Q4 2013 Earnings Call

Company Participants

- Denis Duverne, Deputy CEO
- Gerald Harlin, Group CFO
- Henri de Castries, Chairman and CEO
- Mattieu Rouot, SVP, Head of IR
- Paul Evans, CEO

Other Participants

- Andrew Crean, Analyst
- Blair Stewart, Analyst
- Claudia Gaspari, Analyst
- Francois Boissin, Analyst
- Jon Hocking, Analyst
- Michael Klien, Analyst
- Nick Holmes, Analyst
- Oliver Steel, Analyst
- Peter Eliot, Analyst
- Ralph Hebgen, Analyst
- Unidentified Participant, Analyst
- William Elderkin, Analyst

Presentation

Mattieu Rouot {BIO 16685171 <GO>}

Okay. I think we can start. So. Good afternoon or good morning to all of you here in the room. But also on the webcast. Welcome to our full-year 2013 earnings presentation with the management team of AXA. So here with us today is Henri de Castries, our Chairman and CEO of the Group; Denis Duverne, our Deputy CEO; and Gerald Harlin, our Group CFO.

The management team will go through the presentation and then a Q&A will -- a Q&A session will follow. I think, Henri, I can hand over to now.

Henri de Castries {BIO 1439683 <GO>}

Thank you, Mattieu. Good afternoon, everybody. It's good to be here and to see the floods receding.

So let's start quickly. And then I hand over to Denis. The 2013 has been a very strong year for us, as you've seen in the numbers. And as you will see in more details now.

Underlying earnings are up 18%, which puts us in a very comfortable situation when we look at the middle-term goals of Ambition AXA. Adjusted earnings are up 20%. It's slightly more than underlying earnings because of the realization of capital gains at the top of the range we had in mind.

Last. But not least, the free cash flows or the operating free cash flows of the Group are up 12%. So a strong performance from an operating standpoint.

This translates into a good growth in the earnings per share, 10%, at the top of the range we had set for Ambition AXA, which is 5% to 10%. We are at 10%. And if you look at what has been the average growth rate since the beginning of the plan, it's 6%.

Adjusted earnings per share are the base for the dividend, are up 12%. And this puts us in a situation where the Board is recommending to the shareholders meeting to pay an EUR0.81 dividend, which means a 40% payout ratio, within our -- I mean, the -- within the range we have set, which is between 40% and 50%. We think that being there is reasonable for the middle long term.

Balance sheet -- strong and healthy. The Solvency II ratio is above 200%. You have to notice that we have slightly changed the way we computed when compared to last year, because we now take out the dividend we are going to pay in a few months. So all things equal, it's an increase by 7 points when compared to last year.

There, too, we are very comfortable with the implementation of Solvency II, even if a lot of details remain to be discussed as far as the implementation measures are concerned on the regulatory side. The approval of our internal model is on track. And, well, it's going to go along for most of this year.

The second regulatory front which is important for us is the discussion surrounding the GC fees. We are one of the nine designated systematic insurers. I'm not sure we fully understand what it means. But we have been designated. And we are, of course, in discussions on the basic capital requirements, which are going to be imposed to these nine insurers. And are very comfortable that our level of capital will enable us to absorb that. There are uncertainties around the process. But we feel comfortable.

If you look at the gearing -- and this is one of the new elements for this presentation -- you will remember that the target we had set was a target of 25%. At the end of 2013 we were at 24%. And we are now changing the target and indicating a range of 23% to 25%.

So the floor has become a ceiling. Why so? Because we think that in this world it's better to be slightly cautious and navigating between 23% and 25% seems to us to be the right thing to-- the right thing to do.

A few words on the implementation of Ambition AXA. You remember the three pillars -- selectivity, acceleration, efficiency. Selectivity was meaning or is still meaning a better use of the capital we deploy. And more selectivity in the business we are doing, mostly in the mature countries. And if you look at what we've been doing since 2010 in the mature countries, we have disposed businesses or extracted capital for EUR8.5 billion, which have been either redeployed to emerging markets or used to decrease the leverage.

This has not affected the earnings, because in between the earnings in the mature markets gone from EUR3.7 billion to EUR4.2 billion. This has not affected the growth, since the growth has been modest but real during years where the markets were poor and the economy bad.

The business mix has improved in mature markets, along the lines we had set at the beginning of the exercise. Protection and health has been growing at 7% a year. Unit-linked has been growing at 8% a year. The direct revenues in P&C have been growing at 6% a year. And the combined ratio has been decreasing by 5 points over the period.

What has been decreasing is the portion of the general account in the total of the business, which was what we intended to do, for the reasons you all know, which were less attractiveness for the customers and lower margins for us. We will see that later.

So high growth markets now, which was the second pillar. Have we accelerated? If you look at what the top-line growth and the bottom-line growth, they have been pretty strong. The earnings growth has been approximately 28% on a compounded basis, whereas the top-line growth has been 17% in life and 15% in P&C, 2 points behind that. It's a source of acceleration for the growth. And it's not investing in a black hole, since earnings have progressed faster than revenues.

These are countries where we can extract very decent margins. And even if there is a relative slowdown from their economies these days, since we are long-term investors, we remain very confident that this is going to be very attractive for us for a long time.

We think that we have now mostly bridged the footprint gap we had. We have strongly reinforced the operations we have in Asia, one of the elements having been the deal we made with HSBC to buy their P&C activities in the region, another example being the acquisition in 2013 of 50% of Tian Ping, the Chinese property casualty insurer, who has a license to operate in automobile insurance in the world of China, China having become the first automobile market in the world.

The Chinese are buying 19 million cars a year, 10 times what is bought in the French market, more than 10 times what is bought in this market. And most of it being the first equipment of the households buying these cars. So no insurance before. Therefore, it's a great source of growth.

What else should I say? We have also expanded the footprint in Latin America with the acquisition of Colpatria, the 51% of Colpatria, a large Colombian insurer. Colombia is a large market. It's far away from here. But it's nearly 50 million inhabitants with a very fast-growing middle class and a well-managed country, very attractive for us. We hope this is going to produce good earnings going forward.

Last point, last pillar of Ambition AXA, efficiency. We had set a goal of EUR1.5 million of efficiency savings over the -- EUR1.5 billion, sorry, of efficiency savings over the period. We have already delivered EUR1.1 billion. We have been increasing the target -- sorry, EUR1.2 billion. Yes, rounding up. We have increased the target to EUR1.7 billion and are very comfortable that we will achieve it.

This doesn't mean that we are not going to invest into our future. Denis will comment with you slightly later the investments we are doing to face digital and big data, which we think are going to be great opportunities for us.

What are the levels of this increased efficiency? Increasing the efficiency of the distribution. We are proud of the proprietary networks we have. We are proud of the relationships we have with our distribution, even when it's not proprietary. But we recognize that it's an expensive one. So increasing the efficiency of this distribution is an important point, has been in the last years, is going to remain an important point going forward.

Second point -- improving the operational performance. I think everybody does that. There is nothing specific there.

Last but not -- sorry, third point, we have to offset the increase in IT investments, which are coming from the necessity to face digital and big data, by a reduction in the ordinary IT expenses. So make the difference between investments and maintenance. And there, because of all the legacy systems, we have a significant burden which we intend to reduce further.

Last. But not least. And also a very classical point, how to leverage better the procurement savings. We've been doing significant efforts over the last years. No reason to see them stopping going forward. So significant levers.

And now I'm going to hand over to Denis. And to make the exercise easier for him, everything has disappeared.

Denis Duverne {BIO 1521138 <GO>}

Thank you, Henri. Good afternoon, everyone. So I'll go into more details of our plan, Ambition AXA, starting with the financial objectives on page A13, underlying earnings per share, we had set out a target of 5% to 10% compound annual growth. This year, we achieved 10%. So at the high end of the range. And cumulatively, we are at a growth of 6%.

Group operating free cash flow, Henri mentioned the EUR5.2 billion. We've been able to increase our free cash flow by EUR500 million a year. And if you do the math, it seems that the EUR24 billion of cumulative free cash flow for 2015 will be achieved.

Adjusted ROE, 13% to 15%, we achieved 14.8% this year, which is close to the high end of the range. And that gearing, I will not belabor that point, since it was covered by Henri just a minute ago.

Selectivity -- going into more details on the Life and Savings side, we had indicated that we would focus a lot more on protection and health and on unit-linked. This is happening. You see that over the period, we've moved the protection and health business from 31% of our new business to 39% in three years. The margin has kept going up. It's at 59% NBV margin.

We continue to invest less, or our customer invest less in general accounts savings. Our margin has gone up, because interest rates have gone up. It's 11%. But that represents only 14% of the business.

Unit-linked was a good year in 2013. Unit-linked sales went up by 14%. And this represents 34% of the new business, with a margin of 26%.

And finally, mutual funds and other, 12% of the total. This is mainly in the US and the UK.

On the P&C side, our compound annual growth was 3%. It was a bit less in '13. It was only 2%. But our combined ratio, at the same time, has improved substantially to 96.6, which means that the 96% that we have targeted for 2015 looks eminently achievable.

Acceleration in emerging markets, in high-growth markets, we had indicated that we would be able to achieve a 15% compound annual growth of the top line. On the Life and Savings new business, the growth on the comparable basis was 11%. Cumulatively, over three years, it's 17%. And the contribution of high-growth markets to the total of the new business of the Group is now 17% compared to 12% in 2010.

P&C revenues, compound growth of 15%. The growth this year was 14%. In spite of the slowdown in several emerging markets, we've been able to achieve 14%. And the contribution of high-growth markets to the total revenues of the Group is now 16%.

Efficiency -- we are on track, as Henri indicated. You see that the savings have accelerated on the life side. Of the total EUR400 million additional savings this year, EUR300 million come from the life side. And you see that we are also savings, as Henri mentioned just a minute ago, on BAU IT, EUR0.2 billion.

Our investments in IT have been slightly growing, representing EUR1.2 billion. And our investments in digital have accelerated. We had thought that we would spend roughly EUR600 million over '13, '14. And '15. And we have readjusted that target to EUR800 million, having spent more than EUR250 million this year.

Now moving to the performance of the Group in more details, you see on slide A19 the breakdown of the earnings by segment. And you see that we have growth in earnings in all segments. I will comment this page in more detail. But focus more on slide A20, where you can see that we had a negative impact of the ForEx on our underlying earnings, which is mainly yen, Swiss franc. And US dollar of -- for a total of EUR166 million.

Moving to the adjusted earnings, they went up 20% to EUR5 -- a little more than -- close to EUR5.2 billion thanks to strong underlying earnings and higher capital gains. In this are EUR434 million of capital gains. Our disposal of a substantial part of our shareholding in BNP Paribas accounts for EUR195 million, this shareholding having been brought down to 1.4% at year end and having come down further since then.

Moving to the net income on the next slide, the net income was up 14% to EUR4.5 billion. I will just comment on two items.

First one, change in fair value and ForEx. We have, as you know, hedges that work economically. But do not work from an accounting standpoint. So we have an accounting mismatch. And this year we had two negative impacts, one coming from the increase in interest rates for EUR387 million, one coming from ForEx position, EUR440 million, because we hedged a part of our investments in our operating subsidiaries, the holdings of the holding company.

The second point I want to highlight is the restructuring costs. They are relatively stable, around EUR250 million. So you could ask, why aren't you ending -- I mean, stopping restructuring costs. The reality is, if you want to increase -- I mean, to reduce your expenses on an ongoing basis, we have to go through various restructurings in the various parts of the Group. And we have front-loaded costs as we restructure our various businesses to cut our expenses.

Moving now to the different segments of the Group. And starting with the Life and Savings segment, on slide 24, you see the breakdown of our new business between mature markets and high-growth markets. You see that this year we resumed growth in mature markets. And this growth was particularly strong in the UK, in the US. And in Switzerland, the total being 4%.

High-growth markets were up 11%. And this is a contraction of a continued poor performance in Central and Eastern Europe on the back of the pension nationalizations that occurred in Hungary and Poland. In spite of that, we have a growth of 11%, thanks to Asia, which is up 16%.

Our new business margins improved, both in mature markets and in high-growth markets thanks to the improved business mix with more protection and health. And more unit-linked, the total being 35% NBV margin.

Let me now look at the new business sales and margins by segment. But sub-segment -- protection and health, savings, unit-linked. And mutual funds. And I will not comment the left part of the side. But concentrate on the right part where we have the net flows.

Protection and health, we accelerated the net flows to EUR5.2 billion. On savings we had negative EUR5.2 billion of flows. Of that, EUR900 million were exceptional in Switzerland due to a change in regulation on an employee pension scheme, which had to move -- to be moved to -- to leave the Company to go an autonomous pension fund.

Unit-linked, the flows are -- seem to be low at EUR0.9 billion. But you have two exceptionals. One is something that we announced to you already several months ago, which is the GMxB buyout campaign in the US, where we had success of the buyout. And, hence, negative flows for EUR1.7 billion. The second one was Japan, where we essentially stopped producing variable annuities because of the very low interest rates. To do that, we reduced commissions to the point where sales were close to zero.

Mutual funds had a slight positive. So in total, we have EUR1.1 billion positive flow in our life business. But that includes EUR5.2 billion -- sorry, that would have been EUR5.2 billion excluding the three exceptionals that I have mentioned earlier.

Looking now at the pretax earnings by business, they grew by 13%. If we go directly to the right part of the slide, all the growth and more is coming from the unit-linked side, thanks to higher earnings on the VA side in the US. You remember that we had a number of exceptional negatives last year. So we -- I would say we are back to normal on the US VAs. And thanks, also, to a good performance of equity markets, which leads to higher fees, in line with higher asset-bases.

We have two negative movements on the other two sub-segments. On protection and health, we have a decline of 7%, which is largely due to less-favorable mortality in the US, with a negative adjustment of close to EUR200 million. The other factors are positive, improved investment margin. And higher margin of revenues, linked to higher sales.

G/A savings was also down 10%, in spite of lower expenses, because we have lower average reserves following the outflows that I have mentioned earlier. And lower sales, hence, lower marginal revenues. There is also a negative impact of ForEx on this line, because all the non-euro denominated reserves are contributing to this line. And produce a smaller contribution.

Moving now to P&C, I mentioned earlier the fact that we had P&C revenues up 2% at EUR29 billion. This is a contrasted story. Personal lines revenues were up only 1%. And this is because of the combination of an average price increase of 2.6%, portfolio growth in direct and high-growth markets.

But more selectivity and pruning in mature markets. In the UK, Belgium. And Germany, we repriced our portfolios. And had to accept lower volumes. So we had significant outflows in those three countries on the personal lines side.

Commercial lines -- we are seeing a growth of revenues of 5%, thanks to an average price increase of 3.4%. And strong portfolio growth in high-growth markets. But also, on the SME side in the UK and in France.

Looking at the pricing environment, I mentioned the overall price increase for personal lines and commercial lines. You see that we have been able to increase prices across the board, with the exception of Switzerland, where you will recall that we have a combined ratio below 90%.

Going forward in 2014, we believe that we'll be able to continue to increase prices in France and Germany, while the pricing environment has become less favorable in the other geographies.

Looking at the P&C revenues and combined ratios between mature markets, high-growth markets. And direct, you see that all the growth in revenues was in high-growth markets and direct. In direct, we had the 7% growth in revenues. In all the other markets, all the markets other than the UK and the decline revenues of 4% in the UK, because of the pruning I have mentioned earlier.

The combined ratio in all those markets was below 100% and improved across the board. This is the first year we have a combined ratio below 100% in direct, which is something that we expect to see continuing. But is a good sign for this business, that we believe has high growth potential. All in all, our current year combined ratio improved by 1.1 points to 97.8%.

P&C earnings increased by 13%. And you see the explanation of this decline of 1.1 points of the current year combined ratio. On one hand, we had higher large losses and double the amount of catastrophes that we had last year.

We are still in a relatively benign year for catastrophes, because we have-- I mean, in our plans, we expect natural catastrophes to represent roughly 1 points of combined ratio. The positives are price increases, expense ratio improvement for 0.4 points and lower, I would say, attritional frequency.

Why do we have higher large losses? Because of the continued difficult economic environment in Europe, where we have the bulk of our presence.

The prior year developments were stable at 1.2 points, giving us an all-year combined ratio of 96.6, again 1.1 points better than last year. Investment income was rather stable, with an asset yield of 3.9%, the same as last year.

Moving now to Asset Management, our average AUM went up by 4% at AXA Investment Managers at 5% at AllianceBernstein. The net flows picture is more contrasted with an increase in net flows to a positive EUR12 billion at AXA Investment Managers, net flows continuing to be negative at AllianceBernstein at EUR4 billion negative. And this is -- the net flows, negative flows, are concentrated on the equity franchise.

On the fixed-income franchise we had -- we continue to have positive flows. But they were much less positive than in prior years. Because of what happened in the -- since the middle of the year with the announcement of the QE tapering, there were significant outflows in Asia and AllianceBernstein has a very strong retail presence in Asia -- Japan, Taiwan, Hong Kong. And Singapore -- and we had significant outflows in fixed income there. Revenues were up 10% at AXA IM. And 7% at AB.

All in all, the earnings of the Asset Management business grew by 8%. They were up 20% at AllianceBernstein, thanks to higher revenues and a very strong cost discipline. They were slightly down at AXA IM, reflecting largely the disposal of AXA Private Equity. They would have been up 6%, otherwise. Thank you very much for your attention. And I hand over now to Gerald, our CFO.

Gerald Harlin {BIO 7424807 <GO>}

Thank you, Denis. So moving now to the balance sheet. And to the shareholders' equity. So the shareholders equity is down EUR0.7 billion. And I would like -- I won't comment all the variations. But focusing on the three elements.

First, the change in net unrealized capital gains is corresponding to the impact of higher interest rates on the OCI.

Next is the ForEx movement, net of hedging, minus EUR2.4 billion. That's the impact of investments denominated in foreign currency. And the most impacted ones are the one in Japan and Switzerland and the US.

Next is the change in pension benefits, plus EUR0.7 billion, correspond to the actuarial gain coming from the -- from higher interest rates.

Now, the debt gearing, which is at 24%. And you can see that the net debt went down from EUR13 billion to EUR12.3 billion. At the same time, the interest cover improved from 9.3 times to 10.2 times.

Now, the economic solvency. The economic solvency, as explained by Henri, has been restated in order to take into account the future dividends. So we restated 2012 in order to take into account the dividend that's been paid, as I said, at EUR0.72 in 2013. As well, the solvency for 2013 takes into account the planned dividend of EUR0.81.

As a whole, you can notice that our economic solvency is improving from 199% to 206%.

In the bottom part of your slide, you can notice that we are still sensitive to the -- mostly sensitive to the rise or drop in interest rates.

Now, the general account invested assets. First, our invested assets moved down from EUR491 billion to EUR470 billion. This drop is explained mostly by three reasons.

The first one is a mark to market in -- with the rise of interest rates. Second is the ForEx on the Japanese yen, US dollar. And Swiss francs. And last is a scope effect coming from the

MONY disposal.

You can notice that we are still -- we slightly increased our fixed-income investment from 82% to 83%. At the same time, listed equities went up from 3% to 4%. But remain modest, taking into account Solvency II cost, which is pretty high.

On the asset yields, as mentioned by Denis, we are quite stable -- we are stable in P&C at 3.9%. For Life and Savings, we dropped by 10 basis points from 3.8% to 3.7%. We are hurt by our long duration. And you can see at the bottom right that we have been investing at 2.9%. And in the euro zone at 3.2%.

The investment margins -- investment margin was, in 2013, at 80 basis points, within the guidance of 70 to 80 basis points. And this included some exceptional dividends from private equity and equity funds. And I can consider than it's roughly 2 to 3 basis points.

Next is the operating cash flow, the Life operating free cash flow. And you can see that it increased from EUR2.2 billion to EUR2.3 billion, plus 9 points. Just in the middle, you have the new business IRR, which -- which went up sharply, in line with our selectivity strategy. And so explaining that between 2012 we moved up from 12.5% to 14.2%.

Now, the operating free cash flow, the Group operating free cash flow. On top of the Life and Savings free cash flow at EUR2.3 billion that I just commented, you have the P&C, plus the Asset Management. P&C corresponds to the adjusted earnings from our P&C business, plus the international segment.

Remittance ratio now, which is pretty in line with our guideline, we were at 75% last year.

Last, the Group embedded value, which went up from EUR37.3 billion to EUR43 billion, on top of an operating return of 18%, the non-operating variance corresponding to the improvement in global economic conditions, I mean, mostly higher equity markets. But also higher interest rates. Thank you.

Henri de Castries {BIO 1439683 <GO>}

Thanks, Gerald. As a conclusion, what can we say? I think it's very simple. Very solid and strong earnings, very much in line with our middle-term plans. Clearly, a good basis to prepare the future, because this industry is going to be very deeply affected by what's going to happen around digital and big data. And you need to prepare yourself. I think we are for that in a very good position.

So that's where we are. And now let's open the floor to questions, both in the room and on the web.

Questions And Answers

A - Henri de Castries {BIO 1439683 <GO>}

Yes? If, when you ask your question, you could introduce yourself for the people who are just listening to the call. There is a mic here. Let's start on the right side.

Q - Jon Hocking {BIO 2163183 <GO>}

It's Jon Hocking from Morgan Stanley. I've got two questions, please.

On the dividend, you're at the bottom end of your range. What signpost can we look for to see whether you're going to move up that range? Is it solvency ratio? Is it earnings? Is it the fact that you had good year-on-year dividend growth at the bottom of the range? How should we think about that? That's the first question.

And the second question, on free cash flow, the IRRs moved up nicely in the Life business. Free cash flow growth in the Life unit, going forward, is that going to be a function of new business coming down. And if it is, which markets do you see that you can re-allocated cash away from? Thank you.

A - Henri de Castries {BIO 1439683 <GO>}

Okay. Thank you. I take the first part of the questions. Denis or Gerald, do you want to take the second part of the question?

I mean, on the dividend, we are at the bottom end of the range. But we are within the range. The reason for which, we don't want to go up more is very simple. It's a combination of caution and optimism. It's caution, because the discussions surrounding the regulatory environment are not over, point one.

It's caution, because even if the economic environment is better, it's still fragile. And you all know how much we have suffered during the crisis from the perception of our leverage. We've been bringing it down. We want to bring it, as we've said, slightly further down, even if think now that we are in very comfortable territory.

So that's the caution part. The optimism part is, we have new business to fund. And, therefore, we think that increasing the payout would not be the best thing to do. So that's where we are? Denis? Operating cash flows?

A - Denis Duverne {BIO 1521138 <GO>}

On the internal rate of return, which was your questions, maybe you can go to page B69, which is in the appendix. And you will see here that across the board, all countries have an improvement in their new business internal rate of revenue.

I just -- answering your question about what it will mean for the future, that means that the cash flows will be impacted, because here we are in the real world. I mean, it's done in the management case, whereas the NBV is done on the market-consistent basis.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you.

A - Henri de Castries {BIO 1439683 <GO>}

Is it a clear answer?

Q - Jon Hocking {BIO 2163183 <GO>}

Yes.

A - Henri de Castries {BIO 1439683 <GO>}

Good. Next question. Let's move side -- Nick or, yes, whoever.

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes of Soc Gen. I had a couple of questions on reserves, please.

The first is on the GMxB reserves, where you have a buyout offer for EUR6 billion. Can you update us? I know this has been progressing reasonably well. And you gave us some numbers. Can you update us how far you think this might go?

Then also, looking at the reserve releases, I was interested to see that you strengthened reserves with the releases. And I just wondered what your view is, going forward, whether you think there will be more reserve strengthening here, or whether you would release reserves?

Then the second question is on the P&C reserves. Basically, do you expect releases to remain at 1% to 2% going forward? And what are the things that would worry you with your reserve strength in P&C? What might put pressure on that level of release? Thank you.

A - Henri de Castries {BIO 1439683 <GO>}

Okay. Gerald, you want to take this?

A - Gerald Harlin {BIO 7424807 <GO>}

Maybe, Nick, you can go to page B28 of the appendix. And here you have the roll forward and the impact on reserves, which was your questions.

So the reserve -- the GMxB reserve is going down from $13.1 billion to $8.1 billion. And you can see that the buyout program represents $0.6 billion. So the most important part on the decrease in reserves is coming from the market and other. And the first element is the one I mentioned before, equity markets.

With equity markets up 30%, of course the options go out of the money, which means that you have less reserves. Less reserves means also less risk of suffering from the volatility.

And to back to your question on the buyout program, we won't make every year such a buyout program. And you will see that this program is important to the use of reserves. But markets play a much more important role.

Q - Nick Holmes {BIO 3387435 <GO>}

Can I just quickly follow up on that? I mean. So far, you've achieved about 10%.

A - Gerald Harlin {BIO 7424807 <GO>}

Yes.

Q - Nick Holmes {BIO 3387435 <GO>}

What do you sort of think, ballpark, you might achieve?

A - Gerald Harlin {BIO 7424807 <GO>}

As a whole, we were at 10 -- on top of my head, we are 10.2%. So that's what we were expecting.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Okay. So, we have to wait for the next buyout offer. Got it?

A - Henri de Castries {BIO 1439683 <GO>}

P&C?

A - Denis Duverne {BIO 1521138 <GO>}

So you had two other questions, one was, if I understand, on the Life reserves and the second one on P&C reserves. Is that right?

Q - Nick Holmes {BIO 3387435 <GO>}

Correct. I mean, it was really the GMxB reserves. It was just -- I noticed that you'd taken -- there was a EUR200 million release, I think, which you used to strengthen the lapse reserves in the GMxB.

A - Denis Duverne {BIO 1521138 <GO>}

No, on GMxB, we have not -- on GMxB, we were absolutely in line with our behavior assumptions. You remember that we took a big reserve last year. We said that we expected that there would be no further need to strengthen the reserve for customer behavior. And nothing happened this year. So, I would say, our predictions were vindicated on the GMxB reserves.

We did have an -- we did have two reserve strengthening, which Gerald may comment, one in Japan and one in the US. You want to comment on those two, Gerald?

A - Gerald Harlin {BIO 7424807 <GO>}

Yes. We had, first, in the US, a reserve strengthening. And we can go back to page A26 that Denis just commented. And the first one is in the protection and health. That means that we had unfavorable mortality in the US on both the experience. And the reserves, which means that we had a EUR0.2 billion hit on that side.

At the same time, in G/A savings, at the reverse, we had some longevity hit in the -- in Japan. And this represents EUR0.1 billion.

So as a whole -- and these figures are before tax -- we had, roughly EUR0.3 billion one-offs.

Q - Nick Holmes {BIO 3387435 <GO>}

Very clear. Thank you.

A - Denis Duverne {BIO 1521138 <GO>}

And we don't have any expectation that -- to have this as a recurring phenomenon. So the mortality one is probably the more interesting to comment, because basically what happened in the US is that whereas before we had a mortality improvement every year, basically, in line with the progress of longevity. What we have discovered during 2013 was that mortality ceased to improve for (inaudible) over 50. Part of it is health --

Q - Unidentified Participant

(Inaudible).

A - Denis Duverne {BIO 1521138 <GO>}

Mortality ceased to improve. So two elements. One was, I would say, health related, probably obesity and things like that. The other one was suicides. And so, we -- the question for us is going to be is this something that we'll see in other markets? Is this something that we will see continuing? But we've made the best adjustment that we thought was advisable in the circumstances.

Last comment on P&C reserves, reserve releases. So basically, we are very comfortable with our level of reserves overall. We didn't reduce the strength of our reserves overall in P&C. We had 1.2 points of positive developments, as I indicated, like last year. I cannot tell you whether this -- I mean, I am reasonable confident that this 1.2 is close to the bottom of what we could expect. But I would not commit that we -- this number would increase. That's probably where we would say -- stand.

A - Gerald Harlin {BIO 7424807 <GO>}

You have the sequence on page B33.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you very much.

A - Henri de Castries {BIO 1439683 <GO>}

I've been impressed by the ability of Gerald to move from one page to the other in the appendixes and by the Jesuitic answer of Denis on the prior-year reserves. Next question? Here. Let's stay on this side.

Q - Michael Klien {BIO 4262408 <GO>}

Yes. It's Michael Klien from Nomura. I had two questions, if I may. Firstly, on the Japanese operations, we saw that the new business value increased quite sharply, year over year, even though actually your sales in terms of APs, was down, which meant, obviously, your margin has increased materially.

Is this -- can you maybe give us some indications in terms of what the key drivers were? You mentioned the discontinuation of the VA sales. And also, give us some indication in terms of how you expect this to progress into 2014?

And my second question would be on UK floods. I guess you can't really say much in terms of estimates. But maybe about what you're expecting from the market so far? And also, touch, therefore, more on your reinsurance program. And, therefore, what kind of hypothetical we can think of?

A - Henri de Castries {BIO 1439683 <GO>}

Paul, do you want to answer on the UK floods? And Gerald or Denis will answer in Japan.

A - Paul Evans {BIO 7044129 <GO>}

So as far as the reinsurance is concerned, I'll be quite surprised if the floods was a reinsurance event for the UK market, unless they had very low deductibles. It won't touch ours.

Obviously, it fell into different years. So we saw around GBP 60 million in 2013 across flood and storm, because, of course, the uniqueness of the UK event was it was a flood in parallel with very, very severe storms. In fact, we saw -- for every one flood claim, there's 25 storm claims.

And coming into -- and that carried through until January and February, we think. It's very, very early for January and February. But I would say it's probably about GBP 16 million of flood so far. And more wind storm, perhaps another GBP 20 million of wind storm.

But not a reinsurance event. Is it a pricing event? I would say that all the flooding did last year was return the weather to a normalized year. We saw next to now weather losses in the first, well, 11 months of 2013. We were expecting, therefore, for it to be a softening market. And, indeed, rates did start to soften. AXA did not, didn't soften our rates, at all. And, therefore, we lost some volume.

So will competitor need to reprice? That's the question. We haven't seen it so far. But those who did soften into benign weather may have caught a cold.

A - Henri de Castries {BIO 1439683 <GO>}

Japan?

A - Denis Duverne {BIO 1521138 <GO>}

So on Japan, basically, the -- I have, in part, already addressed this question. It's almost no VA sales. And, more generally, very little savings sales. So we have focused on the two most profitable lines of business, which are pure protection and health. We have continued to be innovative on the product front.

We have expanded our distribution. We have a very strong distribution network. And multiple distribution networks. But we have a proprietary network with the Japanese chambers of commerce where we are adding new people on a net basis, which has been the case for the second-year running. And we expect to continue to do that.

We are strengthening our relationship with the -- with what is called in Japan the agents that work. But, in fact, it's the brokers. These are brokers. We have expanded our presence with medium-size brokers. And this is the focus on, again, health and pure protection that has generated these very high margins. And on those lines of business, we have not only high margins. But also strong growth in our sales.

A - Henri de Castries {BIO 1439683 <GO>}

(Inaudible) we are trying to have, because it's reputed to be a market with no growth. In reality, if you are selective. And if you target your segments, you can achieve pretty good growth with very high margins.

Next question? Whoever.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Thank you. Ralph Hebgen from KBW. Just three things.

On the remittance range, I saw that is pretty much stable, 75%. But also, as I remember a slide from the June 2011 Investor Day, which would indicate an ambition in place, at the time, at least, that you wanted to grow this to 80%, potentially. So the question is, is that ambition still there? That will be interesting to hear.

The second one is on the movement of the economic solvency ratio. I saw one point, which was 7 points down due to model refinements. If you could just make some explanatory comments around that, what these refinements were. I saw the annotation. But it would be interesting to hear what's behind the annotation on the slide?

And finally, a point of detail, I'm afraid. I believe there was a reserve increase in France, which relates to a court judgment on bodily injury. If you could quantify that, it would be fantastic. If not, some qualitative comment of how that might have impacted the reserve release which you show would be interesting.

A - Henri de Castries {BIO 1439683 <GO>}

Good. You want to keep Gerald on his toes.

A - Denis Duverne {BIO 1521138 <GO>}

So I'll take the remittance ratio and let Gerald take the other two, if that's okay with you.

So remittance ratio, I have to disappoint you, Ralph, because, yes, we had the aspiration to grow to -- to grow from 75 to 80. And we see that we have a very hard time in achieving that, especially. And this is a comment that would be very topical, because in the move from Solvency I to Solvency II, we see the various supervisors being quite cautious and trying to keep as much capital in each locality instead of accepting that the Group should operate as a Group and upstream a maximum level of dividends.

So upstreaming dividends is not an easy undertaking. And I don't expect that we will be able to move from 75% to 80%.

A - Henri de Castries {BIO 1439683 <GO>}

But it's an industry phenomenon. I mean, the risk of seeing fragmentation coming in financial markets throughout Europe is a real one. We are fighting against it. We don't think there is any good -- I mean, reason, for that. But it's happening. Gerald?

A - Gerald Harlin {BIO 7424807 <GO>}

Yes. On your question relative to the model refinement, in fact, it's coming from -- it's linked to the absorption of the policyholder. To make it simple, when you have a shock on equity markets, you can suppose that it's absorbed by the policy -- by policyholders. And same for, let's say, interest rates. But when you combine both, you have a kind of cliff effect, because they cannot absorb twice the initial amount, to make it simple. That's exactly it. That's the type of refinement that we (inaudible).

A - Henri de Castries {BIO 1439683 <GO>}

French reserves?

A - Gerald Harlin {BIO 7424807 <GO>}

On the French reserves, in fact, we increased our reserves of roughly EUR150 million. And it was mostly offset, indeed, by prior -- positive prior reserve releases.

A - Henri de Castries {BIO 1439683 <GO>}

Next question.

A - Denis Duverne {BIO 1521138 <GO>}

But the totality of the reserve increase was not (inaudible). It's a mix of different --

A - Gerald Harlin {BIO 7424807 <GO>}

It's a mix of different things, yes.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you. Peter Eliot from Berenberg. Thank you. Peter Eliot from Berenberg.

I wanted also, first of all, just to touch on the economic solvency. But just looking at it from your exposure and appetite for exposure to market risk, I was going to say that I thought it was hurt by about 10percentage points due to that. It may have been slightly less. But it was certainly -- the economic solvency development was hurt by that.

But when I looked at the sensitivities, they didn't really change very much. And then when I looked at the sensitivity of earnings to market risks, they seem to have come down a lot recently. So I guess I was just trying to square that circle. Yes. Absolutely. And perhaps if you could just update us on your thoughts on that, as well?

Then secondly, if I could just, more or less coming back on Jon's question. But I when I was listening to your answer, Henri, on the dividend, on the payout ratio, I was sort of thinking I need to pencil in 40% for the next few years.

But when I sort of think, well, you're doing pretty well against your targets and, in particular, on the cash flow, as you mentioned, your current run rate is well above that. Your leverage, actually, is within the target range. I started thinking, well, what needs to happen?

Is that the wrong -- was the wrong assumption. And, if so, what needs to happen for us to move above the bottom?

A - Henri de Castries {BIO 1439683 <GO>}

I think you will need to live with your impatience as long as we will have to live with the uncertainty surrounding the regulatory framework and the macro environment. Once more, we've learned our lesson from the 2008-2011 years. We think the operations of the Group were always tightly managed. But we have disproportionately suffered from the fact that the balance sheet was seen as being slightly more aggressive than others.

We don't want to see that happening again, even if it -- if it is at the risk of seeing you being slightly impatient.

On the solvency ratio and on the ability to reconcile the sensitivities with the moves from one year to the other, Gerald, you want to try?

A - Gerald Harlin {BIO 7424807 <GO>}

Yes, maybe I'll try. On page B11, you can see here -- your question was on equities and or interest rates, or both?

Q - Peter Eliot {BIO 7556214 <GO>}

Well it was --

A - Henri de Castries {BIO 1439683 <GO>}

Both.

A - Gerald Harlin {BIO 7424807 <GO>}

Okay, let's take page B11. So I'll start first with -- so, here, we are dealing with the impact on the earnings. And what you can see with equities, if equities go down by 25%, you can notice that the P&L would be impacted through net income by minus EUR0.6 billion, of which EUR0.4 billion due to the impairment rules.

So at the time-- and, at the same time, the OCIs, that means that the -- on the balance sheet, the net unrealized capital gains and losses would be down EUR1.1 billion. It's the reverse when it's going up.

In interest rates, it's much easier, because in interest rates, it's directly hit. The net income is only hit by some mutual funds which are mark to market. But there are only a few. That explains why a plus or minus 100 basis points is only minus EUR0.1 billion to plus EUR0.2 billion.

But on the reverse on the OCI side and on the balance sheet, you have a strong increase of EUR7.4 billion in case of a drop of 100 basis points and a strong decrease of EUR6.9 billion in case of a rise of 100 basis points. I don't know if it helped.

A - Denis Duverne {BIO 1521138 <GO>}

So maybe I will add two points. First, we have reduced the accounting sensitivity, the earning sensitivity, from a net income standpoint of interest rate moves by a slight change in the way we account for some hedges in the US. So that earning sensitivity that you see in 2013 will be lower in '14 on interest rate moves.

Secondly, there is a comment in the press release on the economic solvency, because you mentioned, also, the economic solvency, where we said that we talk about the model refinements. And increased market risk exposure, due mainly to higher interest rates and equity markets.

So I'll take those two elements. Higher exposure to equity markets, because equity markets have gone up, Gerald has mentioned the fact that our allocation had moved from 3% to 4%. This leads to an increased market risk.

The interest rate movement is more -- is more complicated to explain, because, I mean, the higher interest rates, the first order element is positive, because options are less in the money. So, our solvency coverage should be better. But there are second order effects linked to what happens on the lapses.

And, therefore, in fact our -- because of the correlation between financial markets and insurance risk in reality, we increase our exposure -- our financial risk exposure, because we have, I would say, lower -- higher lapse risk because of higher interest rates. That's what happened on the interest rate side.

A - Henri de Castries {BIO 1439683 <GO>}

Welcome to the magic of models. Blair, or whoever?

Q - Francois Boissin {BIO 16045021 <GO>}

Yes. Good afternoon. Francois Boissin from Exane BNP Paribas. Two question, please.

The first one on coming back on the optimism side of the dividend policy. So you mentioned you have growth to fund. So I just wanted to have a bit more clarity on this. I mean, is this future M&A? And if so, I think you mentioned that the gap had been bridged in many emerging regions. So basically what regions are you targeting right now. And which business lines? Or is it that you intend to write products which are more capital intensive going forward? So that's the first question.

The second question is, coming back to the remittance ratio, which is hard to raise, I appreciate this difficult because of regulators. But you are in many countries. And basically I was just wondering whether you could provide a bit more clarity on where this is difficult to upstream capital. And where is this easier?

A - Henri de Castries {BIO 1439683 <GO>}

On the first point. And Denis or Gerald will take the second one. First, I mean, we intend to stay pragmatic as we've always been over the last 40 years. So we want to be sure that if there is an opportunity we can seize it.

Second point, we do not intend to do any major acquisitions. I mean, this is not in the picture.

Third, we have some existing businesses which are going to require additional funding because their growth is going to be extremely strong. Take the Chinese example. On both sides, both on the Life side with ICBC, as well as on the P&C side with Tian Ping, the growth expectations in terms of premiums are such that additional funding will be needed, even if the business is very profitable. It cannot be self-funding, given what the growth rate is.

So if you add to that, last but not least, the fact that we want to start a green field in Brazil on commercial risks and a couple of other things, you understand why we want to have, let's say, some cushion. Remittance ratio?

A - Denis Duverne {BIO 1521138 <GO>}

Well I will not pinpoint any specific supervisor. Upstreaming capital is difficult these days, because post financial crisis all supervisors are or tend to be more prudent than they -- or more cautious than they were in the past.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel at Deutsche Bank. Two questions. The first is on Japan. Bond yields there remain still very low. I was just wondering if you could remind us of your liabilities there and how you're feeling about that?

The second thing is going back to Ambition AXA, you started off with a 10% per annum earnings growth target, which, fair enough, you then cut to 5% to 10% based on the sort of macro sensitivities that you gave us. But actually, equity markets have lifted back in to your trend line since then. Bond yields have lifted, although I admit they're still below the trend line.

So my question is, if we were to try and pinpoint what we should really be looking at in terms of the sort of macro-adjusted earnings growth rate from here, my gut sense is, it's higher than 6% per annum.

A - Henri de Castries {BIO 1439683 <GO>}

Maybe yours. But we are not going to update that quarter after quarter, because we don't think it would be the right thing to do. I mean, as you've said, interest rates have risen last year. But, I mean, not by much. I mean, yes in the US, not that much in many other places. By the way, in some peripherals, they have gone down in Europe. And significantly. Even if it was good for us, given the fact that we had bought bonds in these countries, it's a point.

Second, it's not because equity markets have risen for a year that we should fundamentally change our assumptions. If you look at what the start of the year has been, I don't think there is much reason for hype there. So 5% to 10% seems to us to be the reasonable guidance we can give.

On the other point?

A - Denis Duverne {BIO 1521138 <GO>}

On Japan, I mean, Japan, as you know, we still have a legacy portfolio with high guarantees. We have been able to manage that portfolio in such a way that our investment margins -- our investment margin was roughly zero. 2013 has been exceptionally good thanks to the equity markets in Japan, some private equity gains realization.

But I would say that the guidance should remain the same, that we expect to have a zero investment margin offsetting the cost of those guarantees with a relatively investment strategy with which we are reasonably comfortable, because we have a very competent investment team there.

A - Henri de Castries {BIO 1439683 <GO>}

Blair?

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much Blair Stewart from BofA Merrill. Just coming back to the comment you made about you've bridged the footprint gap in emerging markets. I know you too well to know that's not true. You still harbor ambitions to get bigger there. It's only 12%, 13% of your earnings.

So is that really the case? Have you really bridged the gap that you identified? And are you where you want to be in emerging markets? Or, perhaps, are the growth businesses you have there going to absorb your ability to finance them organically? Is that the situation?

Then back to the mundane, in terms of the levers you talked about with IT costs and the distribution side, I just wonder if you could quantify a little bit about what you can on IT costs and on the distribution side, making it more efficient. And what impact that might have on the bottom line? Thank you.

A - Henri de Castries {BIO 1439683 <GO>}

You may think you know me well. But you can be wrong, as you were in predicting the outcome of the last rugby game.

The -- more seriously, Blair, I think we have covered most of what we were willing to cover. The -- having said that, we remain pragmatic as far as opportunities are concerned. But where -- I mean, what were the big holes? China -- and it's a big hole or was a big hole for everybody in the industry, given the -- I would say the ability of the Chinese regulators to contain the non-Chinese presence in their market.

I think with the two deals we've done, we are now in pretty good shape. And I don't expect us to do much more there, other than grow and grow fast the operations we now control.

If you look at the rest of Asia, we may have bolt-on acquisitions here and there. But it's never going to be a very major thing.

In Latin America, where we had Mexico, which is, by the way, performing well, we have now this Colombian operation, which looks promising. And we are not going to grow it by acquisitions for a while.

The real hole was Brazil, because we have absolutely no intention to go to Argentina. And if we had, you should alert us.

The -- in Brazil, we are starting on commercial lines. It's going to be a way for us to test the market. But at this stage, I think we are find. And I think the distribution agreements we have in many places in Asia, as well as in other places, are allowing us to grow our business organically at a very significant pace. So we are relaxed about that. Denis?

A - Denis Duverne {BIO 1521138 <GO>}

On efficiency, I don't think I'm going to make any bold new statements. We have this target of EUR1.7 billion. And we've said we would be confident to achieve that. And that contains the totality of our expense saves program until 2015.

We know that we will -- having done that by 2015, we will still have expense challenges. But we will update you in due course. But so far, this is our target. And we've told you the breakdown between distribution and internal costs. And I'm not going to change the guidance on this topic at this stage.

Our IT costs overall are stable. Basically, we reduced the BAU costs. We increased the investments. In total, we spend roughly EUR2.5 billion, EUR2.6 billion in IT. And that will continue at the same pace.

A - Henri de Castries {BIO 1439683 <GO>}

Yes, Andrew.

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean with Autonomous. Three questions, if I may. Your protection and health underlying result, if we adjust for the mortality hit, was still flat, which seems somewhat surprising, given the fact you've been focusing on that.

Secondly, if restructuring costs are a persistent item, the benefit of which comes in underlying earnings, should not restructuring costs also come in underlying earnings?

Then thirdly, could you talk a bit more about release of capital from old world businesses? You sold MONY last year. Are there other disposals which can be done, or even without disposing is there any actions which you can take to release capital from some of these old world businesses?

A - Henri de Castries {BIO 1439683 <GO>}

Yes, I mean, it's something we've been -- I'll take the last part of the question to let them prepare the answers to the first part. But it's something which has been going on now for some years. We had a plant to release EUR3 billion from existing operations. We have now released more than EUR2 billion, which means that we think that there is still more to come.

I mean, it's going to be a combination of disposals, buy-outs. I mean, there are many possibilities in many places. We are looking at it on a more and more granular basis. That's it.

On the other hand, if we want to sell some of these portfolios, we have no -- we are not in a situation where we need capital. What we want to do is have a pragmatic use of the capital we deploy. So we are not ready to sell at any price. So we have to find buyers on a pragmatic basis.

So more to come. It's one of the priorities of the Life and Savings business line. So Jacques de Vaucleroy and his team are working hard at that. We have some large portfolios in some large places. But it's going to be gradual.

Denis or Gerald, do you want to answer the elements?

A - Gerald Harlin {BIO 7424807 <GO>}

To your question, Andrew, about the protection business, you will see in the appendix the protection business, if you take the gross revenues, gross revenues grew by 4%. And we can expect, taking into account the EP growth in this business that normally this revenue should grow in the future.

At the same time, you know that we present our business just like P&C with the combined ratio. This year we were at 95.5. And, as explained before, we have some one-offs. So we can expect to be more in a range, let's say, around 95, maybe between 94.5 and 95. That's what I can tell you.

A - Henri de Castries {BIO 1439683 <GO>}

Denis, on the restructuring, below the line, above the line?

A - Denis Duverne {BIO 1521138 <GO>}

So to add to what Gerald was saying, we would like to grow the top line by more than 4%. And so, if we adjust for the combined ratio evolution, clearly the growth will come from the top line and we need to move from 4% to a higher number. This is what we are striving to achieve.

On restructuring costs, I think you are, in part, right. And because we're mixing in restructuring costs two different elements. And this is for simplicity.

The -- we are mixing restructuring costs that are arising out of acquisitions or disposals. Let's take MONY as an example. We sell MONY, we -- I mean, therefore, we shrink the balance sheet of the Company. And as a result of that shrinkage, which I think really is a net income event, we do have restructuring costs to reduce the cost base of the US, to take that example.

There -- so any M&A-type activity restructuring cost, I think is well allocated in net income. The rest of the restructuring costs, for operations which do not change in scope, we perhaps could have put that in underlying. We have, for simplicity reasons, put everything in the net income line.

A - Henri de Castries {BIO 1439683 <GO>}

Just one point on protection and health. This is clearly an idea where I think we could do more in terms of growth. It's an area where we want to beef up the teams we have. So reinforcing the talent pool is one of the elements we have in mind looking at the next years there, because we think there is a huge potential in Asia, in particular. And for that, we will need to have more people on board.

Another question, or do we have --? Yes, please?

Q - Claudia Gaspari {BIO 15148414 <GO>}

Yes. Good afternoon. Claudia Gaspari from Barclays. I just had a question on, one, the new financial leverage target. I was just wondering whether that could potential -- you would potentially consider active deleveraging or whether that's just a function of earnings retention and book value growth. And also on the leverage front, whether you're happy with the mix as it currently stands or whether ideally you would change something there.

Then also, going back to balance sheet strength, I appreciate your comments there. But, I mean, it gets to a point where balance sheet strength is only -- it becomes inefficient. So I was wondering, are you happy with your balance sheet as it is? How much more do you feel you need to do? And what, if you could give us some examples? Thanks.

A - Henri de Castries {BIO 1439683 <GO>}

Okay. Denis, do you want to take this one?

A - Denis Duverne {BIO 1521138 <GO>}

So on your questions, first, on the composition of our debt, you have it on page B64. And basically you can see that we are gradually reducing the amount of senior debt, which is only now EUR2.4 billion. And the bulk of our debt is undated or dated subordinated debt for which we have credits from a solvency standpoint.

So I guess that we will keep some debt because we want to maximize the credit that we get from a solvency standpoint. And so, make our balance sheet as efficient as possible from an ROE standpoint, while -- and maximize the amount of sub debt that is admissible from a regulatory standpoint. So we will keep some leverage, because that's efficient from an ROE standpoint.

Up until what point we strengthen the balance sheet, I remind you that we are a financial institution and these days there is -- I mean, there seems to be not a lot of limits to the point where regulators are happy with the solvency. So we'll remain reasonable. But we have to take into account the fact that we are a global insurer that is considered systemic. And it is likely that we'll have to retain more capital than a company that is local, even if I believe that a company that is monoline and local --

A - Henri de Castries {BIO 1439683 <GO>}

Is more dangerous.

A - Denis Duverne {BIO 1521138 <GO>}

-- is much more risky. That's the not the feeling that's the fashionable feeling among regulators these days. So we have to take that into account.

A - Henri de Castries {BIO 1439683 <GO>}

Do we have any further questions? Do we have questions -- no questions on the phone. One question here. And another one from Nick.

Q - William Elderkin {BIO 3349136 <GO>}

Thank you. It's William Elderkin, Goldman. Just one question. On slide A31, where you show the different contributions of why the combined ratio improved year on year, price increases, expenses. And so on, can you just give a sense of the proportionate contribution of each of those elements to that combined ratio improvement?

A - Denis Duverne {BIO 1521138 <GO>}

So on the price increases, we've mentioned that they were, on average, 2 point -- I mean, 2.6 on personal and 3 point -- okay, Gerald, you want to comment on slide B34?

A - Gerald Harlin {BIO 7424807 <GO>}

Yes, I believe that you get the answer on page B34 by line, starting first with personal motor, personal non-motor. And you can see here the price effect. So the price effect is minus 1.5 for personal motor, minus 2.6 for commercial lines. Personal non-motor, minus 2.1. So I believe that you get the answer to your question on this page.

A - Henri de Castries {BIO 1439683 <GO>}

Nick?

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes at Soc Gen. Yes, just one question. 2015 is approaching. I just wondered -- I mean, it's such an obvious question, isn't it, what you are thinking about in terms of replacing Ambition 2015. And what are the real benefits that you've gained from Ambition 2015? And are there any bad things about it? Thank you.

A - Henri de Castries {BIO 1439683 <GO>}

Yes, something will come after 2015. And we are already thinking about it. But it's not the right time to communicate about it. What we want to show you is that we can deliver up to the very last day on Ambition AXA.

Were there bad things about it? No. I don't think. Were there good things? Yes, because I think what we have extracted from that is A) a much more aggressive capital management in terms of internal redeployment.

The -- I'm happy that we've been able, without raising any capital from our shareholders, to move the portion of the business coming from emerging markets from, I would say, 5% at the beginning of the financial crisis to probably something which is going to be 20% in 2015. So a very, very significant shift, especially when you consider the size of the Company.

The second thing is, I think it has enabled us to focus better on the Life side of the business, on the business segments which were generating both growth and margins, deemphasizing general account, because interest rates are low. And because it's not attractive, neither for policyholders, nor for shareholders. And putting more emphasis on health and protection and unit-linked.

Last but not least, it has helped us understand better -- and this is going to be, probably, a very major part of the next strategic plan, what could be the impact of the new technologies on the business. The -- I'm in the camp of those who think that the combination of big data and digital is going to affect insurance, probably more than many other sectors, because data, understanding data manipulation and data pricing, is at the core of what we do.

So if we have the ability to understand better than others, or slightly faster than others, the way we can use it is going to be a very significant competitive advantage on the manufacturing side of the business.

On the other side of the business, on the distribution side, customers' expectations are changing pretty fast. And we have been confirmed in our beliefs that becoming truly multi-access was the right way to create an environment enabling the business to grow.

And there, too, this is one of the positive outcomes of Ambition AXA. And there will be more to be done in the years after 2015. So this is a short answer to a very, very interesting and intriguing question. Very good. Blair, last question?

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks. Two, if possible. Not many non-Chinese companies have made money in China. Why do you think you'll be different. And how shall we measure your success in terms of the return on the capital that you're going to invest there over the next few years?

And if we have time, you talked about the fragmentation risk for regulators and the risk of capital add-ons. I guess the biggest risk for Europe surrounds US equivalents. How do you see that developing? Thank you.

A - Henri de Castries {BIO 1439683 <GO>}

On the first question, you know the joke about the joint venture seen by a Chinese? It's a great deal, because at the very beginning what the foreigner is looking for is an experience in the Chinese market and what the Chinese is looking for is making money. And a few years later, it's perfectly fine, because the Chinese have the money. And the foreigner has the experience.

So I don't think it's going to work like that for us. I think the quality of the partners is something which is extremely important. And the ability of the partner to move within the Chinese environment is also something very important.

As far as we are concerned, it has taken us time, because we started in China now more than 15 years ago. But with ICBC on the Life side, I think we have the best possible partner. They are the largest bank in China. They are professionals. They understand the way you manage a distribution system. And they have a very large chunk of the Chinese retail banking market.

So their aspirations are very high ones as far as our joint venture is concern. They want it to be profitable as quickly as possible. And we have good reasons to think that the venture is going to be breakeven in around end of this year, which would be pretty fast, given the time it normally takes for a live business to become profitable when it starts from nothing.

If I look at the other venture, the one we are starting now with Tian Ping, we think they are great partners, both because of the quality of their teams and their ability to cooperate with our direct teams. And because of their ability to understand the Chinese regulatory environment.

It took us a very -- well, a very long time. It took us twice as long to have the ICBC deal approved by the Chinese authorities as it took us to have the Tian Ping deal approved. And this is not just the learning curve of the AXA teams. It's also the maneuverability of the Chinese teams within their own system. So we are pretty confident there that we are in the right hands.

Have said that, it remains China. So the uncertainty and the risk are still there. Not going to deny that. But I think it's the price to pay for the potential reward. That's for the first point.

A - Denis Duverne {BIO 1521138 <GO>}

Just one additional point. So Henri mentioned breakeven on the life said this year. We expect breakeven on the P&C side in '16, which means that this company was profitable before we did the JV.

But we jointly have a plan to accelerate our growth and that means that we accept to make losses, because we'll invest substantially on the marketing side to have a sizable direct operation. And, I mean, these investments in China are long-term investments. And we believe that it is the right thing to do to accept to invest for the future.

A - Henri de Castries {BIO 1439683 <GO>}

Potentially, the reward is huge, because it's the largest automobile market in the world. The -- it's primary equipment. And the ability to gain sophisticated Chinese clients through the Web is real. And they are buying -- I mean, they are not buying cheap cars. They are buying very expensive cars. So in terms of average premium over time, this should be quite interesting.

Of course, other people are going to try to do things. If you look at what Alibaba is trying to do with Tian Ping, I mean, we will face competition. But I think it's an opportunity we will be absolutely a fool to miss.

On your second point, regulatory fragmentation, if I look at our worry list, there are two things which are worrying me and where I think the regulators do not have, at this stage, a holistic view of what's going on in the financial markets. It's financing of the economy in Europe. And it's understanding the benefits of diversification.

It's very clear. And Denis has alluded to that, that one of the basic codes of insurance is that diversifying the risks is reducing the risk profile, not putting all your eggs in the same basket.

That's the reason for which large groups, diversifying their risks on a geographical basis and by business line have been successful, not only AXA. But Zurich, Allianz, others. If you start to fragment the market by building barriers within what is supposed to be single market, you just make this model less efficient. And I'm not sure that this is the right thing to do in the long run for the stability of the system.

It's precisely -- I mean, if you look at the AXA experience, it's precisely because there was a real fungibility of capital that we have been able to do deals which were good for us, for our shareholders. And good for the markets.

We do not have bought Equitable, we would not have bought Guardian, we would not have bought Nippon Dantai, we would not have bought National Mutual, which were companies in a difficult situation, if the financial markets had been fragmented, with regulators trying to keep the capital local.

And the instability of the system, therefore, would have been greater, because the number of bankruptcies would have been higher. So I think they underestimate the benefit of diversification. And this is wrong.

The second point where I think progress needs to be made is they cannot ask us, on one hand, to increase our financing of long-term investments and at the very same time, all things equal, put capital charges on these long-term investments which have nothing to do with the reality of the risk, as it is the case today for infrastructure investments and securitizations.

So these are two elements which are creating uncertainty and some frustration your part, on our part these days. But we need to have further discussions with them to try to come to a common understanding of what would be a reasonable framework. I hope it will come.

If it doesn't come. And, in particular, in Europe, if we see very fragmented markets, with regulators trying to build buffers everywhere, it's going to be a bad story, because it's going to be lower growth of earnings, lower growth of revenues, lower protection for the policyholders.

Remember the story, I mean, the joke I was telling you five or six years about the squirrels in the forest. I mean, if they mutualize the nuts, they survive the winter. If they are selfish and keep their nuts for themselves, two of them are going to die, one of them is going to survive. Not an optimal system. So we are for the mutualization of the nuts. On this note, if we don't have any additional questions, I think we'll stop. Thank you very much.