is that, our portfolio management during the crisis was very active. So, what we did was being very proactive on the most vulnerable sectors, notably, oil and gas, travel, leisure, transportation. These sectors represented 11 billion out of a total of 169 billion total corporate bonds, 70% are rated A or above. And what we did was to sell around EUR1 billion of this portfolio, at a value of circa 90% of par, to protect the ratings of our portfolio and to try to avoid the defaults. The second, in the middle of the chart, you see that this result has been achieved. You see that very little has moved to be completely transparent. There were some downgrades from BBB to below investment grades, which represent less than 0.3% of the total corporate bonds portfolio, which we think, is a great achievement. Lastly, on the asset side, in the context of reducing interest rates, lower interest rates, we have tried to pick up or to invest in some attractive assets with sometimes lower liquidity, but very decent profitability. This was the case, notably in real estate where we invested in some programs EUR2.3 billion in France and in UK. And in CLO tranches, so a AA, AAA CLO tranches, with a margin of around 200 bps, which we thought were very attractive. This is how we can maybe get an extra margin on top of the cost fixed income of 1.3% and we are confident that we can keep the reinvestment rate of around 1.5%, until the end of the year, it was slightly above 1.5% in 1H, it might be slightly below 1.5% at the end of -- in the second part of the year. But as a whole, we still targeting 1.5%. The reserves in P&C remains strong, across the group, reserving ratio is up, reflecting notably additional COVID reserving. So it's one indication. But it's not the most powerful and indicated one. We think, that the most useful information is the IFRS reserves in excess of and discounted Solvency II best estimate liabilities, which remains high. For the sake of transparency, we have reduced the level of excess at AXA XL, mostly

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on the non-US D&O liability lines, this lines had been identified when we set up the figure [ph] originally. And therefore there is no P&L impact in the numbers, we disclosed. We continue to consider our level of reserves as prudent, at the Group level, which we think, is very clear for everyone. I would like to finish the balance sheet presentation, with the cash at Holding and the Group Debt Gearing. As you can see, the liquidity at -- on the 30th, of June, amounted to EUR7.2 billion. It's EUR5.5 billion, after the payment of the dividend in July, which we think, is a more relevant number to be compared with the EUR3 billion of last year. It's -- these increases mostly related to the high remittance from the entities, when I say high it's business as usual. But it's high in the context of the crisis EUR4.9 billion. And reflects as well the reimbursement, the EUR1.3 billion reimbursement of the sub-debt in the first half. The debt gearing reduced further in 1H reflecting, of course, the reimbursement of the debt, contributed to an improvement of EUR1.4 billion in the ratio. Regarding the end of the year, we continue to think that we might slightly improve this ratio, which we would keep in any case below the 28%, upper range. We had set a target more of 26% on the 20th of February, given the context of the crisis will be below 28%. And I think, this is for the balance sheet. So I would like just to give a -- before handing back over to Thomas, trying to summarize a little bit, what we just said on the P&L, and balance sheet side, which that we experienced resilient revenues, supported by hardening prices in P&C, capital-light products in life and savings, higher volumes in Health and Asset Management. Our half-year at EUR1.9 billion, remain high, but negatively impacted by the COVID 19 claims. Consistent with our 3rd of June disclosures. Most of these negative impacts are related to P&C commercial lines, excluding COVID claims, and the deconsolidation of Equitable earnings are up 1%. Lastly, our balance sheet remains resilient. We expect higher Solvency II ratio at the end of the year. We expect our gearing ratio to remain below the 28% mark. And since March, we have been very active in managing our investments portfolio, our cash position and our cost. And you can expect us to remain disciplined on this fronts. I am now handing back over to Thomas for the Q&A session.

Thomas Buberl {BIO 16182457 <GO>}

Thank you, Etienne. And before we come to the Q&A session, one last logistical detail on Page A30. As you've seen, we have planned an Investor Day for December 1st, originally we wanted to launch the new plan 2021 to 2023 on that day. But given the fact that COVID-19, has certainly had an impact on the 2020 numbers and we are only in the middle of the year. We have decided to maintain the Investor Day on December 1st, focusing on key topics that we have. And then having another Investor Day after the full year results 2020, so sometime after end of February 2021, in which we launch and present the new plan 2021 to 2024 most likely, just as a logistical detail. Because I'm sure that question of the new plan will arise.

So, after that. Let's move to the Q&A. And as Andrew said, we will give preference to the questions now. In the past, it was in the room, on the phone there. Who wants to start and it's always good if you introduce yourself with name and institution. So we know who to speak to.

Questions And Answers

Operator

(Operator Instructions). The first question comes from Michael Huttner from Berenberg. Sir, please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much for your presentation. And I have three questions. The first one on the wage rises you kind of said, this was about the claims inflation. I just wanted to know if you could give an indication of where we are. I'm normally thinking in terms of payback. But I think, I'm being a bit optimistic, saying that the payback. I think it's more future profits payback, but maybe you might say, the payback a bit.

On the operating or organic capital generation, I noticed at the half year net of dividend, it was zero [ph] in the solvency roll forward. And I just wondered, if you can kind of say, where we are now for the second half. I know that, that COVID impacts should not come through in the second half. But I still don't know what the basic -- base numbers should be. And then finally, you spoke about the kind of trying to make up for the non-sale of AXA Life Europe. And you said, reinsurance might free cash or capital. And I'm just wanting to check, if that would be the figure you have in mind, still be EUR1 billion, which will be original sale amount. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Michael. So I repeat because the line was sometimes a bit difficult, I heard three questions.

The number one was, can you quantify a little bit more what the wage rises at AXA mean, and how they behave relative to claims inflation. Scott Gunter is on the line with us, he will take that question. Your second question was, if I understood correctly, around the question of the solvency roll forward and what do we expect for the second half of the year, Etienne Bouas-Laurent will take that question. And then the third one is around AXA Live Europe, the non-sale as you called it, do we achieve similar effects to the EUR1 billion with the indicated reinsurance structure. This is also a question that Etienne will answer. So Scott, why don't you start with XL?

A - Scott Gunter {BIO 20129741 <GO>}

Sure, Thomas. Thank you. Thank you, Michael for the question. Yes. In terms of the rates we're achieving, we believe we are getting rates that are running ahead of loss trend. For most of our products that we look at, now we are in obviously after many years of a soft market, coming through the late teen, mid-teens of the 2020, sort of '14 to '19, coming through that soft market period, where there were rates were not keeping up with social inflation, claims inflation.

We have obviously the industry has a deficit to still build through on the rate. So we are continuing to push that pricing. But right now today, when we look at the pricing relative to claims inflation, we believe that we are getting rates in excess of loss inflation. But we

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still have a ways to go. So we expect that to continue at least through the back half of this year and into next year.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you, Thomas.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Scott. And we'll move to Etienne on the second one on the solvency going forward.

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

So, Michael. As you can imagine, I cannot give you guidance on the operating return for the second half. I think you have all the elements you rightly say, that COVID should not reiterating in second half. However, given the operating return, would be giving a guidance on our earnings, which is difficult for us to give. First because we never give guidance. And second, because we are in a very volatile environment, and we must remain very vigilant and cautious.

However, you have noted the positive impacts related to the sale of the two businesses, which is running well, which bring 6 points you have as well. The internal model of XL, from 5 to 10. So you have at least 10 points to be expected up for the second part of the year. Regarding the XL --.

Q - Michael Huttner {BIO 21454754 <GO>}

Can I just ask -- I'm sorry, could you just remind me, maybe what was the original guidance on operating capital generation given in the past.

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

15 to 20, was the official number given in a year.

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah. Thank you. Sorry about that.

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

Before dividend Michael, of course.

Q - Michael Huttner {BIO 21454754 <GO>}

Yes.

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

Right.

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Q - Michael Huttner {BIO 21454754 <GO>}

Yes.

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

So AXA Life Europe, the transaction price was EUR1 billion. So the liquidity. We expect to generate with the internal, external reinsurance structures, will be below this number obviously per construction. So it will be in hundreds of million, but it will not be EUR1 billion and I cannot give you more than this. It gives you a hint.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you again.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you very much.

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

Thanks, Michael. For your question. Let's move to the next question.

Operator

The next question comes from Jon Hocking from Morgan Stanley. So, please go ahead.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you. Good morning, everyone. I've got three questions please. On XL, firstly. Could you give some indication about the appetite to grow the business from here. And some color in terms of how you participated through the mid-year renewals and what your intentions are at the January 1, renewals in terms of growing exposure or whether you're really focused on improving the quality of the existing book, that's my first question.

Second question again on XL, could you comment a little bit on the solo balance sheet, please. So I think, at the full year, you talked about the reserves that XL is being adequate most of the Group reserves are in good shape. And there's another reserve heat at XL. So in terms of the solo balance sheet of XL, to what extent do you have the flexibility to grow our exposure at XL, first of choice.

And then finally on the Solvency II capital to sort of come back slightly to Michael's question. If you look at the -- first quarter of the 19 points of negative market movements. Is there anything that structurally happened with the balance sheet in terms of hedging, et cetera. That suggests that wouldn't come back, if not markets where to normalized, because obviously the credit sensitivity has changed somewhat versus the first quarter. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you John for your three questions. I suggest that. The first question is being answered by Scott, which was around what is your appetite to grow the business, how do you participate in the mid-year renewal, are you focused more on improving your quality of the portfolio, rather than taking market share. Second question should be answered by Etienne Bouas-Laurent, which is around the question of what is the solo balance sheet, given the reserve movements.

And third question around the solvency II capital, Alban de Mailly Nesle, Chief Risk Officer, who is with us, should answer that question around the negative -- of the negative market movements of the 19 points. And the question around hedging. So Scott, why don't you start?

A - Scott Gunter {BIO 20129741 <GO>}

Sure, Thomas. John, thank you for the question. We definitely have an appetite to grow the business. We think we are actually going to do both of your points at the same time, one we are diligent on working on improving the quality of the existing portfolio, whether that through underwriting action, careful analysis of the business, pricing and where we can get the rate we think we need. We definitely want to grow it.

So there are parts of the business that we feel are performing not pretty well, that are performing pretty well that we think can grow. And as part of our planning process, we break our portfolio into sort of two Groups. One is, hey, this one need more remedial action, let's fix it through reductions, pricing and the other part is this business is performing, that we believe in an adequate profit margin and that's the business that we grow.

So we like to believe, we can actually do both at the same time. Otherwise the challenge for every insurance carrier is to figure out where are you getting paid adequately and then you apply the resources to that business. So we would like to believe that John, we're able to do both of those.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Scott. Let's move to the second one, Etienne on the solo balance sheet.

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

So, I think that the question of the solo balance sheet is related to the first question, which is the flexibility to grow. I think, there is not -- it's not a question of balance sheet, we are in line with our guidelines, in terms of solvency ratio with XL. So it's more an underwriting decision, coupled with the risk appetite, we have, which is the driver and not balance sheet constraint.

Q - Jon Hocking {BIO 2163183 <GO>}

So just a follow-up, I can. What was that driver of the EURO.3 billion reserve adjustments in AXA, sorry if I read the slide incorrectly.

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

Right, okay. So this is, the identification of a higher reserving need on the non-US D&O business lines. So this we knew, when we made the PGAAP, that this line was certainly a little bit under reserved. And it's just the confirmation. So when we get the information -- the more precise information over time, we allocate part of these original, initial prudence to real reserving, that's it.

Q - Jon Hocking {BIO 2163183 <GO>}

So is Australia, Germany, the UK usual issues are present.

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

It is, so what we call non-US is mostly subscribed for London and it covers various geographies around the world. And I would, say mostly Europe.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay, thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Alban on the third question.

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

Hello, I understood the question, as if and when markets normalize, do we get our solvency points back. So the first thing to say is, as you saw with what Etienne mentioned on page A25, there are interactions between sensitivities, notably between interest rate level and spread sensitivities. So the short answer is yes, we would get them back to the extent the markets normalize together between interest rates and spreads. If we get one and not the other. Then you have the sensitivities that you have on this slide, where corporate spreads for instance if increased by 50 bps, than zero point because that's the current interest rate level that have some impact on it. And same, if corporate spreads reduce.

The one sensitivity, which is not that much impacted by the others, if the equity market one, which is not very dependent on the spread and the interest rate levels.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Alban. Thanks Jon for your question, we go to the next one.

Operator

The next question comes from Andrew Sinclair from Bank of America. Sir, please go ahead.

Q - Andrew Sinclair {BIO 21847791 <GO>}

Thanks and good morning everyone. Three from me as well if that's okay. Firstly, just on the Q4 dividend, which is not being paid, should we just assume that cash has absorbed within AXA or just obviously that as deferred cash at some point, can come back to the shareholders. Second point was just on the EUR1.5 billion of corporate claims, just wondered if you could tell us a little bit more about how that breaks down into what's already reported, costs incurred, but not yet reported. And what's to play for future claims you expect to be incurred, as a result of COVID.

And thirdly was just on reinsurance. Can you give us what's some color on discussions you've had with your reinsurers to get comfort on the net secure. And I didn't see your usual slide on XL's reinsurance programs, really wondered if there is any protection from the aggregate cover -- COVID even to protect you -- say, into H2. Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Andy for the questions. So the number one was on the Q4, and the dividends, cash absorbed can it come back, Etienne, if you could answer that question. Second one was on the COVID claims EUR1.5 billion, what is incurred, what is not incurred yet. I'll talk about this. And then the third one is around the discussion with the reinsurers and the XL reinsurance program, Alban, if you could take that question. I'll go straight to the second one and pass it onto Etienne. So the EUR1.5 billion COVID claims is exactly the same numbers that we had already published on the 3rd of June. When you look where do these COVID claims come from, it comes mainly from business interruptions, from event cancellations, from D&O liability and travel and some solidarity measures offset by positive news on motor frequency.

Many of these items can be -- have been observed, If you look for example at as event cancellations, exactly which events have been organized, which have been insured, which have been canceled or deferred. So as, these numbers are relatively clear, we see that many of the claims are incurred, not all of them are reported. But on this one, do you have a very clear indication. On the business interruption, it's the same, and you've also seen some of these being in the media, where people have claimed on the claims and because that is also a component of cash management for these entrepreneurs. They have an interest to claim relatively quickly, so this one, we know more or less, what's happening.

Going forward, this has to be seen how it evolves, because some of the claims are still subject to litigations, when it comes to the business interruptions, others have still the question around how for example does the motor frequency evolve, we've seen during the confinement that it has been reduced. But now people would prefer to take their own car.

So if you look at all of this, the EUR1.5 billion is our best estimate as of today. It has stayed stable and we hope that it will stay stable, your question around IBNR versus -- already

happened. So 65% at XL for example on the business interruption is incurred, but not reported. So we know, also from the past, what to do there. And the same is obviously true at the D&O in liability, where you have claims that still follow. There is also roughly 65% incurred, but not reported. So I would suggest we go to the first question, which was on the dividend. Etienne?

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

I think, Thomas was very clear in his introduction. He referred to the discussions and the communication of the ACPR, they were extremely clear. And therefore we have decided not to pay and not to accrue for it in our Solvency II ratio. So it was the objective here was clarity, first point.

The second point is that any kind of decision related to the dividend belongs to the Board, which will take place in February, 21, it's up to them to decide. So it's extremely difficult and to give any kind of guidance on this, we have to be patient and wait for it. I just remind you once again that we have accrued for 50% of the EUR1.43 at half-year, which means that we should accrue for. The final accrual will be dependent upon the decision of the Board, but you noticed that by doing that, with this methodology, we are accruing for something which is above the classical payout ratio of 50% to 60%. And I will stop here.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Etienne, let's pass on to Alban on the question around reinsurance.

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

So on reinsurance program, as you know, includes several components. I mentioned three and I'll start with the two easiest ones. You have a per-risk component on all lines of business. Property, event cancellation and so on, that's reasonably mechanical. The second one is, what -- one that you mentioned, which is the aggregate. That covers insurance and reinsurance, but on a named peril only, and pandemic was not part of those name perils. And therefore, the aggregate would not come into play.

And then there is the third component, which is the insurance per event that covers our property and property cat portfolio on the insurance side. So that's where, in particular, you would have the business interruption claims that would be launched with the reinsurers. So the discussion has started with the reinsurance on that one, it's very open discussion, but it's obviously, a complex and it's going to be a long discussion. Given the size of the event, given the fact that it's on many geographies, but act differently and that's obviously still an ongoing issue.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you Alban and thanks Andy for your question. Let's move onto the next one.

Operator

The next question comes from James Shuck from Citi. Sir, please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Thank you. Good morning, good afternoon everybody. I have three questions please. On the central liquidity, so EUR5.5 billion, 5.5 billion at the half year. I think, Alban you've intimated that you'd be downstreaming EUR2 billion of cash to the local OEs that doesn't seem to come through. Actually in that liquidity number at this stage. Perhaps you could just update us where we are with that and whether you still intend to do that in the second half of the year. And also it seems slightly you issued EUR1.1 billion of commercial paper in the period.

Could you just outline why you did that. And secondly on remittances, just -- could you update on the outlook for remittances into Q1. Obviously you've had EUR4.9 billion thus far, I presume there was no dividend paid out of XL Bermuda. When we look out to Q1, are you expecting to take a dividend out of XL Bermuda. I think, the local solvency levels around 150%. And obviously you're looking to grow quite strongly there.

So it may be that you don't do that next year. Just any help about the outlook for remittances would be helpful. And then finally just around the debt gearing. So you are at the top end of your target range, your range includes goodwill, when you calculate it. So your debt gearing actually looks a lot higher ex-goodwill. Could you just comment directionally about how happy you are with that target level. It's obviously 2020 target, do you intend to take it down further. And how should we think about a potential goodwill impairment from Axa XL. Please. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So thank you, James for your questions. Number one is on Central liquidity outlook for the second half, why the commercial paper, Etienne I suggest you talk to that question. Secondly on the remittance and what is the outlook going into Q1 of next year. In particular, with regards to XL, Etienne will also give a view on it and then the third one on the debt gearing, I will answer to that, are we in a good range, yes or no?

So Etienne. if you could start with the first two.

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

Yes of course. So James, we say that there would be some cash buffer rebuilt this year, we have not changed. We are not changing this statement, it will happen in the second part of the year. I remind you as well that we might expect some further cash remittance. But we don't give any guidance on this. And of course, some proceeds from the disposals, up to EUR1.6 billion. We -- regarding the commercial papers, our intention was the following. We tested -- we regularly test the market in this turbulent times to see what's the liquidity. So there is no specific target on the commercial paper. It's the maturity ranges between three months and 12 months. So it's for us just a way to test the market. There is no specific message around that, it can be up and down. It was zero at the beginning of the year, it has gone up a little bit in the first half. There is no intention to go further up.

FINAL

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In the second part, maybe will reduce part of it, because it will come to maturity. But I would not focus to give too much intention to this. So we are pretty comfortable with the liquidity. We don't change fundamentally what we said at the end of February, on this front. So and regarding your question on XL sorry, James, I'm not sure I got it precisely.

Q - James Shuck {BIO 3680082 <GO>}

The question was --.

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

Sorry, go ahead. James go ahead. Rephrase it.

Q - James Shuck {BIO 3680082 <GO>}

Yeah. No, it was -- conceptually about the outlook for remittances into Q1, obviously, a lot of local solvency levels would have fallen since last year. You didn't take a dividend out of Italy, you didn't take one out of France Life. I don't think, you took one out of XL last year. So I'm just looking forward to Q1, XL's Bermuda capitalization, I think was 158% at the end of 2019. And you got strong growth coming expected in there. So what should we expect for remittances from some of these areas XL Bermuda included into Q1, and because for me that the liquidity looks tight, particularly in the context of the dividend that costs EUR3.5 billion, when it gets more difficult to upstream cash from some of the local units in this environment.

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

Okay. So it's difficult for me to give a guidance, what I can tell you is that XL from a solvency point of view is, all right on the 30th of June. And I said that's a little bit earlier in this Q&A session. Second, given the earnings, they are generating this year, there will be no dividend upstream from XL next year. It's pretty mechanical. And this is what I can tell you today.

A - Thomas Buberl {BIO 16182457 <GO>}

Good. James. Let's move to your third question, which was around the debt gearing, your first point was is the range -- we are in the range we feel comfortable in. Yes we are -- that's what we've always been in and what we've also clearly announced being between 25% to 28% is a good range. And going back to the definition of the debt gearing, on the country, we have a rather conservative definition of the debt gearing, because as opposed to other larger Insurance Group, we do not include the OCI into the denominator of this number. Therefore, it is much more conservative with regards to others.

When you look at this range, however, we certainly realized that market conditions are again, very attractive to raising sub-debt. And so I would not exclude that we remain opportunistic and for example you know, substitute all debt, which obviously had a cost that was much higher than it is today. With newer sub-debts that has much better conditions.

You will then also referring to goodwill and in particular, I guess to the goodwill of XL, we've seen that COVID is clearly an exceptional event that there is no change to our long-term view of XL. Because as we pointed out earlier, the underlying performance of the XL business, ex-COVID, is very much in-line with our expectation. I remind you the underlying earnings ex-COVID plus 1% relative to last year at EUR0.5 billion. And as Scott pointed out earlier, the pricing outlook for commercial lines remains despite the crisis, very favorable.

Let's move to the next question.

Q - James Shuck {BIO 3680082 <GO>}

Thank you.

Operator

The next question comes from Farooq Hanif from Credit Suisse. Sir. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thank you very much. Can you tell us about what proportion of the technical margin decline might reverse. So, what is kind of specifically COVID and environment-related and also update us on the investment margin guidance for that business.

Secondly, going back to the question earlier about reserve surplus. Could you give us some numbers about the reserve surplus at AXA XL, over best estimate. So specifically PGAAP and any other reserve surplus, you see that. And lastly, just on the mix in XL. So obviously you have a quota share that you put in place in property cap, which has reduce the net mix of that business. But excluding that if you look at the two portfolios, Scott, that you referred to, is liability, now in the adequate profitability camp. So what are you growing, -- when you look at sort of liability versus specialty versus property. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you Farooq for your questions. So I'll repeat again the number one was the question around the technical margin and investment margin decline. What is COVIDrelated? What can we pick up again? Etienne will answer that question. Then second one around the reserve level at XL, relative to the PGAAP. I would also like Etienne to answer that question.

And then a third one around the adequate pricing of liability, Scott, if you could answer that question. Etienne, on the first one.

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

Hi Farooq. I hope I got your question and because I don't know, if it was specifically referring to XL or the Group. What I can tell you is that for the second half of the year as I hinted, I think the investment margin should be slightly lower. There is some seasonality effect, but there were also some exceptional distribution from PE funds, notably at XL.

And of course, the evolution of the financial markets, as a larger impact on six months than three months. So this has to be taken into account.

Regarding the technical margin, everything being equal, because you know, we cannot give guidance, given the uncertainties, will there be further confinement periods, and we don't know. So therefore, we not in a measure to give any precise guidance. But mechanically one might expect higher technical margin in the second half versus the first half. And then you have of course, as headwinds, the investment margin and as well the non-recurring Equitable Holdings Earnings.

So I hope it clarifies your question. And --.

Q - Farooq Hanif {BIO 4780978 <GO>}

Sorry, investment margin, sorry to interrupt. And then kind of more of the long-term outlook. So should we assume if we take out the exception distributions from PE funds et cetera. Should we expect a slight decline in the next few years in that margin, given current conditions is kind of what I was asking.

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

Look, the investment margin long-term will go down on a regular basis. It's pretty mechanical. However, when you see the way we are managing our duration gap, you see that we are matched and therefore the decline is very progressive. And we gave already some sensitivities on these topics in the previous IR days. And of course, what I can -- so these doesn't change fundamentally when you look at our numbers, but of course, the lower the level of interest rates, the higher the acceleration of the decrease on the investment margin. You raise as well, question related to the reserve level surplus at XL it has consequently come down from -- by EURO.3 billion from EURO.8 billion, which means that there is EURO.5 billion left --.

A - Thomas Buberl {BIO 16182457 <GO>}

Scott, on the third question of Farooq's.

A - Scott Gunter {BIO 20129741 <GO>}

Sure, Thomas. Question was around where we're looking to grow and we have to balance that all, when we look at this, we balance that all with the impact obviously of COVID on exposures. Some of our business are more impact their revenues and their businesses are more impacted than others. So we balance that all out, when we look at our business. But if you look at the sort of the four buckets you mentioned, from a reinsurance standpoint, obviously with the way the direction of the cat pricing is going, where we think there's an opportunity. But particularly the trend on the cat business to continue to grow that business, as well as casualty on the reinsurance side.

In the United States, the professional line business, property and casualty are all looked at in the current pricing environment, we believe there is an opportunity to pick and choose your spots and grow in that business. In Europe, we're looking at both property and

casualty as opportunity. Specialty business, there is challenges in the marine portfolio. We probably won't grow that one quite as much, but we look at our (inaudible) business and our crisis management business, as both growth opportunities for us going forward. So we take a careful look at each of these portfolios every year, go through and figure out, which ones have the opportunity to grow.

The overall may not necessarily growth due to the impact on exposure, but we may grow in force count in the lines as we look at them. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Scott. And just to add on it, obviously Scott did mention it, but because he didn't mention the risk appetite in natural catastrophes, we remain at the same level as we were. So we do not want to increase it. Thank you Farooq. Let's go to the next question.

Operator

The next question comes from William Hawkins from KBW. Go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, thank you very much. On slide A25, it would be helpful if you could give us the absolute numbers for the change in eligible own funds and SCR for the operating return and market impact. (Technical Difficulty) if you don't have those numbers immediately to mind, could you just tell us in the operating return line, what's the impact of the change in SCR? Has the SCR been going up or down is a big elements or tiny element. That's question one.

Question two. Could you give us a comment on your confidence about your cat budgets and how that leaves you exposed for the second half of the year. I think, you acknowledge that cats were heavier in the first half both at Group level and the XL level. And clearly the first off was meant to be the lighter part of the year. And we saw last year, second half can contain more of the problems. So what's the risk that you blow through your cat budget for the Group for XL, in the second half. And related to that, are you still happy that XL can do EUR600 million in the second half of this -- or is there downside risk.

And then lastly, please. On slide A17, in your business interruption estimates of EUR800 million (Technical Difficulty) EUR450 million sitting in AXA XL. Could you break that down for us between what's American and what's non-American roughly. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So thank you very much for your question. On the first one with the absolute numbers of SCR up or down, Etienne will answer that question. The second one around the CAT budget, we need to look at it obviously on a broader level, Group level, Alban, if you could answer that question. And then the last one around the BI what is US, what is not US, Scott, if you could answer that. Etienne?

FINAL

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

Hello. William the solvency capital requirement is stable at EUR29.9 billion. So the variation comes from the EOF. And there is the Appendix B49 for you to get more details. Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you Etienne.

Q - William Hawkins {BIO 1822411 <GO>}

Sorry, I just wanted to clarify. Sorry, because the market movements have been massive in that. So can you just tell us an operating way, is your SCR going up or down?

A - Thomas Buberl {BIO 16182457 <GO>}

So maybe Alban since you have, the second question and you could maybe also answer that question around the SCR.

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

So on the, if your, the number between full year and half year -- full year 2019 sorry, and actually 2020 is stable. The SCR, have slightly decreased by 0.2%.

A - Thomas Buberl {BIO 16182457 <GO>}

Okay. So I want to belabor the point, I understood that. I'm just asking what the operating element was specifically. So, William. I would suggest let's get back to you individually, we are looking for the number, the operating SCR exactly that we'll get back to you. Okay. So Alban, if you could get to the second question around the confidence of the CAT budget, what's the experience first half, what do we think on a Group level. So the CAT budget is on an annual basis obviously. So we shouldn't look at it 30th of June, or even the 6th of August. We had some NAT CAT notably in Australia, notably with XL at the beginning of the year. The question is what will be the hurricane season in the coming weeks in the US. For the time being, there has been two small hurricanes making landfall with little impact for the time being. So we're still confident about the overall budget for the year. Thank you, Alban and then let's move to Scott around BI. What's US what's non-US, EURO.8 billion?

A - Scott Gunter {BIO 20129741 <GO>}

Yeah. Thank you, Thomas. Yes, when we take a look at that BI number for AXA XL, a break down. It's a provision as Thomas mentioned 65% of it is IBNR are incurred but not reported claims. And we break it down further. We probably put 40-60 between reinsurance and insurance. So when inside the insurance piece of it, most of the claims are coming out of the UK Lloyd business. We do have obviously a little bit coming out in United States. Most of our vast majority of our policies, require physical damage to trigger the BI. But on some of our policy, we have provided a sub-limit or -- from sort of contamination or communicable disease type exposure and that's what we're end up picking up. But I would say that most of those policies are written out of the UK Lloyd.

We've got some in Europe a little bit in United States, but my estimate would be less than 10%, would be in the US (inaudible).

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Scott, and thanks, William for your question. Let's move to the next one.

Operator

The next question comes from Nick Holmes from Societe Generale. Sir, please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thank you very much. Just a couple of quick kind of follow-ups, I guess. Coming back on business interruption. I just wondered, do you have an idea of how much you might need to add to the EUR1.5 billion if the UK test case goes against the insurance industry. And then secondly on dividends and ACPR. I just wondered, if your conversations with the ACPR extends to dividends next year in 2021 and whether you're getting any sort of message from them about any concerns that they have for next year. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Nick for your two questions. The first one is around the business interruption and the EUR1.5 billion if the UK test case goes against the industry, Alban, I would like you to answer that question. And on the second one, the ACPR, the discussion around the dividend, I will take this one. Alban?

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

So on the UK side we are monitoring closely, what is being done by the FCA. It's a long process, because it's going to be something that we'll drag on for a number of weeks and months. At this stage, what we see is potential limited impact from a re-qualification of our contracts.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay, that's very clear. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So Nick on the second question around the ACPR. As I mentioned ACPR, the CEO has issued two statements. The first one was around delaying the dividend payments from April to October. The second one, the most recent one, was about not paying this year. And as you have seen our reaction to first statement was that we find the so-called Swiss-compromise. So we pay 50% and wait for the second one for the second half of the year, clearly our financials do indicate that a dividend payment is possible.

However, with a clear statement by the ACPR of not paying any more dividends in 2020. We clearly aligned ourselves with their desire. In the same vein, they also realize that paying a dividend is something very important for the attractiveness of France, as a marketplace. And when I asked the question around 2021 their answer was that clearly, they want to get back to a normality provided that the economic and financial situation allows it. And since we did not have any alleviation in our capital models, such as solvency. There is also no need to tighten anything in that respect. So I would expect a return to normality if the economic and financial conditions allow it.

Q - Nick Holmes {BIO 3387435 <GO>}

That's great. That's good to hear. Thank you very much.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Nick. Let's go to the next question.

Operator

The next question comes from Kamran Hossain from RBC. Sir please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, everyone. I've got couple of questions. The first one is just about benefits from COVID. Now clearly there's a lot of noise about commercial lines and claims cost there. And we all know there kind of natural motor offset. Can you talk about other areas in the business, where you're seeing benefits and to what extent are we seeing them in the numbers. The one I've got in mind is kind of help insurance and whether people are actually using it or not. And the second question is just about the -- I guess, thinking about the second half on revenues you know kind of very slight decline in the first half, a tail of two quarter. Do you think we're back up to kind of growth in H2 on revenues or do -- would you be a little bit more cautious than that. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So thank you Kamran for your two questions. One was around the benefit from COVID. We spoke a lot about motor and health. I suggest, since we have Jacques de Peretti with us who runs AXA France. One of the largest entities of the Group and he should talk a little bit about what he sees. And when it comes to growth in the second half. I'll give a quick comment afterwards. Jack?

A - Jacques de Peretti {BIO 16202180 <GO>}

Thank you Thomas. There is two parts where you can expect some benefits from COVID crisis. One definitely is health, as we have observed a lower consumption of usual healthcare during the lockdown period. And for France, for example. It's up to EUR60 million and we also observed a lower claims frequencies on motor, mainly, but also non-motor in retail and in commercial.

And for France, it has an impact for example by EUR150 million before tax. And so, and we don't know exactly, if we'll continue on the same trend on this field because we observe that the frequency in motor for example is progressively moving to normal. And concerning health, we can consider also that our clients will try to go back to a normal life and visiting the doctors as often as they used to do.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Jack. If we look on the growth prospects on the second half. I think the months of July probably gives a good indication. What we see is that health is remaining strong and I do believe, that this will continue since we have a much higher awareness around health and certainly also in more developing and emerging markets, where health is still at a low level Etienne earlier mentioned China.

We will see strong growth. On the P&C side, we have also turned again into positive territory and certainly when we listen to what Scott is saying, around the price increases, we will also expect a return back into a positive territory. However, we also see that some lines of business are very much linked in the revenue to economic activity.

So if you take for example, aviation or marine, this is very much premium growth is linked to how many shipments have been done. How many flights have been performed. And since we know that certainly on the flight side, we will probably have less flights, this needs to be taken in consideration. On the life business. I do probably expect the biggest, let's say heavy weight, when it comes to the revenue. Life remains down in July, with similar structures that we've seen beforehand. So general account is suffering, whereas protection and unit-linked progresses well. This is very much related also to the uncertainty of people, not knowing what is going to happen and rather taking a wait and see approach, when it comes to investing larger sums. So this is roughly the picture going forward when it comes to growth.

Let's move to the next question. Thanks, Kamran. Next question.

Operator

The next question comes from Thomas Fossard from HSBC. Sir, please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon. Two question. One would be on the health in France. I just wanted to better understand what were your expectations regarding the issue we see portability of the health insurance product in France. Especially in context of rising unemployment rates in the coming years. And potentially, if you could provide kind of sensitivity of, I don't know, any negative impact on the combined ratio basis or a loss ratio basis from a 1 point increase in the unemployment rate, that will be the first one.

Second question is on the Lebanon situation. What could be the exposure on the Group. I guess that you may have some exposure directly from primary activities. You've got in

Lebanon, but also through your marine book at XL. So, any, I know it's a bit early but, anything you could mentioned regarding the potential large claims. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So thank you very much, Thomas for your two questions. The health one in France, we give to Jacques de Peretti, and maybe I'll quickly answer on the Lebanon one. On the Lebanon one, we obviously have two main focus areas, one is our own employees, since we've got an operation there. Fortunately, nobody has been injured or has -- we haven't experienced any death, which is a very good news.

On the exposure, as you can imagine, this event happened a couple of days ago and it's far too early to say anything. We are working together with a team of Scott and Alban, now to the exposures and when we have a better situation, we will be able to give a better update.

Jack on health in France.

A - Jacques de Peretti {BIO 16202180 <GO>}

Thank you very much for the question. You are completely right. We will have to face the rise of the load -- linked with the profitability, it means that we will have to pay for a while for people that will go unemployed that will take place progressively, when the unemployment rate will progressively increase, as it is forecast. And the main part of this new load will take place in 2021, and we plan to take that into account in our renewal policy in order to face this extra load, we will have to register.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Jack and thanks, Thomas for your question. Let's move onto the next question.

Operator

The next question comes from Ashik Musaddi from JP Morgan. Sir, please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, hi, good afternoon. This is Ashik Musaddi from JPMorgan. Thank you for the opportunity. I just have couple of questions, I just want to understand a bit more about how to think about XL earnings for coming years. I mean, if I look at your guidance about EUR1.2 billion. How do we think about three moving parts here. First of all, what you're suggesting is pricing is moving ahead of claims inflation. So I think that's a positive. But then at the same time, it feels like falling interest rate, especially in US, I mean, we have seen a sharp decline in interest rate that should have an impact on your investment income in the XL business and investment income in XL in material.

And at the same time, there is an adverse currency move, we have seen over past three months. I mean that could be another big impact on the XL earnings. So how should we

think about that EUR1.2 billion guidance. I mean, would this pricing be able to offset the issue negative. Is it more, is it less. Any thoughts on that would be really helpful.

The second question would be around this disposal process and the couple of businesses that you are looking to dispose, and as well as XL internal model integration. But can you give us some additional insight into that because I mean, getting about 13 points of extra capital would be helpful, especially in the current volatile environment. So, how, what is the degree of confidence that you have that these two things will be done.

And the last one would be, I mean, I'm not sure, if we can get some clarity on this, but any thoughts on like your reinsurance agreement, the assumption that you are using in COVID 19 related claims, the growth that is netted out. What could be the potential ranges of positive or negative, if things don't go as per plan. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So thank you, Patrick. For your three questions. I suggest the first one --. Sorry. It's Ashik. I'm sorry, I'm sorry, I'm sorry.

Q - Ashik Musaddi {BIO 15847584 <GO>}

No its fine.

A - Thomas Buberl {BIO 16182457 <GO>}

It's very difficult to understand, sometimes. I'm sorry. So, first question was on the XL earnings for the coming three years. Scott, if you could talk around what do you expect. And how do we also compensate the interest rate declines through higher price increases. Etienne, if you could take the second one, around the disposals. And the third one on reinsurance, Alban if you could talk about it, but I'm afraid that you will not be able to give us very elaborated answer since we are in the middle of these discussions and don't give any details. So, Scott.

A - Scott Gunter {BIO 20129741 <GO>}

Thank you, Thomas. In terms of pricing and the interest rate, this issue has actually been in place even before COVID. COVID just exacerbated the issue. So when we look at our pricing needs, what we need to achieve. We include the impact of declining interest rate in our calculation to determine, yes, how much more rate do we need to offset, the declining interest rate investment income place. So we work hard to balance that both out. So we would anticipate that, as we work through our pricing, we'll include any anticipated interest rate or investment income into our required need on the underwriting side. So I wouldn't necessarily be changing anything based on the investment income. If we can recovered more on the pricing side.

A - Thomas Buberl {BIO 16182457 <GO>}

Yes. Thank you, Scott. Etienne on the disposals and the six points.

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

Yes, thank you Ashik. I always say that our degree of confidence was high that both transactions will take place in Q4. As a sign of -- as a proof for these because, of course, I don't have so many you know, proof points, there was a positive response from the European union and competition for all the transaction in Eastern and Central Europe. And on the Belgium side we -- there were also questions raised from the European union, or the Central Bank. And which are being solved. It was related not to the competition of course, but more to the financing of the acquirer, which -- this question has been settled some two months ago. So this is why we plan with that for Q4 with a high degree of confidence.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thanks. XL integration.

A - Thomas Buberl {BIO 16182457 <GO>}

Sorry, Ashik, you want to --.

Q - Ashik Musaddi {BIO 15847584 <GO>}

XL integration, any thoughts on that. Where are we on that process?

A - Thomas Buberl {BIO 16182457 <GO>}

So the XL model integration is going well. As we said earlier, this is event for the second half of the year. There are two stages. One is the discussion with your local regulator and then the second one is the discussion and decision in the so-called supervisory college, where the international regulators come together. We are at the second stage, and as I said earlier, we are expecting between 5 and 10 points upside. Alban, if you can give a very quick update on the reinsurance agreement to Ashik's question, without obviously going into detail when it comes to potential ranges.

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

Yeah and I'm sorry, because I think I cannot say more than what I said at the previous question. Because I would like to keep the details for the discussions with our re-insurers as you can imagine. I'd say, I would just qualify it by saying that we believe that we are in a strong position for a significant amount of recoveries and that's what we put in our account for the half year. But I take that opportunity just to answer the question on the operating part of the SCR change, between the full year and half year. That's an increase of EUR200 million. So it's negligible in the compared to the year to compared to the rest.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Many thanks for this.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Alban and William, you've got your answers well around the SCR which is good. So, next question.

Operator

The next question comes from Michael Huttner from Berenberg. Sir, please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you so much for this opportunity. And the -- one is, you know, you see we kept some guidance for your 5-year plan and withdrawn sum. And I wanted to ask why you would do to guidance on the EPS. Given that you have fairly clear numbers on the impact of COVID. Couldn't you have just said well, ex-COVID, are targets ex-COVID. That's one question or maybe just explain your thinking around that. I suppose, the fee I'm expressing is that you may be re-basing 2020, from next three year plan indirectly in that way. Probably not even thinking about it clearly, because these are really volatile times.

And the second one is on the technical margin in life, I believe I was confused. Is it -- is what you're saying that the mortality is an extra cost. And maybe you could give a figure on that. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So both questions for Etienne. Thank you, Michael. So number one was around why not a guidance for the rest of the year. If you've got clear numbers in terms of EPS. Second one was on the technical margin life to understand a bit more around the mortality risk. Etienne?

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

So I will start with the second one, which is more straightforward. No, we didn't say that mortality was at stake. We referred two -- three elements, which were disconnected from the mortality. One was the interest rates and therefore the annuities, you have to reinforce your reserve, when your interest rates decrease. It's pretty mechanical. And the other ones were not related to mortality. So I don't know, if I understood, well, your question on this, Michael. But there is no deterioration in mortality, at a Group level. Mortality assumptions or mortality experience. And when we speak about extended disability, it's easier to explain that in French.

For us it's (Foreign Language). It's daily indemnities for. During the confinement what happened is that some people didn't go to the doctors. Normally when you have a health reason to not to go to work. You have to go to the doctor, there is a process and then we cover that. During the confinement, we said no need to go to the doctor, if you don't feel, well we reimburse anyway. So this has a pretty high cost. So, this is a very temporary measure relate to the daily health, short-term health issues. Absolutely not to mortality, maybe the misunderstandings comes from this point.

Related to the earnings per share, it's a tricky question, because if you start giving EPS target, including or excluding some elements. It's getting very tricky and raising also the question of what is COVID related, what is not COVID related could be. You know, something a bit tricky. And so this is one point. And the second one is that giving the six-

months guidance is not something we do -- we never did that. We never do that on a 12 months basis, on a six months basis, is even more tricky.

And given the -- as you just rightly said, given the very high uncertainties in H2, where you see that nobody on the market is giving any kind of guidance. I think, that it will not be a good idea to say at XL, we know, what's going to happen contrary to the rest of the world. So let's remain modest with that and let's remain very vigilant.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you. And just also a very quick follow-up question, if I may, is just on the -- you know, on the PGAAP, I don't know, the reserving buffer, the EUR6 million. You have a EURO.1 billion positive coming from France and Europe, is that the full extents of the kind of prudence in reserves from the frequency, which you may have not booked in the first half, but that seems to be what's your peers have done, but the number seems low.

So I'm just, I'm sure there is more, but I'm just wondering, if you can maybe talk a little bit about that.

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

So, Michael, it's the contrary, it's actually to consider that it's -- to book that prudence. It's very old size, which are being considered as excess level of prudence, so the short-term experience is not reflected in that.

Q - Michael Huttner {BIO 21454754 <GO>}

And the short-term kind of see it anywhere?

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

Look, you see in the details of the accounts, the improvement in frequency in the various countries and lines of business, the most -- the biggest one being on Motor, as we disclosed in one of our slides with EURO.4 billion. Positive contribution which was -- which we considered as exceptional and related to the COVID.

Q - Michael Huttner {BIO 21454754 <GO>}

Excellent. Okay, thank you so much. Thank you and thanks for being so patience. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Michael. I'm afraid we need to soon come to the end, Ria, I think, is there a question on the webcast. Maybe we should have a final question from the webcast.

Operator

Just one question on the webcast from Emmanuel Besson from Duvel Asset Management. Would you consider paying quarter or semester dividends in the future starting by 2021.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you Emanuel for your question. Etienne, that is certainly a question that you can answer.

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

So I will not give the answer, I can just say that this is a question, we are getting from time-to-time and even more during crisis time from some investors. The experience of this year, shows that it was difficult to come to a payment of a dividend this year, and the 50% was, I think, the fact that we paid early enough, this dividend was a right decision, given what is happening on the regulatory side.

So if we look back at this year, sort of half year dividend, would have been a good idea. But we cannot say that with certainty that we'll do that. We have to think about this. But this is a question, which we have already in mind, and on which we will reflect further with the management and the Board. But absolutely -- it's absolutely not a promise to move in that side, just an information that we are thinking about that, but without any commitment.

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. Thank you very much for all these very rich questions and for the good discussions. Thank you for attending that session, and we wish you now a great rest of the day, and in particular, a good summer. Hope to see you all soon in person. Thank you.

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