AXA FY14 conference call transcript

February 25, 2015

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Andrew WALLACE-BARNETT, Head of Investor Relations, AXA

So hello and welcome to AXA's full year 2014 earnings presentation. Welcome to those of you joining by webcast or on the telephone. Welcome to those of you here in the room. So we're joined here by CEO and Chairman, Henri de Castries; with Deputy CEO, Denis Duverne; and CFO Gérald Harlin. And without any further ado it's my pleasure to hand over to Henri.

Henri DE CASTRIES, Chairman and CEO, AXA

Thanks, Andrew. Good afternoon everybody. It's a pleasure to share with you this afternoon these results especially because we think they are strong and good and because we think you like the dividend but we'll come back to that later.

So I mean what has been 2014, clearly a strong year. We've been delivering on all fronts regarding Ambition AXA. We are now in 2015 in the last year of Ambition AXA but 2014 was quite important and in 2014 I think we have delivered.

The dividend is an important point for us because it's both a number and a message. The number is €0.95. The message is it shows you that the group is confident in its cash generating ability, in the strength of its balance sheet.

Discipline, I think we've shown discipline in the operations, in the investments in an environment which is not particularly easy. But if you look at what we've been doing, I think these were the right things and we think we are creating the basis for future growth in revenues and earnings. Last but not least, probably the most important thing for the long term of the group. I think we've been progressing pretty well on the digital front. The more we look at it, the more we invest in it, the more we are convinced that this is going to very fundamentally change very key aspects of the industry from customer relationship, of course, where it's obvious for everybody but to underwriting which is probably less obvious to some. But we think that there are many, many things which can be done and we want to be at the forefront of it.

So what do I mean by delivering? Revenue growth 3%, ideally we would have wished it to be slightly higher clearly, but nevertheless 3% is a good performance. Second point, underlying earnings growth 8%. In both domains, the three key pillars of the business have been contributing to the growth and we'll see that in a few seconds. In Life, APEs are up 6%. We told you I think at the beginning of the year that what we were expecting would be something around 5%.

We have been delivering 6% in an environment where things have not been particularly easy for Life companies because with a decline in interest rates, if you didn't have the acceleration in the diversification of the product mix plus the competitiveness of the group, it's certainly not something we would have achieved. So 6% is a good number and 14% in terms of earnings growth for this segment. It shows that now that, I would say, the uncertainty related to the financial crisis is starting to dissipate, Life & Savings are a very significant engine for the group.

Property & Casualty, revenues up 1%, earnings up 2%. Could be seen as slightly disappointing as far as earnings are concerned. We've been hit by natural catastrophes more than on average. Denis will come back to that but you will see how many points of combined ratio the natural catastrophes are costing us because of hailstorms in Europe and because of hurricane in Southern California. It's more than the average. If you normalize to try to have a better view of what is the underlying strength of the earnings in P&C, you would have come to certain percent earnings growth. I mean, this number is what it is but it’s just to give you a view. I don't want to go too far there.

Last but not least, Asset Management. I think 2014 is clearly the demonstration that AXA IM is performing very well and that AB is clearly on its path to recovery. Inflows have been positive in the two firms, different magnitude, €19 billion at IM, €3 billion at AB. But at AB, we've moved from negative to positive territories. So I would say good growth in terms of assets under management, good growth in earnings 12%, excluding the – I mean, once you exclude the impact of the sale of AXA Private Equity.

This growth in underlying earnings has led to a growth in adjusted and a growth in net income. Adjusted earnings are progressing 7%, net income 12%. It could have been more had we not impaired the value of our investment or a fraction of the goodwill on our investment in RESO, the P&C Russian company. Why did we do that? Not that our view on the company itself has fundamentally changed. It remains a very good and probably the best P&C company in the Russian market. But the evolution of the ruble plus the economic prospects of Russia have led us to think that the growth in the years to come would not be what you could have expected a few years ago. So as a sign of caution, we have impaired a fraction of the – a significant fraction of the goodwill on the RESO acquisition.

So if you try to compare the performance to what were the four key metrics of Ambition AXA, earnings growth underlying, we're at 6% since the beginning of the plan, so well within the range. Operating free cash flows, we will have accumulated nearly €20 billion until the end of 2014. So there are two, I mean, a very strong capacity of the group to generate cash. You will see later in Denis and Gérald's presentation that in particular in the U.S. the up-streaming of cash has been very significant in 2014.

Return on equity, we're close to the top of the range of Ambition AXA. We've said 13% to 15%. We're at 14.5%, which we think is a very strong number. Last but not least, gearing, this used to be one of preocupations. I think you can sleep quietly on that front. We are at 24%, well within the range. So it shows that, I mean, the fundamentals of the group are pretty strong.

We are increasing the dividend by 17%, moving the payout ratio. In July or early August, in this very room, we were telling you cautiously that we were listening carefully to you and we're starting to open the door to increasing the payout, putting it at 45% is clearly the sign that we are confident in the ability of the group to generate further cash and that we think that the shareholders have to benefit from a portion of this cash. This is leading to a dividend yield which is close to 5% and I think compares well to the rest of the industry.

If I go little bit more into the details of discipline because I think it's always good to remind you what we had said we would do and to compare it to what we really do. A couple of points to illustrate that. Life business, where are we in terms of product mix, the efforts we started to undertake in 2010 are paying. The General Account proportion in the APEs is now 15% whereas it was 25% at the beginning of the plan. Unit-Linked has grown significantly and Health & Protection have grown significantly. So this in a framework where the overall revenues are growing. So it's not as if we would have a sort of stagnant level of business with difficulties to reallocate from one segment to the other, we're able to generate growth once changing the mix.

Second point, New Business Value margin, 34% clearly is a satisfactory level. Last but not least, the payback period which has been shortened by one-third which we think is also an indication of the competitiveness of the group.

P&C, growth in revenues, P&C is probably the area where the group if you take a 15 years perspective has grown the fastest, both organically and through acquisitions. We are close to the €30 billion mark without the international activities – the P&C international activities. The current year combined ratio over the period has been reduced by 5 points. It's slightly higher than what we would have been expecting at mid-year this year because of the natural catastrophes but we think it's nevertheless a good ratio.

Asset & Liability Management, which is probably one of your points of focus these days, reinvestment rates, reinvestment yield. In November, when we told you for the Analyst Day or for the Investors Day, we told you that we thought that we could reinvest at 2.4% and that this would have an impact on the underlying earnings of €100 million a year. It's worse today, of course, because given the decline in interest rates, we think that we will reinvest at around 2%. It's costing an additional €100 million. But if you look at how much is €100 million when compared to €5 billion of underlying earnings, I'm not an actuary, but I think I can say it's 2%. And so you see that it has an impact but that this impact can be mitigated by additional operating efforts. The group is less sensitive than what some observers could think to a decline in interest rates.

Economic Solvency, Solvency II is not finalized yet but we are starting to see the fog dissipating. We closed the year with solvency ratio which is at 200%. We are very comfortable with it. We still think that there are some points to be clarified with the

EIOPA and the European Commission. But we are confident that the approval of the internal model should not create significant surprises and that the group is well-capitalized when you enter into the Solvency II world. The debt gearing, I've already mentioned it.

The next point I want to cover in terms of discipline is the capital allocation. We told you at the beginning of Ambition AXA that we would be active in screening the portfolio and disposing the businesses which we thought would not have the growth of the margins prospects we could reasonably expect. We have sold nearly for €9 billion of businesses since the beginning of the plan and we have acquired less than €1 billion or approximately €1 billion every year. The difference has been reinforcing the balance sheet.

What's the message behind that? I know that some people still think, well, what is AXA is going to do? Are they going to embark again in mega acquisitions as soon as they have a strong financial flexibility. We are pragmatic people, we want to increase footprint in emerging markets at reasonable conditions. We don't think we need to spend zillions. And I think strategically long term, the most important thing is to be sure that we get things right as far as digital and big data is concerned. So we are not going to stop doing acquisitions. We'll keep doing acquisitions but I would say the multiples and the financial conditions of these acquisitions are absolutely key for us to push the button.

Next point, cost savings. We started with a target, which was €1.5 billion. We increased the target the first time to €1.7 billion. We then said €1.9 billion. We're saying today that it's going to be at least €1.9 billion before the end of 2015.

Where has it been coming from. Very clearly shown in the right hand part of this slide, increase in distribution efficiency, improvement of the operational performance, IT investment and cost reduction and procurement savings.

You see it's a well-balanced source – these are well-balanced sources of savings showing that this can be a sort of ongoing effort. Not easy to achieve but we have achieved it.

Digital, why do I insist on that because I really think that this is going to transform the industry probably faster than what people would have thought three to five years ago. We have not stayed immobile in this field. You have heard some of the actions we've been taking in 2014, which will be extended in 2015 and beyond. The Data Innovation Lab is a great way for us to access new technologies, hire the skills and the people we did not necessarily have or have enough of. We are now starting or launching this Strategic Venture fund, which is also going to enable us to put a foot or finger into interesting experiences which could be applied to our model, or our industry.

We have been setting up partnerships with both big and small names. The interesting point is that given the strength of the AXA brand, it has been, I wouldn't say relatively easy, but possible for us to come to agreements, partnerships with the best names in the industry to try to understand the way we can apply, what they do to our sales forces or to underwriting as an example. So partnering with digital leaders will remain one of our preoccupations.

Better knowing our clients' risks is also something important. We have illustrated here the AXA Drive application which has been downloaded more than once. We think that if we can convince the customers that sharing data with us is a way to align interest because it helps us understand the risk better, do better prevention therefore have better rates. If we can do that, we will gain in efficiency, gain in customer satisfaction, gain in market share. So that's why we've been investing heavily in digital €900 million over 2013-2015. Compare that with €1 billion we've spent in external acquisitions every year.

So you will see that the effort into transforming the business model is pretty significant and will remain pretty significant because what we want to do is to position this group for the future so that it can be able to generate growth in revenues going forward which, of course, will lead to an increase in future dividends hopefully.

Denis, up to you for the financial performance.

Denis DUVERNE, Deputy CEO, AXA

Thank you, Henri. Good afternoon everyone. So I will talk to you about the financial performance and then hand over to Gérald. First, group earnings, the plus 8% of underlying earnings. I am on slide A20, we had good numbers across the board in all of our businesses, Life & Savings +14%, P&C was +2%, I will talk later about the level of natural catastrophes. With a normalized level of nat cat, we would have been at +13%. Asset Management was flat but it would have been up 12% if we didn't have – we had not sold the AXA PE business in 2013. International Insurance, up 2%; Banking, up 36%. Holdings were up – were higher. Expense increased by 11% reflecting additional investments in brand and digital, and Henri has told you about our digital investments.

Looking at the waterfall on the slide A21, I would just like to mention that there was an impact of the fact that we sold MONY in 2013 and we missed the contribution of MONY during 2014. The other comments I want to make is relative to currency impacts. In fact, the forex impacts in 2014 were relatively small because the average level of the U.S. dollar between 2013 and 2014 was about the same. So the main impact is the yen depreciation which is an impact of €-46 million.

Moving to adjusted earnings, they were up 7%. You see that the net realized capital gains and losses are flat at €442 million. Most of that is equity gains. Only €100 million of realized gains on fixed income. We keep our unrealized gains on fixed income unrealized because that's a function of our ALM. Impairments were relatively stable, €-296 million against €-301 million last year.

Net income was up 12% at €5.024 billion. There was a slight positive of the change in fair value and forex coming mostly from the decline in interest rates. In the exceptional and discontinued operations, we have €100 million of impact of our Hungarian loan portfolio. Integration and restructuring costs were more modest than last year. And the intangible amortization you see the €251 million of goodwill depreciation on our Reso participation which Henri mentioned.

Going to each of the segments now. On Life & Savings, New Business, Henri mentioned the 6% overall growth of APE. We can decompose that into 4% in mature markets and 14% in high growth markets. So it's still a very good number for high growth market. In passing I would note that we've had a growth of 28% in our Chinese joint venture.

New business margin was essentially flat at 34% and flat both in mature and in emerging markets.

Looking at each of the elements of our Life sales, Protection & Health which is the part that we are emphasized – we have emphasized as part of Ambition AXA, the most – still has a solid margin of 55% and still good net flows at €5.2 billion in spite of the fact that we have sold a lot less group business in Switzerland than the previous year. G/A Savings margins continue to be decent at 14% even though it's the lowest of the three Life segments. We had an increase in the APE of 11 points and negative flows of €2 billion versus €5 billion in the previous year. This is essentially due to strong sales in France of group business, strong sales also of the hybrid products with Unit-Linked and G/A savings and hybrid products strong sales as well in Italy in our JV with MPS.

On the Unit-Linked side, with a margin of 31%, the growth of APE was 9%. The flows were modest at €700 million. They were impacted like – as they were last year by significant outflows coming from the VA buyout offers in the U.S. which was launched in 2013 but had an impact in the first half of 2014.

Looking at the picture from an earnings standpoint. On the pre-tax basis, our Life earnings went up by 17%. They were up 10% in Protection & Health, thanks to higher fees and revenues linked to higher sales and higher positive prior year developments notably in France. The combined ratio has moved back to, I would say, more normalized levels after two years of unfavorable developments.

G/A Savings, the earnings were up 37% largely as a result of non-repeat of model and assumption changes in Japan and to a lesser extent to higher positive prior year reserve developments. And Unit-Linked were up 13%. On one hand, we had higher management fees, thanks to a higher asset base and good equity performance. This was partly offset by lower U.S. VA GMxB margin because of the essentially decline in interest rates and some basis risk.

Moving to Property & Casualty, our revenues were up 1%, €29.5 billion, with personal lines up 1% and average price increase of 1.5%. We had a net of 500,000 new contracts in personal lines. On the commercial lines side, we see a slightly higher growth of revenues of 2% with average price increases of 2.2%.

This leads me to the usual picture where we show the pricing trends both in personal lines and commercial lines across our footprint. You see still in 2014 a lot of green. So we've been able to implement price increases almost everywhere, with the exception of Asia and our Mediterranean and Latin American region; overall, +1.5% in personal lines, +2.2% in commercial lines. Going forward, we still see, I would say, positive trends on the pricing side in France and the UK; more stable or declining prices in the other geographies.

Looking at distinguishing mature, high growth and direct. Our revenue growth was clearly disappointing in P&C this year. 1% in mature markets, 2% in high growth markets, and here Asia was up 7%. Again, interesting to note that in China, our AXA TianPing JV had revenues up 19.5% and growth in the direct segment of 49%.

MedLA was the big disappointment where we saw flat revenues in Mexico and slightly declining revenues in Turkey where the competition intensified in spite of a worrying situation on the bodily injury side that we had flagged already in 2012 but which has continued since then. The direct growth was also more modest than usual at plus 5%. We saw a good growth in France and Japan but our Spanish portfolio was more challenged given the competitive conditions in Spain.

The current year combined ratio improved by 0.2 point overall to 97.6%. There was a slight deterioration in high growth markets linked to what we saw in Mexico and Turkey. I mentioned Turkey in terms of bodily injury. Mexico was hit by Hurricane Odile which hit Baja California, and we are particularly affected by this hurricane. On the direct side, it's the impact of difficult underwriting conditions in Korea that led to this modest increase in the year combined ratio which remains below 100%.

Underlying earnings on P&C went up 2%. I mentioned the fact that we had more than our fair share of natural catastrophes in 2014 with a hit of 1.9 points of combined ratio. I would say that we tend to think that the normalized level of Nat Cat is 1%, 1 point combined ratio, here it was slightly higher, almost double that. We had slightly lower prior reserve development at 0.6% leading to an all-year combined ratio of 96.9%, 0.3 point above the previous year.

Within that environment, we've managed to keep our investment income at quite a good level. Investment tick-up was up 5%. We benefited from high dividends in French mutual funds which added €71 million or 12 basis points to the investment yield. The investment yield was stable at 3.9%.

Moving now to Asset Management. At AXA Investment Managers, the flows were increased quite a bit to €19 billion, average AUM were up 5% and revenues up 4% on the like-for-like basis, i.e., excluding AXA Private Equity. At AB, average AUM were also up 5%. AB had a good year in terms of net flows, even if it was more modest than AXA IM at €3 billion against an outflow of €4 billion in the previous year. Revenues were also up 4%.

The earnings were flat, I mentioned that already. The earnings were down 4% of AXA IM. It would have been up 20% on the like-for-like basis, and they were up 5% at AB. So overall good trends in our Asset Management portfolio.

I would now like to thank you for your intention and hand over to Gérald for the balance sheet. Thank you very much.

Gerald HARLIN, Group CFO, AXA

Good afternoon. So the general account amount to €523 billion, and we still have 84% in fixed income which still remains by far the largest asset class. You can notice that govies represent 47% and corporate bonds 29%. We mentioned the fact that the average rating of the govies is maintained in the AA range and A for the corporate. Nothing new and nothing changed on the asset duration, 7.6 years in Life & Savings, 4.6 years in P&C. And as mentioned by Denis for P&C, we have a trend which was more or less stable in term of earnings yield between 2013 and 2014.

The guaranteed rates, the spread between the asset yield and the guaranteed rates on the Inforce book of business is still pretty large, 160 basis points which explains why we had a resilient investment margin. You can notice that it stayed stable at 80 basis points and for new business, it's even more relevant because we have an average guaranteed rates on new business at 40 basis points which means that we have 230 bps spread between the yields as investment yields, that was the marginal investment yield in 2014 and the guarantee. It should be clear that the investment – for the new business, the General Account is mainly used as explained before by Denis in order to sell hybrid products combining General Account and Unit-Linked.

Here is the assets – is the investments and the new investments in 2014, €43 billion and at an average rate of 2.7%. You can see that we invested - compared with the

Inforce book of business, we invested more in govies - less in govies more in corporate bonds.

And as mentioned by Henri, we have been investing this year at 2.7%. In November at the IR Day we told you that we would invest – we expected at that time to invest in 2015 at 2.4%. At that time, we told you that from one year to another, it would mean a decline in the underlying earnings of circa €100 million, now we expect to invest in 2015 at 2% which means that the earnings impact – the underlying earnings impact from one year to another will be roughly €200 million. On top of this and due to our significant – the significant part of our business, denominated in U.S. dollar and Swiss franc, we should have a positive impact in 2015 of €100 million on our underlying earnings.

Shareholder's equity. Shareholders' equity moved up from €52.9 billion to €65.2 billion. I won't comment all the moves. Focusing on the couple of them, first, the change in net unrealized capital gains mostly due to the drop in interest rates. Then forex movements net of hedging, you know that we have part of our shareholders' equity which is invested in dollars, and over 2014 the U.S. dollar went down from $1.35 to $1.21 which explains most of the difference. And the change in pension benefit €-1.2 billion, that's the net present value, we are using AA rate and AA rate went down by more than 100 basis points which explains that we have a negative adjustment of €1.2 billion.

Next is the debt gearing which is stable at 24%. You can see on the left that our debt moved up from €12.3 billion to €13.5 billion mostly in undated subordinated debt, i.e. Tier 1 and Tier 2. We have a slight increase of the undated subordinated debt because we placed €1 billion in May 2014 whereas for the Tier 2, we had reimbursement of €2.1 billion and an increase of only £750 million.

Economic solvency went down from 206% to 201%. And on the right, you have the key sensitivities, and the key sensitivities – these don't differ so much from last year. What is interesting is the roll-forward because we have an operating return at +24%. We have the dividend impact, the dividend that is being paid in May. And we have the market impact, and you can see that although we have a small duration gap, this is mostly explained for 21 points by the lower interest rates.

Moving to the group operating cash flows. We had a strong performance this year. We moved – our operating cash flow moved up with our performance, with our earnings. And we moved from €5.2 billion to €5.5 billion. The remittance ratio went up as announced already at the IR Day in November. We benefited this year from repayment of the U.S., which means that in the end, the remittance ratio went up from 75% to 86%. It would have been 73% excluding the U.S. As a whole, that means that the cash remitted from entities went up by 21% which is quite sizable. Going into bit more detail, expected Inforce surplus generation went up by 10%, and new business investment was more or less stable which confirms our discipline, that means that although we have 6% APE growth, we have a new business investment which was almost flat. In the end, operating free cash flow went up by 18% from €2.3 billion to €2.5 billion.

Life & Savings internal rate of return was stable at 14.2% with some plus and minuses, plus is the improvement of the business mix as explained before, lower unit cost. And at the same time, you could notice also lower unit cost that are cost to income in Life dropped by 4%, and we have a negative which is coming from the lower management expectation. We revised our management expectation in order to take into account the decision from the ECB and the Swiss National Bank.

On the group embedded value, the group embedded value moved up from €43 billion to €47 billion with a strong operating return in line with our operating performance and the non-operating variance coming mostly from the minus €2.7 billion from the drop in interest rates, so +19% operating return.

I hand over to Henri.

Henri DE CASTRIES, Chairman and CEO, AXA

Thank you, Gérald. So if we try to sum up everything, where are we and where do we want to go? What should be the key takeaways for you from this day? First, top line growth with business mix which keeps improving. It's exactly what we are intending to achieve, and it's generating a satisfactory earnings growth. Second point very important in these times where interest rates are low, we keep a very strong ALM discipline. Next point, increased dividend. I think I have insisted enough on that. Last point, strong balance sheet. We are confident that the outcome of the Solvency II negotiations will be fine for the group. Going forward what does this mean? We think we are well positioned to deliver the last year of Ambition AXA. We think we will continue to show a very significant resilience to low interest rates. So we will have, I would say, a sustainable policy in terms of dividend. Going forward, the group has a strong cash generating ability, and this should create a satisfactory situation for shareholders. The most, most, most important thing long term to preserve the competitiveness of this group will be our availability to succeed in the acceleration of the cultural and operational transformation and we are very much focused on that. And I will now leave room for all the questions you may have. Nick, first. Let me start from the left.

Q&A session

Nick HOLMES, Societe Generale

Thank you very much. Apologies to Farooq because he normally asks first.

Henri DE CASTRIES, Chairman and CEO, AXA

It was close.

Nick HOLMES, Société Générale

Exactly. I had a couple of technical questions and then one sort of strategic question. The first technical one is on Direct insurance. It still has a combined ratio above the group. Wondered when you think that this could reach the group level or indeed surpass the – get better than the group level or maybe this is a wrong way of looking at it. Maybe you're interested in growth from Direct rather than combined ratio, that's the first one?

The second one is Solvency II. Wanted to ask about the equivalence ratio. Different companies seem to have different views on what is the right level of RBC coverage. I think yours is 300%. Correct me if I'm wrong. But other companies have different ratios. Where do you think this is going to end up?

And then, final question is strategic. You are not, I think, going to tell us about targets post 2015, but just wondered if you could share with us your thoughts about growth expectations going forward. You've been targeting 5% to 10%. Is that the sort of range that we should be thinking of going forward? Thank you.

Henri DE CASTRIES, Chairman and CEO, AXA

Thanks, Nick. I'll start with the last one and ask my friends to help comment on the first two ones. We will come back to you second quarter of 2016 on the next plan. So it's too early to say what we're going to come with. But if you take the very broad and very long picture, the efforts we're making to accelerate the transformation, both geographic and I mean operation models wise, should lead us to see growth in the years to come. So of course, there are some uncertain factors; whether the growth is going to be in Europe? How long are we going to see very low long-term interest rates? Is our point where they're going to gradually increase? Maybe they will start to increase sooner in the U.S. than in Europe, it should be probable. So there are uncertainties. We need to clarify a couple of things there. But long term, I think the industry and within the industry, AXA remains on a growth path because the appetite for risk coverage is still growing and we think we have a very, very sound operational base.

On Direct, I think you've given both the question and the answer. It's a balance between the growth we want to achieve and the combined ratio we are ready to tolerate. Ideally in 2014, we would have liked to see a slightly higher growth, but they are – always remember that we have some operations which are getting, I would say, close to a sort of normal pace of growth in Direct, and we have also operations which are emerging ones, accelerating strongly like the Chinese one. So over time in the very long run, the combined ratio, of course, should increase and get closer to the one of the – sorry, should decrease and get closer to the other operations, but we think it's not inappropriate to tolerate a slightly higher one, because they are market shares – profitable market shares which can be gained. I mean extending the footprint in China, in Japan, I mean in some places in the Mediterranean region and so on and so forth. This was the second – well, it's the first question which became the second. Do you want to, I would say, add to the first two questions and answer the third one?

Denis DUVERNE, Deputy CEO, AXA

Just one additional point on Direct. So it's a function of the maturity of the portfolio. We still have companies like Italy, Poland which are fairly recent and have not reached maturity. China is not yet consolidated, and when we consolidate it, it will probably be consolidated as part of Asia. So we have parts of the portfolio which are not mature. And we need to continue to gain scale, and we look at it from a value perspective. If you take our most mature operations like France and Japan, we could easily lower the combined ratio that would be at the expense of growth. And there's more value in keeping a high level of growth rather than optimizing the combined ratio at this stage.

Gerald HARLIN, Group CFO, AXA

Nick, on your third question about the Solvency II, yes, we are using 300%, I confirm. And as you know there are some companies taking a different threshold at different levels. There are some companies with a lower level, and we consider that we are comfortable at this level. You know that we have an RBC ratio in the U.S. which ended up at 560%. And we consider that we don't – as far as we know, we don't anticipate that at this level and this current level of 300% will be challenged. But I remain always cautious.

Nick HOLMES, Société Générale

Very quick follow-up to Gérald. When do you think this will be decided? I mean, for rather more relevant to other players than you? But when – is this H1, H2 that Solvency II will decide?

Gerald HARLIN, Group CFO, AXA

On equivalence, it will be much more, I believe, on H2. And anyway the whole scope and the whole framework of Solvency II will be completely official at the end of the year and not before.

Nick HOLMES, Société Générale

Thank you.

Henri DE CASTRIES, Chairman and CEO, AXA

Farooq, now.

Farooq HANIF, Citi

Thank you very much. On the comment, the slide you had on yields and the reinvestment yield, firstly, can you tell me how much this is all dependent on the U.S.? So what proportion may be of your reinvestment is the U.S. based rather than euro or other? And so what sensitivity there might be to, you know, if yields go up in the U.S?

And then secondly you talk about actions that you are going to take. I mean what are they? It seems to me that this problem seems to be getting worse every time you talk about it. So what are the actions you can do to accelerate that?

And lastly very quickly, you have a 100% remittance ratio from your Life business to the holding, is that all the effect of the U.S. or are there other areas that are maybe non-recurring that we may need to adjust for going forward? Thank you.

Henri DE CASTRIES, Chairman and CEO, AXA

Gérald, do you want to take?

Gerald HARLIN, Group CFO, AXA

Yes. You are referring, Farooq, on the 2% of marginal investment that we mentioned. Roughly speaking what I can say is that 50% roughly is coming from the U.S. Because of course in countries like Switzerland where you don't have enough liquidity on the Swiss fixed income portfolio, we are investing in U.S. dollar and then we swap

Denis DUVERNE, Deputy CEO, AXA

And Japan as well.

Gerald HARLIN, Group CFO, AXA

And Japan as well. On Europe, for example, out of this 2%, we are expecting to invest at 1.5% which is reasonable taking into account the fact that what we have been doing is that – when building such a plan, we are assuming that we keep a level of economic capital which is stable. So we are not increasing our risk in order to gain some additional basis points, if you see what I mean. What do we do? So we try and what we do is that it's in line with what we did in 2014, meaning investing in assets which are less liquid, but high quality. It's corporate real estate bonds, it's loans, it's – at the same time some infrastructure debts, these type of investments which are less liquid but with significant yield.

Denis DUVERNE, Deputy CEO, AXA

And the impact of – I mean our assumption is that yields are going to go up in the U.S. during the year but very little of that is reflected in the investment plan because if yields are, say, at 2.6% in December, the earnings that we will get from our investments in December will be almost zero. So basically it has very little impact on the investment plan.

Henri DE CASTRIES, Chairman and CEO, AXA

Next? Let's move to the right.

Jon HOCKING, Morgan Stanley

Hi. It's Jon Hocking from Morgan Stanley. I've got three questions please. First of all on the economic solvency ratio, have there been any methodology changes since you last reported it to us? I just wonder if you could give a comment about what the sort of major controversies are in having a model signed off – you know is the regulator amenable to internal model gain over standard formula et cetera. That's the first question.

Second question, I just wondered your view on what QE will do? It's clearly driven down bond yields. Do you have any expectations actually going to work in terms of stimulating European growth and the impact on the business it will have?

And then just finally on the reinvestment yield, you've taken the number down 40 basis points since November. I just wondered has there been any commensurate change in the types of assets you consider investing in and the costs of those assets, in the last few months? Thank you.

Henri DE CASTRIES, Chairman and CEO, AXA

So, Gerald, do you want to take question one and question three, first?

Gerald HARLIN, Group CFO, AXA

Yes. On the economic solvency, no we didn't change. So that means that it's consistent and we didn't change the methodology. One part of your question was about the – what are the discussion or the open discussion that we could have? You can understand that we – it's not the right place in order to comment. On the reinvestment, we didn't change. That means that when we – roughly speaking, when we announced 2.4% of marginal reinvestment that was in November, between November and February, during January and February, we didn't change so much our asset allocation. Slightly more investment in illiquid asset as I said, but again I insist on the fact that we didn't deteriorate the average quality of our investments.

Henri DE CASTRIES, Chairman and CEO, AXA

When we look at QE I think you have to look at what has happened. I think we have two types of QEs. The ones who are used in economies where either you undertake structural reforms or you have flexibility in the economy. It's the U.S. and the UK, it works. And there are places where you have QE without structural reforms, Japan. After a while, it doesn't work. So Continental Europe has a choice which means the key is now the structural reforms, and the metaphor I've been using with the press is to say that Draghi is absolutely exceptional. I mean I think he is doing everything he can do and doing it masterfully, but he is the anesthetist. You need the surgeons to take care of the real problem, and the surgeons are the governments. So they have to be the ones acting on structural reforms if at one stage or the other you want to see growth resuming through private investment. Yeah?

Oliver STEELE, Deutsche Bank

Your undiscounted cash flows seem to be quite a lot lower than last year and part of that is pretty obvious, but particularly the years six to 10 seem to be quite a lot lower, both for the back book cash flows but also for new business cash flows. And you said on the note, I think it's on the last page of your appendix, just in case you are looking for it. You say on the note that this has been driven by QE. But I was just wondering if you could sort of comment a bit more on what's driven that and which countries particularly have driven that reduction? And then linked to that you also talk about back book management actions. I think you've been talking about that for quite a long time but is there anything in the note that you want to hint to us about?

Henri DE CASTRIES, Chairman and CEO, AXA

Gérald.

Gerald HARLIN, Group CFO, AXA

On discounted cash flows, Oliver, I believe that this should be analyzed in the light of the EV Report which is quite thick and I imagine that you had so much time to look at it. More globally, it's due to the revision of the yield curves. That means that the management – as you know, this is done on a management case and the management case has been lowered as I mentioned, that's exactly the same for IRR and for the calculation of internal rate of return. Nevertheless, one way to answer your question is to mention that as far as IRR is concerned, we are at the same level as previously. Yes, we lowered the first years because as you can imagine just taking the Euro for example, we are expecting that on the first three years 2015, 2016, 2017, we will be below 1% which means – and it was not the case before. So long as you flatten the first part of the curve, by definition you have lower cash flows. But at the same time we can consider – you noticed also the implied discount rate was slightly lower, that means you will see it in the EV Report, and it's completely linked. So that's mostly it.

Denis DUVERNE, Deputy CEO, AXA

On the Inforce, you have probably in the first row who presented very brilliantly in November at the Investor Day on Inforce, so you know everything about Inforce as there is nothing new to learn on this topic. And maybe thinking back to one of the questions which we didn't fully answer on the remittances, there was one other exceptional element in 2014 which was Japan, so I mean the U.S. was large but we had also one exceptionally high level of remittance from Japan.

Gerald HARLIN, Group CFO, AXA

Which is directly linked to the level of interest rates when interest rates are very low in Japan, so capital requirements are low as well.

Henri DE CASTRIES, Chairman and CEO, AXA

Next question. Yeah?

Michael HUTTNER, JP Morgan

So I'm new to this. So bear with me.

Henri DE CASTRIES, Chairman and CEO, AXA

Really?

Michael HUTTNER, JP Morgan

Yeah, Yeah.

Henri DE CASTRIES, Chairman and CEO, AXA

We won't believe that.

Michael HUTTNER, JP Morgan

So the Life underlying earnings €3.1 billion. In the MD&A, there is a note saying that the DAC contributes to this €400 million, and I wondered if that's kind of one off-thing and I ready didn't understand what the clean number might be, so if you could help on that, that would be really good. And then you said – enough said about dividends, I would love to hear more about dividends please. So is 45% where you'd like to be given that you want to grow or can we see you may be moving up to the 50% of Allianz?

Henri DE CASTRIES, Chairman and CEO, AXA

Let's take first the non-naïve question.

Gerald HARLIN, Group CFO, AXA

Yeah. As far as the DAC is concerned, we have a – your question, is improvement coming from the DAC but – maybe – remember that you have €400 million in mind and that's roughly the good number, but last year we have a negative adjustment of €200 million that was coming from the mortality. So we can consider that now we're at the normal level. It was last year that we have level of DAC amortization which was at relatively low level compared with the normal trend.

Henri DE CASTRIES, Chairman and CEO, AXA

Okay, now I'll take the question of the dividend. So, we are the guys sitting between two lions and a goat. The two lions are yourself and your appetite for the first one, and the other lion is the regulators with their appetite for solvency capital. And we are the guys who have been growing the goat to feed the lions. We have the feeling that the second lion, the regulators, are looking with a close eye at how much you pay in dividend, because if they have the feeling that you give too much meat to the first lion, their appetite will increase. So, we have to play with these two constraints. Once the normalized appetite of the second lion will be cleared, it will give, maybe, if we keep growing the goat, more meat for the first lion. If I've been clear, it's probably that you have not understood me.

Blair STEWART, Bank of America Merrill Lynch

Thanks for that and it's Blair Stewart, BOA. Three questions please. The first is one payback periods, you mentioned good progress in the Life business on payback periods, but there is two or three markets that still are lagging - the UK, Germany, Switzerland in particular - Is that, have you done as much as you can do there or is there more that you can do?

Secondly on the costs base, you've been successful in taking out quite a lot of cost. But how do you measure the cost base? Or how do you measure the cost opportunity of the company? And what do you look and internally, how do you benchmark yourself?

And then thirdly, a technical question for Gérald, I guess is, why have the economic capital sensitivities to lower interest rates not gone up? I would have thought that given the rate decline, there would have been some convexity – the next 100 basis points was more impactful. But it doesn't seem to have been, I'll be interested in that as well. Thank you.

Henri DE CASTRIES, Chairman and CEO, AXA

Okay. Gérald do you want to take?

Gerald HARLIN, Group CFO, AXA

Yeah, I can start with this. You are right. That means that there is more convexity, but it's floored to zero. And in order to go – to have a better perception of the interest rates and the level that we have been using, you should go to the EV Report. And in the EV Report, you have the first year of, and of interest rate assumptions. And you will see here, country by country. In other words, the floor doesn't – will not be hit for Europe, but it will be hit for a country like Switzerland, okay. So more convexity, but the floor at zero. And we can see that it was quite relevant, because even on long-term rate, which is our reference, look at Switzerland - even if we were quite negative in the first days after the revaluation of the Swiss Franc, now we are just few basis points positive. But I can follow up on this point with you.

Blair STEWART, Bank of America Merrill Lynch

On expenses?

Denis DUVERNE, Deputy CEO, AXA

On expenses, our view is that we've done a decent job in the last four years, but we have the intention to keep going. We believe that the digital opportunity is significant that we, I mean digital brings a number of elements, as Henri mentioned. One is the elements is that we are going to change the interaction that we have with the customers and our distributors, but the other – one other element is that we are going to simplify our products, automate a number of back-office activities, give back to the customer the ability to make changes by themselves instead of doing those changes within the company. So we see multiple opportunities to continue to improve our productivity, both on the Life side and on the P&C side. So there is more to go on the efficiency improvements. We have to keep going. And it will not – we do not expect the efforts to slow down going forward.

Blair STEWART, Bank of America Merrill Lynch

And any benchmark?

Denis DUVERNE, Deputy CEO, AXA

I would say, on P&C, we now benchmark favorably compared to multi-line peers. There is always, in each country, a company that is more efficient than we are. So, we are not – I would say, we are reasonably well positioned, but we have some way to go if we want to be among the best.

Blair STEWART, Bank of America Merrill Lynch

And on Life?

Denis DUVERNE, Deputy CEO, AXA

And on Life, on Life, it's more difficult to do comparisons, because it depends a lot on the nature of distribution. So a company doing mostly bancassurance would have a much lower expense ratio, whereas a company doing mostly wealth management with a proprietary sales force would have a much higher expense ratio. So it's much more difficult to – it's more determined by your mix of distribution rather than anything else. So it's very difficult – I mean if I could find someone who tells me how to measure competitively your performance on the Life side from an expense standpoint, I would love to have that. But even talking to consultants, they give different responses to that question. But I will say, we are reasonably positioned, but not – I mean we still have a lot of room for improvement.

Henri DE CASTRIES, Chairman and CEO, AXA

Yeah. On your first question, you are pointing out the two places where the rates are the lowest, and when we still have some "legacy books" there is always an additional work of reducing expenses and transformation of the mix. Sorry but it’s – I mean the impact is going to be gradual.

Denis DUVERNE, Deputy CEO, AXA

And as you mentioned Germany, Switzerland and the UK. On the UK, obviously, we have just reached the breakeven in 2014. So the situation should improve as we move into positive territory from an earnings standpoint.

Henri DE CASTRIES, Chairman and CEO, AXA

Andrew?

Andrew CREAN, Autonomous

Good afternoon, it's Andrew Crean, Autonomous. Three questions if I can, can you talk a little bit about how you think your economic capital coverage ratio will operate on Solvency II and whether those sensitivities will expand or not?

Secondly, could you talk a little about the internal loan and the repayment of that? How big is the internal loan from U.S. back to France? And I think you paid back €0.7 billion this time. Is there a target which the regulator is aiming for you to or that you have to lower that?

And then thirdly, when you were thinking about general account business in Europe, how much yield do you need to cover your costs, credit to full provision and a profit margin i.e. how much yield do you need before you even actually credit anything to the customer?

Henri DE CASTRIES, Chairman and CEO, AXA

Gerald, do you want to take. I'm sorry.

Gerald HARLIN, Group CFO, AXA

Yes. And your first question was about the U.S.. So in the U.S. they roughly paid back - we had $8 billion loan. It went back to $7 billion. We can expect going forward that the U.S. will repay something between $600 million and $1 billion per year. Yes, it depends on the supervisor, because you know that there are some rules, but we will see. But we should be confident this year, for example, they accepted that we reimburse the surplus note. That's for the U.S.. Your second question?

Andrew CREAN, Autonomous

No, just on that question. Does your French regulator or do you have targets for lowering that internal loan to a certain level?

Denis DUVERNE, Deputy CEO, AXA

So there is no...

Gerald HARLIN, Group CFO, AXA

No, no.

Denis DUVERNE, Deputy CEO, AXA

I mean there is no target. I think it was important for the French regulator, the French supervisor that – to be able to tell them that basically the $3 billion that had been moved to the U.S. in 2008 had been paid back. I mean we still have some interest to pay back, but the principal has been paid back; so that's quite nice. And – but there is no target, no constraint at this stage on that number.

Andrew CREAN, Autonomous

The other question was on the general account and on the margins?

Gerald HARLIN, Group CFO, AXA

Yes. As far as the general account, maybe, we can go back to the appendices and to the Life and Savings, G/A savings on page B-26. And you can see here that we have a margin on the G/A savings of €840 million. You have all the components and this margin went up by €226 million in 2015. You have here all the components. And roughly speaking, I could say that we have the margin on revenues which is €225 million, you have the admin costs of €619 million. And starting from this admin cost plus acquisition cost, assuming that we would have margin on revenues of €225 million and we have acquisition cost for €440 million and €620 million for admin, that means that roughly speaking, we have €800 million administrative costs, with an investment margin of €1.5 billion. So that means that roughly speaking, that's very rough. It's 50%; that means that it should be 40 basis points. We can follow it together, but that's roughly it.

Denis DUVERNE, Deputy CEO, AXA

And so far, we've been able to maintain our investment spreads, even slightly increase it. In this segment – I mean, overall, you know that our investment spreads is 80 basis points. You saw in this segment, its 90 basis points. You saw in Gérald's part of the presentation that we are – as we lowered the guaranteed rates, we had still ample room to maintain our investment spreads. So we are not too worried about that. I think it's more a question of the business mix going forward in interest of our customers.

They should be more and more aware that they will not be able to provide for their retirement. If they invest mainly in general accounts, they have to invest more in unit linked to be able to withstand a peaceful retirement, and I think our interests are aligned on that front..

Andrew CREAN, Autonomous

Sorry there's the economic solvency ratio?

Denis DUVERNE, Deputy CEO, AXA

Yeah, the economic solvency ratio and the Solvency II ratio, I mean, I cannot say that the figure will be exactly the same, but I can tell you that the sensitivities would be the same. It's the same calculation. The only thing that we don't know yet is – the extent to which the capital add-on versus the other moderations that we implement, will be a net negative and by how much, but the sensitivities will not change.

Andrew CREAN, Autonomous

You are QIS 5 and I mean there is hardly any sensitivity to corporate bonds?

Denis DUVERNE, Deputy CEO, AXA

No, I mean, our economic capital model is not QIS 5. Our economic capital model is our economic capital model which we have submitted to the supervisor and for which, we have ongoing discussions on capital write-downs, but the sensitivities will not change.

Francois BOISSIN, Exane BNP Paribas

Good afternoon. François Boissin from Exane BNP Paribas, two questions please. The first one on the remittance ratio, you indicated that 75% was kind of the upper limit, I think one year ago. Now we see it's higher because of the U.S. on this one-off. Can you may be comment on what the 75% has become - are you more confident on your ability to offshoring cash from other geographies in the U.S.? That's first question.

The second question is, back to Africa, you actually had two acquisitions this year. Just wanted to have may be a bit more detail on what's kind of profitability you expect on the capital deployed there? And what's the timeframe you're looking at to actually meet the cost of capital? And may be just from a strategic point of view, do you have – do you expect synergies between the two acquisitions, the Africa Re and Mansard, or is this completely separated? Thank you.

Henri DE CASTRIES, Chairman and CEO, AXA

No, they are two separate things. Denis, do you want to comment on Africa, because you've been very instrumental in making this happen.

Denis DUVERNE, Deputy CEO, AXA

So if you look at our current African portfolio, roughly we've invested in total €0.5 billion in Africa. We have an historical existing presence which is dominated by our presence in Morocco. It's our biggest business. We are present in Algeria, with an operation which started three years ago and we have a presence in French speaking sub-Saharan Africa. We've added to that Nigeria, and we're starting – we'll be starting hopefully in Egypt in June through a Greenfield. Of that €0.5 billion of investment, currently our return, including Nigeria, will be €50 million of earnings. And we don't – I mean we don't believe that's the end of the story. We believe that's the beginning of the story, and that we will make more out of this investment and we still have plans to look at potential opportunities in Africa, because we believe that Africa is an area – is a continent where lot of growth will happen eventually. We are not focused on South Africa, because the insurance penetration is even higher than Europe, but the rest of Africa, we are quite interested and we see very significant growth prospects. The investment in Africa Re was predicated on the, I would say, building further connections in the African insurance community, exploring potential corporations with Africa Re on, I would say, on the understanding of natural events that can hit African operations because we have some knowledge in that area. They have lot of market knowledge and we think we could benefit from that. But there is no direct connection between the two.

Henri DE CASTRIES, Chairman and CEO, AXA

On the remittance ratios?

Gerald HARLIN, Group CFO, AXA

On the remittance ratio, as I presented just before, last year we were at 75% without any reimbursement from the U.S. This year excluding the U.S. repayment, we were at 73% with some elements which were relatively favorable coming from Japan due to the low rate environment. So I would say that we cannot consider that there is much more potential in this environment on the traditional companies except the U.S. But including U.S., we can expect to have a good level of remittance ratio. On top of this, I should say that in some countries, as you know like Germany or like Belgium, we have some specific reserves that are imposed because all the dividends are paid from the statutory accounts, ZZR or such type of special reserves which make that from time to time, we could have some limits. For the time being, we're not hit by such type of limit. But in a very prolonged period of time, we could have slight decline coming from these countries. But on the reverse, in Japan if we would stay in this extremely low environment, we could have quite good level of dividends.

Henri DE CASTRIES, Chairman and CEO, AXA

I think the important point for you is, which had been outlined by Denis a few minutes ago, is the fact that the U.S. has become again a cash-generating machine. Next question? Yeah.

Ralph HEBGEN, KBW

Thanks. Ralph Hebgen from KBW. I have three questions as well. One is on the P&C performance, I mean, if I didn't do this wrong, it looks to me as if in the second half the current year combined ratio excluding the nat cats was very low indeed, it was about 94%, a bit higher. If I'm not missing something obvious, it would be interesting to hear what are the drivers of this good performance, going to which extent you believe that might be sustainable?

And the second one is again on the $700 million debt repayment. I'm not sure I understand exactly the dynamics of this. How much debt is now left in the U.S. and to which extent do you think in the future the repayment of that might continue. And also I think this is something which Andrew may have asked, the $700 million which has now arrived in the Holding. Will this actually be used at some point in the future to repay the debt, which the Holding I believe has with France, so you can see that I'm confused on the dynamics maybe that will be interesting to clarify.

And finally in the U.S., we have seen interest rates coming down recently to levels where they were at in 2012. Yes, I hear that you're saying they might actually or you expect them to go up. They have gone up recently, but just hypothetically can you explore what the current situation or position of the U.S. VA book is following the 2012 reserves strengthenings? Are you happy that the various assumptions, which you make relating to lapse rate, et cetera, would hold robust in an environment where interest rates might stay low in the U.S?

Denis DUVERNE, Deputy CEO, AXA

So I will take the U.S. question. Yes, we remain comfortable with the assumptions that we have in the U.S. As far as, customer behavior is concerned, we do not see any reason to go back to the, I mean, to reserve strengthening as we did in 2012. We have done obviously some stress-testing of our U.S. portfolio and we don't see even in this low rate environment reasons to worry about the future evolution of the U.S. business. Obviously, the situation of the U.S. would be much better with higher rates but we can live with the current level of rates for quite a number of years. So we are not worried about the U.S. We believe that U.S. is now in a good position. And the reason why the U.S. is capable of up-streaming a lot more cash is that the current production, I mean, the IRR on the current production is quite high and the capital consumption, the capital requirement on the new business is much lower than it was a few years back. This explains to a large extent the fact that the U.S. has been able to upstream more cash. It has been helped a little bit in 2014 by the fact that our Life production was down. But I hope that we can also improve our Life production which will have a slight negative impact. But overall, our situation is much improved from a cash flow perspective because of the low capital consumption of the savings part of the sales.

Your other questions. Yeah, P&C, Gérald, do you want to comment on the second half of P&C? That's not the way we look at it generally. But I'll say, the only comment that I could make, but Gérald may have other points is that the weather was – weather conditions was relatively benign. So we had this big hit of the Odile hurricane in Mexico. But otherwise, there was no flooding, no storms, no bad weather in Europe and the weather situation was benign and better than what we normally plan for our fourth quarter. But other than that there was, I mean, we don't look at it that way. So I would be – I think we would have difficulty to comment exactly on that point.

Gerald HARLIN, Group CFO, AXA

Yes. And taking also into – completely agree with your answer. And second, an important point is that it's not symetic. That means that we don't – you have some seasonality in the P&C business. As you know most of the premium in the first half, for example, in France. So there is so much seasonality that any conclusion that you could draw from this very simple comparison honestly would not be relevant.

Henri DE CASTRIES, Chairman and CEO, AXA

Going back to your first question, I think the very broad comment is the group is less capital-intensive to finance its growth which is also one of the reasons for which we think we have more flexibility than before.

Ralph HEBGEN, KBW

Just the points on the debt situation in the U.S. VA business?

Henri DE CASTRIES, Chairman and CEO, AXA

The $700 million?

Denis DUVERNE, Deputy CEO, AXA

I think Gérald has already answered the question that was posed on that. I mean we've moved from $8 billion to $7 billion. So I don't really understand what your question is?

Ralph HEBGEN, KBW

It just relates to the future, are the dynamics such that we might expect future or further debt repayments or down-payments.

Denis DUVERNE, Deputy CEO, AXA

Yes.

Ralph HEBGEN, KBW

And also the second part of this is unless I am wrong, the Holding also has a commitment to France. And in 2008, I believe, regulatory excess capital was taken out of France and made fungible, put into the U.S. The €700 million debt repayment has emerged and is now at the Holding unless I'm misunderstanding this. Would there not be in time a repayment from the Holding of the French loan?

Gerald HARLIN, Group CFO, AXA

It's a possibility, yes.

Ralph HEBGEN, KBW

And as a consequence now the – therefore the gearing at the group level, has that increased because of that?

Henri DE CASTRIES, Chairman and CEO, AXA

Next question. Yeah, in front?

William ELDERKIN, Goldman Sachs

Thank you. It's William Elderkin from Goldman. On the P&C side, could you add a little color in terms of the decline in level of prior year reserve release we saw coming through in 2014 and provide a direction in terms of where that could emerge on a somewhat normalized basis. And then secondly in terms of the remaining Ambition AXA cost reduction target. I think that's at least €300 million to go coming through 2015, if I understood you correctly. How much of that can we sort of realistically expect to see turning up in underlying earnings or whatever metric you want? Thank you.

Henri DE CASTRIES, Chairman and CEO, AXA

Gérald?

Gerald HARLIN, Group CFO, AXA

On the P&C side, yes, we had some adjustment on the prior year coming from the different countries with France with construction and we mentioned it already in the first half. About the second question, which is what would flow through the P&L account. Look at what...

Henri DE CASTRIES, Chairman and CEO, AXA

Enough to enable us to fulfill the 2015 ambition.

Gerald HARLIN, Group CFO, AXA

And look at what we did this year. Look at the expense ratio, for example, in P&C which went down by 0.5 point. That's an illustration of the savings that we can achieve.

Denis DUVERNE, Deputy CEO, AXA

And on the sustainability of the prior year releases, I would say that 0.6 point was probably a minimum and the 1.2 point of last year was probably a more normalized level.

William ELDERKIN, Goldman Sachs

Very good.

Henri DE CASTRIES, Chairman and CEO, AXA

The newcomer has appetite.

Michael HUTTNER, JP Morgan

No, no, not at all. Well, on dividend, yeah, always. And just on the U.S. cash flow, what was the figure please? And the other is on Solvency II, how much would the ratio be different if you had a loading for sovereign debt?

Denis DUVERNE, Deputy CEO, AXA

So we will have a loading for sovereign debt. There is not one now, but that's part of the – we have chosen not to do multiple changes to the number we published. There are a number of elements which we have not taken into account in the numbers that we have published, positives and negatives. And we will do a final markup once we know the add-ons, once we agree the add-ons with the supervisors, but there will be a charge for sovereign risk because our supervisor has asked us within the internal model to put a charge for sovereign risk. And I think we have been already mentioned in that. And the other question?

Gerald HARLIN, Group CFO, AXA

The other question was about the U.S. cash flows, right? So please you go to page B69 and you have here the cash flows of the different entities and you will notice that – and you will see that U.S. cash flow went up from €419 million last year to €542 million this year, it's in euros.

Henri DE CASTRIES, Chairman and CEO, AXA

Very good. We have one question on the phone, on the web. Yeah. Is the mic working?

Pierre CHEDEVILLE, CMCIC

Is AXA planning to evolve like Société Générale, in terms of its governance by separating the functions of the Chairman and the CEO?

Henri DE CASTRIES, Chairman and CEO, AXA

Not for the time being. We've changed the governance in 2010. We are pragmatic people. If there is a point where we need to do it, we will do it, but we don't think we need it now. On this happy note, I know there is another one. Yeah.

Operator

We have a question from Avinash Singh from Nomura. Sir please go ahead.

Avinash SINGH, Nomura

Hi, two questions please. First one on your General Account Savings, you had two positive developments rather one absence of negative in 2014. And as mentioned on slide A27, you have €840 million underlying pre-tax earnings. And you also had I mean a significant cost savings on acquisition cost. Do you think this level is sustainable as a guidance for 2015. And a second one, relatively a smaller one for you in terms of growth market, India has been a promising but a very difficult market. And your joint venture despite being here for about 15 years has not done quite well unlike your peers. Given that government is now allowing you to increase stake to 49%, would you be looking at that possibility?

Henri DE CASTRIES, Chairman and CEO, AXA

To start with the second question to leave time to find the numbers. On India, we've been late entrants and therefore it has been difficult for us to find a bancassurance distribution. This is the reason why we've not done as well as other entrants which came in earlier. On the P&C side, we are now in a situation where we're breakeven to making money. We had the feeling that with the new government, it's going to be possible to expand the business faster. It's the first time in years that the government has a consistent majority in the Lower House. We remain cautious. I mean, the insurance ordinance has been passed on allowing foreigners to move from 26% to 49%. So that's a good sign but it has to be approved by both Houses and there still is an issue with the Upper House. So we hope it's going to be solved. If it's solved, I think it's going to be an opportunity for us to accelerate the business. If there are a couple of additional changes, maybe we will be in a position to find a bank or to join forces with – or to acquire business from people who will want to exit. We remain cautious. We think that it's moving in the right direction probably not as fast as what people were expecting six months ago. But we think for the long term, it remains an interesting market for the group.

Denis DUVERNE, Deputy CEO, AXA

On your first question of on G/A savings, I think we can say that the €840 million of 2014 are a normalized level and €640 million of last year were impacted by a negative one-off in Japan. So you should take the €840 million as a sustainable number.

Henri DE CASTRIES, Chairman and CEO, AXA

No more questions? If we have no more questions, we will close there. Thank you very much for your attention. As you see, the group is in good shape. As you see, the group is generating cash. And as you see, the group has been increasing its dividend. Thank you very much.