

**AXA FY17 results  
Transcript**

**February 22, 2018**



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## FY17 RESULTS PRESENTATION

### **Andrew Wallace-Barnett, Head of Investor Relations, AXA**

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

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

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

### **Thomas Buberl, Group CEO, AXA**

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Thank you, Andrew, and good afternoon to all of you. I am extremely happy to be with you this afternoon, particularly in view of the very good results that we have presented this morning. When we look at the key takeaways of the results, I would like to stress five points.

The first one is you have seen that we have published excellent results. This is a very strong earnings growth relative to last year, which has led the Board of AXA SA to decide that the dividend will increase. The second important message is if you look where does the growth in earnings come from, it is not from one geography or from one operation; it is across the board from all geographies that have contributed to this excellent performance. The third one is, many of you might say, well, on the revenues side you have been flat, but this was a very dedicated and clear decision to focus ourselves on more profitable new business and to deprioritize business that is not profitable enough, and this focus has really driven those strong results that we have published today. All of this has happened and will happen in the future on a very strong and reliable balance sheet. You have seen that our Solvency II ratio has, again, been reinforced and this is also a very good basis for very strong cash generation in the Group. For the first time, we have also published Health separately. I know this was a big desire of yours or some of yours over a long time. We have done it because Health for us is very important. It is a big ground for innovation. We have certainly moved on with some very tangible results. And Health is not only a question on the insurance side and innovation side, it is also a question on how are we behaving as a social actor when it comes to investing. And also on the social acting side and being a responsible citizen, we have taken some very clear measures when it comes to our investment focus and sustainability.

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

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

I said earlier that this result has been fuelled by a very good performance across all the geographies that AXA has. And maybe you notice here that we have for the first time now changed our reporting from a line of business reporting to a geography reporting. This goes very much with the simplification of our organization. Last year, on the 13<sup>th</sup> of November<sup>1</sup>, we announced that we have changed our organization away from a very complex regional and line of business organization to an extremely simple organization that is based on geographies.

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

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1. During the presentation, the organization change was said to be announced on the 14<sup>th</sup> of November, instead of the 13<sup>th</sup> of November. This has been corrected here in the transcript.

The same is true when you look outside of France, in Europe. Again, Europe with €2.3 billion underlying earnings is a very strong contributor; has grown by 2%. And when you look across these markets, you see that AXA has extremely strong positions. Number one in Belgium, number one in Switzerland, number five in Germany, very strong in the UK when it comes to Health and Commercial, and number two in Health, so very strong positions. These have helped us to really grow, to really improve and also to make sure that the business mix has shifted in the right direction. We have often heard about the fact that Europe is not so strong and that the emerging markets bring all the new profitability. If you look at our experience, this is not true. Europe is strong, Europe is alive, and we are also happy that the core of AXA is alive and brings good results.

Nevertheless, outside of Europe, we also have two other strong footholds that are very important for us. One is the US. In the US, we have a very strong position in the retirement space, in the teachers segment, and also in the asset management with AllianceBernstein. The US has experienced a very positive year with plus 16% of underlying earnings, where it is really a great story.

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

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

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

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

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

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

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

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

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

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

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

## Gérald Harlin, Deputy CEO and Group CFO, AXA

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

Let's go through all these markets and let's start first with France. In France, we have underlying earnings going up by 3%, explained by higher Unit-Linked fees, in line with market improvement, an improved loss ratio in Protection, improved claims experience in P&C Commercial lines, and this is offset by lower investment income – you will see that, across the board, in most our markets, we have lower investment income, in line with our expectation. And also higher acquisition expenses, but it is quite normal because it concerns Health and Protection, where we have strong top line growth. Next, on the top right, you can notice the high profitability of our business in France and you will see that we can make exactly the same remark as far as Europe is concerned. So P&C combined ratio, 94.6%; NBV margin, 34.5% plus 3 points. Revenues plus 4%, when we exclude a large pension contract at the end of 2016, with 14% in Health, 13% growth in Unit-Linked.

Next is Europe, and in Europe it is almost the same story. Underlying earnings plus 2%, explained by higher technical margin notably in Belgium and Germany, lower expenses because you may remember that in 2016 we had an extraordinary amortization of our VBI in Switzerland; and we have a negative coming from lower investment margins. Highly profitable businesses, P&C 94.6% combined ratio; NBV margin even stronger than in France, 56.6% plus 8 points. And look at the bottom right, 84% of our revenues are in P&C, Health, and Protection – absolutely in line with our strategy which consists in being less dependent on the financial markets, because the technical margin, as you know, are decorrelated from the financial markets. Minus 1% in revenues, mostly explained by the G/A Savings. The minus 23% in G/A Savings is mostly first from Italy, because in Italy we have revenues down 12% with, I should insist, a strong recovery in the second part of the year in Italy thanks to MPS. You know that MPS had problems and difficulties in the first half of the year, but we have a strong recovery, with most of a significant part of this new business done in Unit-Linked business, which also explains the plus 30% that you can see here.

Next is Asia, and Asia underlying earnings are up by 7%. I would say that it is explained by two main elements. First, improved technical profitability across the board among all the countries, and second, lower expenses and that is mostly in Japan. Here again, just have a look at the combined ratio for Health, 78.3%, NBV margin, 70.6% plus 6 points. And again, look at the bottom right, the circle, 86% of our revenues are in P&C, Health, and Protection. Plus 1% economic revenues. In Japan we were at minus 6%, why, Because we had a drop in the bank insurance business, which was mostly G/A type general account type of business with Whole Life business and with Single Premium Whole Life business. Why? Because there is a new regulation, and I mentioned it already for the first half, that imposed banks to disclose their commissions, and it slowed down the new business. In Hong Kong, plus 2%, it is also due to a change in regulation, as you know, with the decrease in limited commission in

Unit-Linked business which, again, slowed down the Hong Kong business. But plus 11% in High Potentials, which is quite good.

Moving now to the United States, plus 16%. So United States, as mentioned by Thomas just before, it is our Life business plus the asset management business of AB. So here we could say that underlying earnings are growing significantly, plus 16%, explained by improved financial market conditions with higher Unit-Linked fees, with higher GMxB margin, technical margin, and higher management fees at AB. This is offset by an unfavorable mortality experience and net unfavorable model updates. So, APE plus 6% with a strong momentum, especially with higher sales in mutual funds. NBV margin, 23.4%, plus 2 points. And most of this 2 points improvement corresponds to the tax effect, because it is the net present value of future profit and tax, as you know, will drop in the US, explaining most of the 2 points improvement. Net inflows plus €12 billion and management fees plus 2.7bps<sup>1</sup>. And it is good news, meaning that for an asset management company – a lot of Asset Management companies today are suffering from decrease in their management fees. It is even the contrary here at AB, because they are moving towards a higher proportion of retail business versus institutional business, explaining this improvement in the management fees.

International, so International, it is a smaller market. €337 million of underlying earnings but UE increasing by 20%, with higher investment and technical profit in Turkey. Turkey is back in black, and it was not the case last year. We have a current year combined ratio which is now slightly below 99%, which is good. And as you know, we have investment income which are quite high in Turkey, around 8%. Improved technical margin as well Russia. And these two positive elements are offset by nat cat charges in Mexico and Turkey. You can notice that revenues are up 2%, including<sup>2</sup> Turkey. I remind you and we mentioned it for the first half, that in April 2017 we have been imposed a 30% drop in prices in TPL (third party liability). So it is not the biggest business line in Turkey, but nevertheless we suffered from this element. But it is progressively improving because we have the capacity to increase our prices by 1.5% per month.

Next is the AXA IM just to finish this review. Underlying earnings plus 16%. Reasons for this improvement are not very different from AB. Higher management fees, improved cost income ratio, and as you can see, good level of net inflows, €8 billion, and of which €9 billion in third party, and cost income ratio going down from 72.4% to 70.8%<sup>3</sup>, meaning that in the end we have an improved operational leverage.

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1. During the presentation, management fees were mentioned to stand at “plus €2.7 billion” instead of “plus 2.7 bps”. This has been corrected here in the transcript.

2. During the presentation, it was mentioned that “revenues are up 2%, and excluding Turkey” instead of “revenues are up 2%, including Turkey”. This has been corrected here in the transcript. Excluding Turkey, revenues would have been up by 6%.

3. During the presentation, cost income ratio was said to be down “from 70.2% to 70.8%” instead of “from 72.4% to 70.8%”. This has been corrected here in the transcript.



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

Adjusted earnings explained mostly by plus 7%<sup>1</sup> underlying earnings, and also we have these capital gains mostly in equities, €674 million. You can see that net impairments are significantly down compared to last year. The markets are quite good, and this improvement translates into lower impairments. That is for adjusted earnings.

Now net income. Net income benefited from this 8% improvement in adjusted earnings. And we have the different elements, starting first with this mark-to-market of derivatives, minus €357 million. It is mostly the derivatives who do not benefit from the hedge accounting. And we have also the change in fair value of assets which are mostly mutual funds, which are not consolidated, and as a consequence they are mark-to-market. This is due to the tightening of spreads, which explains the €222 million, so minus €134 million. Then we have the exceptional and discontinued operations, €124 million. I should give you four elements because we have a lot of big amounts offsetting each other. First the US DTL, as you know we have a net DTL position in the US under IFRS, which means that the drop in the tax rates makes that it was a good guy, €288 million coming from this US DTL decrease. On the reverse, in France we have a net DTA position, which means that it was a negative of €191 million. And we have this refund of the 3% dividend that I mentioned before, it is plus €249 million. Unfortunately, this has been offset by another element, which means that we are managing some annuities in France, and a part of the indexation previously was paid by the state – we are referring to very old annuities dating from 60 years ago. And a good way for the French state to repay the refund of 3% was to stop paying this subsidy on annuities, which means that for us it is a negative of €206 million, which means that more or less in France unfortunately it was a wash. So as a whole, nevertheless, after all these elements we have integration and restructuring costs. You remember that last year we had significant restructuring costs coming from Germany, from Belgium. Now we are at minus €148 million, pretty in line with the usual rate. So as a whole, net income is at plus 8%.

Now moving to the underlying earnings by business line. I would say the old format, and you can see that as a whole we have plus €6 billion of underlying earnings, plus 7%.

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1. During the presentation, underlying earnings were mentioned to be at “plus 8%”, instead of “plus 7%”. This has been corrected here in the transcript.

Looking and focusing on Life & Savings, it is plus 9% with, I would say, higher management fees offset by a lower investment margin. In P&C, minus 1% at €2.4 billion, with lower investment margin but also some nat cat, meaning that in the end we are at minus 1%. Strong growth in Health coming from the top line as well as an improvement in the technical margin. And Asset Management plus 32% at €540 million, explained by higher management fees and also the operational leverage, i.e. the cost income ratio going down.

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

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

Let's move to the balance sheet, and we are managing, in our general account, €575 billion. 82% are managed in fixed income. Nothing very different here. You can notice that we still have a duration which is pretty long, 8.2 years. What will, I believe, interest you is the yield on assets. It went down by 18<sup>1</sup> basis points in Life, 12<sup>2</sup> basis points in Non-Life, and the reinvestments yield has been 2.1% in 2017.

Let's move to the investment margin, and here you can notice that on inforce we have an average guaranteed rate of 1.8%; on new business close to 0.3%, so we have some flexibility. This flexibility translates into the investment margin because the investment margin goes down from 73 basis points to 69 basis points. I just told you that investment yield<sup>3</sup> dropped by 20 basis points, so meaning that we had some latitude and flexibility in order to decrease the remuneration to our policyholders. You can notice here that we are at 69 basis points versus 65 to 75 basis points guidance that we shared with you when we presented our Ambition 2020 plan. On the P&C yield, minus 12 basis points. I am sorry I mentioned to you minus 15; it is minus 12.

Shareholders equity, so it is slightly down from €70.6 to €69.6. On the right, you have all the moving elements. And adjusted ROE, as mentioned by Thomas, went up from 13.5% to 14.5%.

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1. During the presentation, yield on assets in Life were mentioned to be down by “20 basis points”, instead of “18 basis points”. This has been corrected here in the transcript.

2. During the presentation, yield on assets in Non-Life were mentioned to be down by “15 basis points”, instead of “12 basis points”. This has been corrected here in the transcript.

3. During the presentation, “investment income” was mentioned instead of “investment yield”. This has been corrected here in the transcript.

Solvency II ratio, quite strong. It moved from 197% to 205%. On the right, you have the sensitivity analysis. And operating return was 23 points, including 4 points of positive operating variance this year, meaning that it does not change. We shared with you that we were close to 20 points. Excluding this operating variance, we would have been at 19 points. We have the dividends. We have the market impacts, which was positive. And keep in mind that we decreased our subordinated debt by €1.2 billion, and we had roughly €1 billion of buyback in order to offset the dilutive effect of the benefits of the stock options and performance shares.

Strong cash flow generation. It has moved from €6.2 billion to €6.3 billion and 78% percent of remittance ratio, which is within the target of 75% to 85%.

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

### **Thomas Buberl, Group CEO, AXA**

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Thank you very much, Gérald.

As you have seen, the year 2017 has been a year of very strong earnings. And we have always said when we speak about the dividend, a dividend increase needs to be justified by very strong earnings. The Board has taken the decision to increase the dividend in a very attractive way. All of these results, as you have seen, are really embedded in all geographies across all lines of business, and we have really implemented what we said – a clear and decisive focus on lines of business that are growing, that are more profitable, and that is the most important – are the closest to the customer: Health, Protection, and Commercial line P&C. This is the driver of our results. All of this has happened and will happen on the basis of an extremely strong balance sheet where we have, again, shown that we have improved our Solvency II position by 8 points to 205%, which is also the motor of a very strong cash generation with €6.3 billion<sup>1</sup>. And we have continued our journey in the innovation. We have implemented many innovations. I have shown you a few ones in Health which I am very proud about, acquisition of Maestro, movement into telemedicine with great success. And also a very clear, strong and decisive act when it comes to our investment policy as a sustainable actor of society.

Thank you very much for your attention and we will now go over to your questions.

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1. During the presentation, cash generation was said to be at “€3.6 billion” instead of “€6.3 billion”. This has been corrected here in the transcript.

## Q&A SESSION

**Thomas Buberl | Group CEO, AXA** As Andrew said at the very beginning, we are starting with the questions in the room and we will then see if there are questions on the webcast. Let's start with Nick.

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

**Thomas Buberl | Group CEO, AXA** Thanks, Nick. So I suggest that I will take the first two questions, Gérald takes the third one. And while Gérald is looking up to the effect, I can answer the first two questions. Your first one was around growth in Health. Thinking back, we have six countries where we are very strong in Health, one of them being in the UK. Our aim is to really gain market share in these countries and grow our Health franchise with very innovative products. When you start in the UK, we have been gaining market share as the number two in the market because we are very, very innovative and very close to the customer, with a lot of innovation. If you go to Germany, which is another stronghold, we have been gaining market share and climbing up the ladder. And you can look at this for all these six geographies. The key is, how can we grow with our customer base, how can we grow with services around our customer base. And if you look into Jacques de Peretti's business in France, they are already strong leader in Health. The fact that they have added wellness and telemedicine into their corporate offering has increased the retention and has also increased their chances of winning business. So there is a very strong focus in those six countries. Everywhere else where we are not strong yet, there is a growth focus on Health. If you are in Nigeria, or you are in Indonesia, or you are in Thailand, or you are in China, or you are in Mexico, people will always talk to you at AXA about focus in Health, always with a question how can we grow in the base coverage, but also how can we grow in the services around it. And the services question in Mexico is a very different one as an answer to the one that it is in Nigeria where you have no medical infrastructure or insufficient medical infrastructure. Your second question was around which type of business. And we have obviously Individual business, Group business, P&C, and life-like. My preference is to grow more in the Individual business, to grow more in the P&C-like business. Because if you look at the target segments and target lines of business that we have chosen – Health, Protection and the P&C Commercial – this is basically all insurance risk and the way P&C mandate look at insurance, because Protection at the end of the day is the P&C part of the Life business. Gérald?

**Gérald Harlin | Deputy CEO and Group CFO, AXA** Yeah. Your question about the recent volatility in Unit-Linked growth, no, we did not suffer so much from this volatility. I remind you that we had a quite good start in France, and Jacques could comment on this. We have a good momentum in the US, and you know that France and the

US are the main countries for Unit-Linked. Keep in mind as well that if you take the example of France, we do not sell exclusively equity products. So we have structured products, we have different kind of products which smoothes the performance, making that in the end we do not suffer too much from this volatility. Clearly, I remind you that in France we have 40% of our Individual revenues for Individual savings which are in Unit-Linked, and this is not something which is declining – not at all.

**Thomas Buberl | Group CEO, AXA** Let's stay there and go this way. I think, Andy, you are the next one.

**Andy Sinclair | Bank of America Merrill Lynch** Thank you. It is Andy Sinclair from BoA Merrill Lynch. Three questions please. Firstly, jumping to slide B62 if we can, I was just looking at the comments on the U.S. cash remittance there and just wondered if you could give us any update on what that means for the pre-IPO transactions? Secondly, just wondered if you could quantify your net M&A budget that is unspent over the last couple of years given that you have done quite a few disposals, as well as relatively few acquisitions? And when do you really feel you are sitting on too much? And, third, just wondering if you can give us any guidance on the outlook for the US tax rate? Thanks.

**Thomas Buberl | Group CEO, AXA** Good. So I suggest, Gérald, you take the first question and the third one, and I will give a go at the second one.

**Gérald Harlin | Deputy CEO and Group CFO, AXA** Okay. So starting first with, Andy, with page B62. So out of the €4.9 billion, we have €0.8 billion roughly coming from the US. That means that we have injected €0.8 billion in the US. But the equity part, that means that in order to reinstall the equity, we initially told you during previous meetings that it would amount to €1 billion and it would be much smaller, it is €0.3 billion. And the rest, €0.6 billion, will be repaid in 2018. So meaning that the impact of the recapitalization of the US is smaller than what we could expect a few months ago. US tax rate, as far as the US tax rate is concerned, we will benefit, I would say, I mentioned in my presentation the one-off effect on the net income. So this being said, this is a one-off effect due to the fact that we have a DTL position under IFRS, and moving from 35% to 21% is a good guy. At the same time, going forward, we can expect to benefit from this lower tax rate. This benefit, I would say, it cannot be so precise because it is a bit complex, but let's say that it could be north from €50 million.

**Andy Sinclair | Bank of America Merrill Lynch** I am sorry. Was that north from...?

**Gérald Harlin | Deputy CEO and Group CFO, AXA** North from €50 million, €50 million.

**Andy Sinclair | Bank of America Merrill Lynch** Okay. Thanks.

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

if we see interesting and attractive objects and investment opportunities, they will only be looked at in the focus areas – Health, Protection and Commercial line P&C, in our focus geographies, the 10 big markets; and the 6 high-growth market. That is unchanged.

**Andy Sinclair | Bank of America Merrill Lynch** Sorry. Just can you give us a figure for what is left of the net M&A budget?

**Thomas Buberl | Group CEO, AXA** Gérald, you have a figure ?

**Gérald Harlin | Deputy CEO and Group CFO, AXA** Yeah. Give me a few seconds and I will give you a precise figure.

**Andy Sinclair | Bank of America Merrill Lynch** Sure.

**Thomas Buberl | Group CEO, AXA** Good. We will come back to your question later.

**Andy Sinclair | Bank of America Merrill Lynch** Perfect. Appreciate it. Thanks.

**Thomas Buberl | Group CEO, AXA** Let's continue with James.

**James Shuck | Citi Group** It is James Shuck from Citi here. I had three questions, please. Firstly, in terms of capital allocation within the Group, you changed the disclosure somewhat and you are focusing much more on capital efficiency. I would like to get some insight into what the regional return on capital employed is, where there are underperforming areas and what your actual process is for allocating or freeing up capital within the Group? And also kind of within that, if you are able to give any indication of what the capital is that actually is residing within the smaller entities that you identified at the Investor Day, the 26 or so that are there. Secondly, the growth outlook. Kind of 6% or 7% of EPS growth is the target which you are kind of well on track for doing. I kind of look at France and Europe, ex-France, and they are growing at more like 2% or 3%, and they had a bit of a boost from fee income from higher markets. I would have expected France to be growing a little bit quicker than that. I appreciate it is a competitive market, but it is the digital poster child for the Group. Do you expect it to be growing at the kind of Group levels? Do you expect Europe to be matching those Group levels? And if so, when can we expect that acceleration to come through? And then my final question was just on the operating variances within the AFR because the operating variances are being driven largely by a positive revision to the best estimate liabilities over IFRS, which is mainly driven by Switzerland, UK, Italy and Spain. I will be interested to know what the drivers of that were and why we have not actually seen it come through in the IFRS PYD.

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

which is called freedom in boundaries, where we have a lot of empowerment locally, but where we have on the one hand a very clear competence in the center for allocating the capital and also for allocating the investment means, this enables us today to really give the capital where we have sufficient returns above clearly our capital cost and in decent markets where we are very happy with the returns. And that also will then make the decision easier of where do we withdraw from certain business and where do we also sell entities or change our mind. This has really helped us to be extremely disciplined. And when you look at the results, this is mainly driven by drilling down onto each entity, into each line of business, and managing them in a way that you can either get out of the misery of underperforming or we need to find a better owner for that business. And this is how we manage this on a very consistent basis. The International markets, yes, there are many markets but there is not that much capital in it. If I remember correctly, Gérald, I think it was €4 billion that is in the International markets. But we must not get or misconclude from International equals for sale. Again, International, we said those are the markets of tomorrow. The majority of these markets will be kept but they will be managed in a different way, which is more in a private equity like style. And then we obviously have some markets in there that will be sold, where we reduce our footprint. And I mentioned earlier, you have seen one example yesterday of Azerbaijan.

Your second question was on Europe and France. France to my mind has really delivered an excellent result, and we often forget what the year 2017 has looked like in France. When you think about the year 2017, all you think about is Emmanuel Macron. But when you think about what happened before May, we have forgotten the political turmoil, we have forgotten the uncertainty, and we have forgotten that there was no political clarity which has caused France to be in a very difficult and miserable situation in the first half of 2017. And given this situation and also given the fact that the competition between the traditional insurers and the bank insurers, in particular in the area of the P&C retail business after the implementation of Loi Hamon has significantly increased. I personally believe that the result at AXA France has shown, as a market leader, gaining market share are very, very good results. When you look further into Europe, and it is true that I would have loved to see some more growth in some countries. The UK has done a fantastic job in dealing with a very difficult situation of Ogden at the beginning of the year and managing very well through the cycle. If you look at the benchmarks of the UK insurer with AXA, we should be extremely proud of what we have achieved both in terms of growth and in terms of profitability. Belgium has delivered a fantastic turnaround case and is back on the growth track. Where I would love to see a bit more growth is clearly in Germany on the Life side and is clearly in Switzerland on the Life side. If you look at the P&C side in Germany and Switzerland, we should be very happy with the result. So overall, I am very happy with the results we have seen in Europe. If there is one area where I would like to see more growth, it is on the Life side, in protection and capital-light. But this is clearly something on our agenda and that will be addressed with the new responsible Antimo Peretta who has a great experience of managing a fantastic business in Switzerland. Gérald.

**Gérald Harlin | Deputy CEO and Group CFO, AXA** First, going back to your previous questions on the M&A, so in 2017 the net M&A outflows was minus €0.3 billion. This was on top of the share buybacks that we mentioned

before of €1.1 billion. So on a net basis, we could say that it was €1.4 billion to be compared with our €1 billion budget that we announced at the IR Day.

Going back to the other questions relative to operating variance, indeed there has been an operating variance adjustment corresponding to 4 points of return on AFR. But this is AFR, meaning that it is mark-to-market. So meaning that any time you have an improvement in your reserve situation and an increase of your excess reserve, then by definition it is an additional return, which is completely different from IFRS accounts. In IFRS accounts, the reserves and the reserve release has been 1.2%, as I presented it before. But what is quite interesting is to go back to the AFR report where you will see indeed exactly what you explained about the operating variance. But on top, you will notice that in the reconciliation between the embedded value and the AFR, you have this adjustment from IFRS reserve to the BEL in P&C, and you will see that whereas one year ago we had a €5.1 billion adjustment, now we have a positive €5.7 billion adjustment. So we could see that it is a kind of reconciliation. It is in it. That means it is in the AFR, it confirms that in the AFR. But it is different from accounting, meaning that these reserves could be released later in the future years.

**James Shuck | Citi Group** Just to clarify, though. So, I mean, it looks like the margin over best estimate has actually increased because the...

**Gérald Harlin | Deputy CEO and Group CFO, AXA** Yes, that is true

**James Shuck | Citi Group** Okay. Thank you.

**Thomas Buberl | Group CEO, AXA** You can hand the mike to Jon and then we go this way.

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

**Gérald Harlin | Deputy CEO and Group CFO, AXA** No, we did not change. I believe that, first of all, it is good news for us to have rates in the US and long-term bonds at 2.95%, close to 3% is an excellent new. It is good news because as you know we have a gap between assets and liabilities, and our liabilities duration is higher than our assets duration. And second, because for the new business it is good. We did not change it. I believe that the comment that I made six months ago about the fact that we are moving towards more illiquid assets, high-quality illiquid assets like ABS, for example, but also commercial real-estate loans, loans – illiquid products is still even more relevant because in the meantime, for sure, we had a nice increase of the rates but the spreads as you know compressed, and this spread compression is something that we try to fight and we try to find some alternatives in order to increase our investment income. As I said, we have been investing in fixed incomes last year in 2017 at an average of 2.1%, and we expect of course this year to invest at a higher rate; maybe it will be 20 basis points higher, something of this magnitude. So it is slow, so do not consider that, I am quite optimistic on the facts that we will not see anymore very extremely low interest rates. Nevertheless, the recovery will be slow because we have quite a compressed spreads.



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

**Thomas Buberl | Group CEO, AXA** Okay. Gérald, do you want to tackle the last two questions and I do the first one?

**Gérald Harlin | Deputy CEO and Group CFO, AXA** Absolutely. Let's start with Solvency and the sensitivity. The sensitivity is always lower when the rates are going up. And here, keep in mind that we have the US and that we have the US which is in equivalence. So of course, when rates are going up we should have our Solvency going up. And here, we have the effect of the US. Nevertheless, we could say that the convexity when rates are going up is a bit lower, and this explains most of the movement.

About the Life yields and the P&C yields, mostly for one reason. Why 18<sup>1</sup> basis points in Life and why down 12 basis points in P&C? Due to Turkey, because in Turkey we are investing at 8%, so that is the only country – yeah, 8%, yeah. So we are imposed with a 30% drop on our prices in TPL, but nevertheless we are investing at a higher rate, and that is why it helped us. Just to give you an idea, today the contribution to earnings of Turkey was €70 million.

**Thomas Buberl | Group CEO, AXA** On your first question in Germany, first of all, it is very good news that the guaranteed rate comes down. Actually it is today below the market average whereas it used to be above the market average. The reason for it is threefold. First of all, we have really focused our new business sales on businesses with very low guarantee, and it follows exactly what you have seen on the one slide that Gérald has shown earlier with the spread. The guarantee in the new business is very close to zero, so the dilution, I would say, of the inforce brings the overall guarantee down. The second point is you had, at a time in Germany, still tax benefiting Life insurance contracts that are now running off. This is one part why the guarantee has come down. And then there is a third element which obviously we have done across the whole Group, but particularly also in Germany, is to work significantly on the inforce and really to see how do we bring the guarantee down because there are ways of bringing it down, and how can we also make sure that if people need cash we can accommodate their wish. But overall, we shouldn't be complaining about these numbers.

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1. During the presentation, yield on assets in Life were mentioned to be down by “20 basis points”, instead of “18 basis points”. This has been corrected here in the transcript.

**Peter Eliot | Kepler Cheuvreux** So to come back on – sorry, just on the new business point. I mean, the average guarantee you are showing there is still 0.9%, but is it the mix rather than the guarantee on traditional or – So the new business guarantee you are showing there...

**Thomas Buberl | Group CEO, AXA** Yeah.

**Peter Eliot | Kepler Cheuvreux** ...is still 0.9% which is what it was before?

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

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

**Thomas Buberl | Group CEO, AXA** Sorry, what figure was it exactly?

**Michael Huttner | JP Morgan** So on the 14<sup>th</sup> of November you gave a figure of €2 billion pre-IPO, and today you gave a lot of figures. But I got confused. I saw minus €0.8 billion and I panicked here.

**Thomas Buberl | Group CEO, AXA** Gérald knows what you are talking about.

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

**Thomas Buberl | Group CEO, AXA** Gérald, four questions for you.

**Gérald Harlin | Deputy CEO and Group CFO, AXA** Okay. Thank you very much. Thank you.

**Thomas Buberl | Group CEO, AXA** I will help you with a few. But you do not...

**Gérald Harlin | Deputy CEO and Group CFO, AXA** First, the pre-IPO. I am sorry if I confused you. But when you go to the presentation that we made on November 14<sup>th</sup>, nothing has changed except that in the net numbers that

we presented at that time, it is where we had – you remember that we have €2 billion cash positive net. So it was €2 billion cash positive net, so no change. What I said is that out of this €2 billion cash positive net, this is after the capitalization of the US of \$0.3 billion, that is net in the €2 billion. But there is a difference. That means that for €0.6 billion, which is also in the net €2 billion, will be reimbursed in 2018 with some shares of the subsidiaries that we have to keep at the Group level, for €0.6 billion. So you could say from an economic perspective, it is not €2 billion but €2.6 billion, taking this into account. So that is the first point. Pre, post-IPO cash remittance. Michael, the way it works is that this year we had the remittance ratio and remittance, there was a drag for the US coming from this, €0.8 billion, I just described. This year we did not benefit from any dividend coming from the US, so that is it, and we do not expect that it will last a long time. So we hoped that there will be a dividend, but this year it was, instead of last year we had – I remember that I told you that we have an average level of €600 million dividend capacity from the US, so instead of this, we had a drag or an injection to the US of €0.9 billion.

Under-reserving or over-reserving, let's put it this way. So long as the AFR are mark-to-market and all the reserves are booked in a best estimate liability basis, this year we had I would say a decrease of the best estimate liabilities because you had good developments, good expected developments, but we cannot expect that every year you will get exactly the same. And that is why, to be honest, I said that on a recurring basis we are much more expecting €19 billion or €20 billion rather than €24 billion like it was. Maybe we will have good developments. We are always, I could say, a bit cautious which makes that we have more positive and negative developments, but that is it. But I cannot promise you that next year we will have again such type of evolution in our reserves. Turkey – and so you asked for the earnings coming from the Asian JVs. It is right? So from Asia, let me go through. Yes, so Thailand, €77 million; Indonesia, €57 million, the Philippines, €21 million, €15 million from China.

**Thomas Buberl | Group CEO, AXA** Thank you, Michael. Let's go over to this side. We will start here in the front.

**Colm Kelly | UBS** Thanks. Colm Kelly, UBS. Three questions. One on the Life & Savings investment margin and the guidance of 55 to 65 basis points for 2018 to 2020. I mean, how we should be thinking about that now in the context of the actual margin of 69 bps reduce – the rate of decline has reduced year-on-year. The new business reinvestment rates are 40 bps higher year-on-year. And then in the context of what we have seen in recent trends, normalization of interest rate, policy and central bank intervention, should we see that target now more conservative rather than best estimate? That is the first question. Second question is on capital. Obviously, very strong headline Solvency. If we think more about own funds and the growth of own funds, the own funds has been largely flat, which is logical given the focus on improving the quality of the capital, so it is a positive trend. At what point should we think about both growth in own funds and improving quality simultaneously, you know, in the context of own funds growth being a proxy for shareholder value growth and future distributable cash and capital to shareholders? That is the second question. The third question is on operating free cash flow. We have seen 2% growth year-on-year in the operating free cash flow from segments. It seems like there was a large reduction in the required capital for P&C within that, I think a third reduction without which we wouldn't have seen that much growth in that number. And again, logically thinking about this with, you know, Solvency capital, on capital-intensive backbook business running off at a high rate, new business capital being less intensive, I

would expect that operating free cash flow number to grow at a much higher rate. So perhaps just the reasons for the lower capital requirement for the P&C and what growth rate should I expect going forward on the operating free cash flow. Thank you.

**Thomas Buberl | Group CEO, AXA** Thank you. Gérald, if you don't mind I take the first question and you do the question two and three.

**Gérald Harlin | Deputy CEO and Group CFO, AXA** Okay.

**Thomas Buberl | Group CEO, AXA** So our Ambition 2020, which was based on the assumptions, if you remember, we basically modeled it according to what is in our hands, that is the operating performance. What is not in our hands, that is the capital market, equity, and interest rates. And from there we have taken two scenarios or two or three scenarios with flat interest rates, with slightly rising, with rising interest rates. And these assumptions have always been based on a middle scenario where we have over time slightly rising interest rates in the US and Europe. We always talk now about rising interest rates. Yes, it is true. We see it in the US. We have clear indications in the US that it will continue. In Europe, I would say it is the first days of spring, and you know the spring is not there yet when the sun is shining once. And therefore, I would be cautious still in Europe. And this guidance that we have given, and since it is 10-basis point guidance, is a guidance that was just not picked on one scenario. But on a assumption that is larger, you should keep that as a given also for 2018 and going forward. Gérald, question two and three.

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

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

**Thomas Buberl | Group CEO, AXA** Farooq?

**Farooq Hanif | Credit Suisse** Hi, there. Thanks very much. It is Farooq Hanif from Credit Suisse. Just a quick question on the US RBC ratios, it is a numbers question. There will be potentially an increase in capital

requirements if the NAIC increases the charges to allow for that. What will the impact be? And then another thing, you know, I believe the regulators are allowing you now to use fair value for your hedges and liabilities in advance of a change in regulation on VAs. I do not know if that is true, but have higher interest rates therefore helped your RBC ratio year-to-date? You are shaking your head, so the answer is obviously no. Second question is just on costs – so you still got more than half of your costs to deliver into the cost savings that is. Should we expect an acceleration, therefore, in the expense margins decline in Life and P&C now? Will it be noticeable and in which areas? Thank you.

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

When we look at the costs, it is true that we are, when you sum up the €0.3 billion and €0.5 billion, so we are at €0.8 billion, relative to €2.1 billion. You are absolutely right in saying you are not beyond half, but we are also not beyond half of the time. If I may remind you, we still have three years. It was 2016 to 2020. And what I said last year in the same place is we are operating in environments where cost savings require a certain pre-work, which is called a social dialogue. And therefore you will certainly, by nature, see a slower start and then you get to a normal run rate. So I would assume that what you have seen now will continue going forward. Again, our aim is €2.1 billion. We have said in November with the additional €300 million that we have shown you in November about restructuring of the Group and the regions, that contribute to the €2.1 billion, we can get into an acceleration. So, today, I have no evidence that we should not be making those €2.1 billion.

**Gérald Harlin | Deputy CEO and Group CFO, AXA** About the VAs and the interest rates, still we can say that the rise of interest rates deteriorates the RBC, it does not improve it. Nevertheless, and what I can tell you is that, even if we anticipate the decision of NAIC to apply to the DAC the new tax rate of 21%, we will have in the US an RBC ratio that would be above the 500% that we mentioned at the last IR Day. So I am quite relaxed on that side and we have a strong position – a strong capital position in the US. So that is quite obvious.

**Thomas Buberl | Group CEO, AXA** But the question is actually how does it play out because the tax rate is hard coded, and so that is one of the pieces where we do not know yet how it is going to work. But it should be positive, as Gérald said.

**Johnny Vo | Goldman Sachs** It is Johnny Vo from Goldman Sachs. Just a couple of questions in relation to some of your peers that have US operations, and it is notable that within the equivalence framework they have adjusted the CAL calculation down to increase Solvency. So this is obviously an option for you guys and would obviously boost Solvency given your Solvency ratio is now over 200% and the US is providing a small drag. That

is the first question, is it something that you are considering, adjusting the CAL for Solvency II purposes? The second question just relates to given that Solvency is really no longer a constraint for the Group, what are the constraints for the Group to lift the payout ratio to the top end of the range or indeed start initiating buybacks? Thanks.

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

**Gérald Harlin | Deputy CEO and Group CFO, AXA** Yeah. So you know that we decided, and I believe that we mentioned it at the IR Day, Johnny, we have decided to recapture the Arizona business and this recapture should take place roughly in the first half of 2018. So what we did for the Solvency II calculation is that we anticipated this recapture. So long as we anticipated these recapture, it had a cost because, we had to deplete, we lost significant part of our DTAs. So long as we decided to put everything in New York and no more for GMxB to rely on Arizona, we decided to move from 300% to 200% CAL. And so, this decision has been taken with the full approval of ACPR. I remind you that we have a lot of companies, including Allianz, which are at 150%, as explained. It was a wash, so that means that it was a total wash. And in the end, you know, we consider that it is far better, no more to rely for GMxB on Arizona because the regulatory environment could change. It is much safer to be in New York now.

**Thomas Buberl | Group CEO, AXA** And this is also one of the anticipation of the new NAIC rules when we look at what we have done in Arizona. Your second question was on the payout ratio. So the payout ratio was something that was defined based on our Solvency II framework. We have said we feel very comfortable in the range of 170% to 230%. When we are below 170%, we do need to think about the payout ratio. When we are above 230%, we also need to think about the payout ratio. In that scale, between 170% and 230%, we want to position the payout ratio between 45% and 55%. When you think about dividend policy, you should always be predictable and should also make sure that your dividend policy is sustainable. I think you would not appreciate if the payout ratio would jump around every year, if the dividend would jump around every year, and therefore my aim is to have a sustainable dividend development that is clearly based on operational improvement. It makes no sense if we are eating the stock to show a nice dividend, and therefore you can see this year we had a very good increase in the underlying earnings per share of 7%. We have a very good Solvency position. We said fine, we can increase by 1 point so we can show a dividend increase of almost 9%. And so we will look at this every year-on-year because I think it is in your interest also to have a partner and a company that really manage the dividend in a positive way without any surprises. Andrew. Sorry, Ralph and then we go to Andrew, sorry. Then it is easier from a microphone logistic.

**Ralph Hebgen | KWB** Yeah. Thank you very much. It is Ralph Hebgen from KBW. Just a follow up, quick one to Gérald on the numbers again back to the RBC ratio. This just goes back to the detail as you just outlined, that

part of the \$1 billion capital strengthening previously shown on the slide to go into the US is now going to be repaid probably in the second half of this year, and that is I think a €600 million short-term loan. Would that not reduce the RBC ratio, or in other words the 500%, did you anticipate repaying that in the second half of 2018 when you disclosed the 500% on the slide?

**Thomas Buberl** | Group CEO, AXA G erald.

**G erald Harlin** | Deputy CEO and Group CFO, AXA Yeah. No, and this loan, the €0.6 billion loan, will be repaid in kind as I told you. But I can tell you that answering the previous question when I said that I was quite relaxed and the fact that even after the NAIC, we take into account the decrease in the tax rate, we would be above 500%. This includes, of course, this anticipated movement.

**Thomas Buberl** | Group CEO, AXA Andrew

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

**Thomas Buberl** | Group CEO, AXA I remember that question from last year. G erald?

**G erald Harlin** | Deputy CEO and Group CFO, AXA Yes, indeed. First of all, I would like, Andrew, to tell you that when you said that the pre-tax underlying growth is quite modest, that is your message, this is not true because we had some one-offs. And I am sure that you had time to look at it. And, you know, if you go through the MD&A, you will have all these elements. And going through the MD&A makes that it is true that a change pre-tax could look like close to 3%. But indeed taking into account, and we could go through it when you want, and I would be pleased to do it, we would be close to 6% pre-tax excluding these one-off. And there are some one-offs which are in the US, and you noticed that in the US we had some model change, we had some adverse mortality elements. And restated for all these elements, but it is not limited to the US, we had also some other countries, honestly we would be close to 6%. As far as the US are concerned, we still have as you know, we had some reserves that we released which makes that, and you can see it in the MD&A, we can see that the rate is quite low but we do not see why in the foreseeable future it would change a lot. That means that we still have some reserves. And at the

same time, when I told you just before that we would have a benefit from the lower tax rate of €50 million plus in the US this takes this into account, so that means that we have some reserves and at the same time the DRD. I do not want to enter into too complex explanations, but as you know we benefit from DRD. And when rates are going up, by definition we have more DRD, because these DRD are coming from the Unit-Linked business and from the underlying assets. And when these assets are going up DRD is going up, and that is the reason why you have a decrease in the tax rate in the US this year. But so long, unless you would consider that the market could decrease, nevertheless it is something that we can take into account.

**Andrew Crean | Autonomous** How big are these US tax reserves?

**Gérald Harlin | Deputy CEO and Group CFO, AXA** These tax reserves, I cannot, it is a few hundred million. And you understand at the same time that, let's wait for the full presentation of the US accounts that did not take place yet, and we will come back to you on these elements.

**Andrew Crean | Autonomous** Okay. We can discuss it in a minute.

**Thomas Buberl | Group CEO, AXA** Michael?

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

**Thomas Buberl | Group CEO, AXA** Michael, the needle is extremely straight and will remain straight for a bit of time. Why is that the case? We have – look, I mean, we are doing share buyback every year to compensate for the dilution. This will not change and will continue. The only area where we have been considering share buybacks is in the event of the IPO. And what we have said is the following, and this is still true. We have said that in case we do the IPO, we will have some funds to reallocate into the lines of business that we want to grow in. Those lines of business are Health, Commercial line P&C, and Protection. As we have always been developing business, and as I have learned from my predecessors, that as long as you have good ideas you should be considering the investment into these businesses, and only if you have no alternatives you should be looking at share buybacks. We have been extremely clear. Our priority is to reallocate, but we are not stressing out about it or we are not forcing it. If we do not find anything in a given timeframe, we are extremely happy to buy back our own shares. That should give you comfort that we, on the one hand, try our hardest to shift the risk profile of the Group, but that we are not forcing the needle there or there. And look, at the moment I do not even need to waste my time to think about it because the IPO has not taken place. When the IPO has taken place, we will come back to your question. Andrew?



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

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

**Andrew Crean | Autonomous** Okay. Great. Thanks.

**Thomas Buberl | Group CEO, AXA** James?

**James Shuck | Citi Group** Not to labour the point a bit more, but I am not that familiar with the Health market really in Asia, and therefore I do not really know what pockets of business might be up for sale. Is it actually possible to spend several billion on a Health insurance company?

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

**James Shuck | Citi Group** So there is no particular problem on supply, it is just about getting the maths to stack up for you. Is that right?

**Thomas Buberl | Group CEO, AXA** The supply is never obvious. You need to try hard. Are there any more questions in the room here? Blair?

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

**Thomas Buberl | Group CEO, AXA** Look, I mean, when you look at mortality, it is true that it is a market phenomenon and that we have also learned our lessons also going back in the past. When you look at what has hit us, it is actually some events on the extreme, I would characterize it, and not events that are in the core of the business. I mean, the first change was very much about mortality of people that are 100 years and beyond, so

that I would call on the outskirts. And the recent one was for mortalities beyond a very large amount of mortality sum, so those I would consider as outliers. The business in itself is working well and the wheels are turning well. We have done our homework, and in particular in the process of the IPO we have been looking at this very carefully. And we must not forget, I mean, if there is always a issue in the US, if you have an experience, Protection does work like P&C. You have the chance to adapt your premiums. Yes, it is not easy in the US. Yes, you are facing litigations sometimes with the cost of insurance, but it is possible. And we have taken a very clear and disciplined approach to it, not being pushed back by potential litigations. Any other questions in the room? Any questions on the webcast? You are shaking your head. Last chance for any questions in the room. Michael, only if it is a polite one, and only if it is not about the needle.

**Michael Huttner | JP Morgan** No, no, no, no. On the timing, so...

**Thomas Buberl | Group CEO, AXA** That is picking needles, yes. On the timing of the IPO or what?

**Michael Huttner | JP Morgan** No, no, no, no. Say you will receive the money on a Friday, do we expect a press release on a Saturday?

**Thomas Buberl | Group CEO, AXA** This is a very picky question. Look, I will answer that question when I am in the position of having the money on a Friday. Today is not Friday and tomorrow is Friday, but I will not have the money tomorrow. Let's come back to that question. Let's cross that bridge when we come to it. My pockets are still empty.

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