# AXA FY19 results

# Transcript

**February 20, 2020**

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The results of our US segment are presented herein on the basis of IFRS and are not, and should not be relied upon as representing, the US GAAP results of Equitable Holdings, Inc. ("EQH") (including AllianceBernstein), which, as a US public company, reports in US GAAP in accordance with the rules of the US Securities and Exchange Commission ("SEC"). For further information on EQH's financial results and other public reports please consult the SEC website (www.sec.gov).

## FY19 RESULTS PRESENTATION

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

Good afternoon, welcome everybody here in London for AXA's Full-Year 2019 Earnings presentation. Welcome to those of you in London who just came through the rain. Welcome to those of you who are with us on the webcast, good to have you here. For those of you on the phone as well, if you would like to ask questions later on in the Q&A, of course we will give priority to the people here in the room, but we will take questions also from the webcast; just follow the instructions you're given, and we will be happy to have your questions as well. We have with us Thomas Buberl, our CEO; Etienne Bouas-Laurent, our new CFO; as well we have some of the management team: Jacques de Peretti for France, Antimo Perretta for Europe, our Group Chief Risk and Investment Officer Alban de Mailly Nesle and Scott Gunter, our new CEO for AXA XL. All of them will be available to answer your questions later on. And without any further ado, Thomas I hand over to you.

### Thomas Buberl, Group CEO, AXA

Thank you, Andrew, and good afternoon to all of you. Very glad to see you here in London. When we look at the highlights of the results, they follow the rule: 5/5/5/7: 5% topline growth and across the board, 5% underlying earnings per share growth, reflecting a very strong technical result, 5pts more of solvency, in an environment that is characterized by continuously low interest rates, and in our case by a significant portfolio shift from Equitable Holdings, Inc. to AXA XL, and the proposal to the shareholders will be +7% on the dividend, leading to a dividend of Euro 1.43 per share.

Let's have a look into the details. +5% in revenues leading us to Euro 104 billion of revenues. What is interesting to see is that this is happening across the board; all geographies are contributing to it and I would like to draw your attention to the bottom right which is AXA XL, we will come back to that again, +10% is really a very good growth number, certainly resulting from strong price increases.

But if you go to the top part, you will certainly see that this strong growth was again driven by the preferred segments we are focusing on: Commercial lines where we are today the largest in the world; Health and Protection where we are also very strong at the global level. But this is nice to see that all the geographies, France, Europe, Asia and International markets have really contributed to it. We will talk about it later on with Jacques and Antimo.

When we look at the earnings, as I mentioned earlier, that's the second +5%, we see +5% UEPS which results in a +6% Adjusted EPS growth resulting in a proposed +7% growth of the dividend per share to Euro 1.43 and a payout ratio that is slightly higher than last year but very stable at a 52% level.

If we look at the priorities that we had, and there were clearly 3 priorities that we mentioned here end of last year:

One was selling down Equitable Holdings Inc. You see here on the left-hand side that we used to have a year ago close to 51%, we now have zero. So Equitable Holdings Inc. is now fully in the hands of American shareholders.

Second priority was clearly reducing our temporarily increased leverage. A year ago, we were at 32%, now we are at 29% with a very clear way downwards to the 25%-28% target range. You've already seen the announcements of the necessary means in order to get there. And certainly, on Equitable Holdings, Inc., we have achieved 100% of what we wanted to achieve because we issued, at the time, at $20 and never sold below $20, always above.

What is also interesting is to look at the solvency: it has continuously increased, and there is still some upside to it as we are putting XL into AXA's internal model which will hopefully happen this year. But what is also interesting is not only to see that there is a 5pts increase, we are also for the first time not relying on the equivalence anymore. This was certainly a discussion that we used to have a lot on the US business, today it is a solvency that is "pure" without any equivalence.

When we look at AXA XL. AXA XL, as I said earlier, had a very strong growth. So 10% growth of the premiums, very much based on a strong and disciplined re-underwriting of the book, and this is very different across the various lines. You have some lines, for example, in the US ie. liability which are at +22%[1]. You have the excess casualty, which is at over +40%[1]. So the hardening cycle is there, we are making use of it. And when we look at the January numbers, I see that the trend is continuing. So we will see this continuing into 2020, and we will also see the benefit of this earning through in 2020 and 2021. Because this 10%, if you take it on a Net Earned Premium of Euro 10 billion, this is a very interesting figure.

Second point was very much around the question which are related to social inflation: are the reserves adequate? We had this question plenty of time in this room. As you know, we have built a very significant reserve at the time of the opening balance sheet through the P-GAAP. We obviously have had a continuous look at it and we can say today that the reserves are adequate and that we even have Euro 0.8 billion additional unallocated reserves at the end of 2019.

For 2019, AXA XL's result is Euro 0.5 billion, with a natural catastrophe experience that is beyond what we would normally expect. I personally have a much higher ambition than Euro 0.5 billion. So we have taken 3 key decisions in order to get to a more profitable XL in 2020.

[1] Refers to the pricing increase in January 2020 renewals

Number one, we have increased the prices significantly and we will continue these price increases, and we see we are benefiting from a significant growth. First decision.

Second decision, we have reduced our volatility, through two means. One is that we have reduced exposure in underwriting to natural catastrophes. For example, on the reinsurance side, exposure to natural catastrophes has reduced by 10%, which means also less premiums and less profits/losses. Secondly, on the question around liability, we have done some line-sizing. In the past, we used to write bigger net lines than we do today. Same logic again, less risk equals less premiums but also less losses. And then thirdly, we have taken more reinsurance to protect ourselves better against volatility. That was the second decision.

The third decision was a new management. We are going from a phase of integration, which was a very successful phase, where it was very difficult to bring to large organizations together in a very short time. We have succeeded well on this. Today, AXA XL is really a new combination, it works well. Greg Hendricks has done a fantastic job in bringing those two worlds together, in bridging the two culture differences as well that used to exist. We are now going into a new phase which is around acceleration. The strategy will remain exactly the same.

We are focusing on increasing the profitability, on getting the cost synergies that we have communicated, but we felt it is time to do this with a new man. I am very pleased that Scott Gunter today is with us, and I would like you, Scott, to stand up, introduce yourself to the audience today and talk a little bit about what you have seen so far because today is your first day of actual CEO but you have been on board for quite a few weeks already, preparing yourself for this new challenge. So if you could talk to us quickly…

## Scott Gunter, AXA XL CEO

Thank you, Thomas. I am very excited to be part of the AXA Group. As Thomas mentioned, I have been on board for a couple of weeks, studying it from afar, and I am very excited. When you look at the AXA XL organization, you have a tremendous product breadth, a lot of product capability across a number of geographies.

What does that do for us? That allows us to operate marketplace and find where's there is pricing that fits what we need to get. If the price is not there, we can turn the dial down on that business and go "ok, we'll get that later" and write more where the margin is. So the breadth of products and the breadth of geographies is a fantastic opportunity.

Also impressed by our hidden gem. We have a large risk consulting organization – over 400 engineers. And they not only work for the underwriters, they do work for clients, for a fee. So we are collecting non-risk revenues from that operation. I am excited about that because in risk-taking business, you always like non-risk fee business for sure.

And really, the third that excites me is the combination of XL and AXA. XL is a great organization, lots of product and geography spread, leveraging the assets of AXA, the relationships in Europe, relationships in the UK, the relationships in Asia, just leveraging all of that and selling more products where we wrote Property & Casualty business and they will bring those products to those brokers. So you put those three together, very, very excited.

And where we are going to work on? Thomas mentioned it. We are going to work on the margins: the pricing environment allows that to happen. We are going to constantly look at our portfolio, again, where do we need to get pricing, pricing is right now looking very good. We get a lot of products that are running ahead of trend, that's a great sign. We're going to continue to work on the margin. So margin expansion is an important part of it. Thomas mentioned about volatility, continue to work on that. The line sizing started, we continue that process. The good news is, you can reduce your line, charge more. So the impact on the revenue isn't as much, continue to work on that.

And the third issue that we really want to work on is growth. So we're going to ask the underwriters to do two things. Renew your book, work on your margin, get ahead of loss trend. Secondly, as prices go up, there are more and more opportunities that are attractive to us. Two years ago, when the price was at x, we may not have been that interested. Today, it goes up 25% last year, 25% this year. Also, it hits our number, and now we're interested. So we're going to work on the margin, grow the business and deal with volatility.

## Thomas Buberl, Group CEO, AXA

Thank you very much, Scott. So you heard from Scott, no change in strategy, acceleration of the existing strategy in order to get to higher profitability. The forecast for this year is 1.2 billion, and you've got the equation how to get there. People have asked me, well, what about the 1.4? Well, we are talking about exactly the same thing. 1.4 with less volatility. We've decided to buy additional reinsurance to reduce the risk exposure, which has a cost of 200 million. So the 1.2 is the 1.4 minus 0.2 million.

What have we achieved in 2019? Remember, the Ambition 2020 was focused on two pillars: focus and transform.

On the focus side, we've clearly seen that we have gone back to growth. When I started as a CEO, we were at 0% growth. We are now at 5% growth with the focus on the preferred segments, and the whole organization is fully aligned on this, which is really good. You can also ask my colleagues here, when they talk about their business, we all talk the same language.

In addition to that, we've also achieved to increase our presence in China, and there might be a question later on about the coronavirus. Does it put in question your engagement in China? It doesn't, because in insurance, we

don't look at the short term, we look at long term, we look at the demography, and this remains fully intact and fully attractive to us.

On the simplification side, we have clearly communicated the segmentation of our countries. 10 countries that make 80% of our profit, 6 countries with high potential that makes 16% of the profit and over 40 countries that make 4%. We clearly communicated that we want to reduce our footprint and reduce the complexity of our countries. You have seen, we have delivered AXA Bank Belgium, AXA Life Europe, CEE with the three countries, Poland, Czech Republic and Slovakia.

On the balance sheet, we have changed the balance sheet from being 80% focused on financial risk to 80% technical risk, having a very resilient balance sheet, having a stronger solvency, having a solvency that doesn't rely anymore on equivalence, and certainly having a gearing that will come back to the place, where we started.

On the transform side, this shift that I mentioned earlier from life & savings or from financial risk to technical risk has been accompanied by significant transactions, the quotation and the IPO of Equitable, Inc. which is done. The Swiss Group Life transformation, which is announced, which is in the process of being done. And certainly, the XL acquisition and integration is on a good journey. We are now completing the integration, and that means we can now move to a new phase, which is around acceleration of the profitability, acceleration of the simplicity of the company.

The one thing I'm personally very proud of is the customer experience because when you change a company, it is always difficult to find the right balance between change and making sure that you also progress on your existing business. And there is a famous French saying, which is, "the sales need to continue while you rebuild your house", and I'm always reminded of this. And it's very nice to see that certainly, on the NPS front, so the customer experience, the customer satisfaction, we are at 75%, which means that 75% of our markets are at least at market average or above and certainly, the new brand positioning, the Know You Can campaign has helped us to also boost this both internally, but also externally.

And then certainly, transform also means transforming into new business models, finding new business models. And it is also very good to see that we've tried new models that are starting to work. So you might remember the vertical integration in Mexico, where we have built together with Keralty Clinics in Mexico City and other cities, where we are going and offering medical services to Mexican customers. We are in the process of doing the same in Egypt.

On the ING partnership, and Antimo is responsible for that. Across different countries in Europe, we've built a very innovative solution that is working really well and where we have really changed also the game when it comes to bancassurance in Europe.

And then on the climate side, we've been very innovative when it comes to parametric insurance, both in developed markets and in emerging markets.

And this is really good to see that when you look at the number part, again, of Ambition 2020, you see that we are fully in line with what we said. On the underlying earnings per share, we want to be in a corridor of 3% to 7%. We are on average now and after four years at 5%. There's one more year to go to the end of 2020. So we are on a very good journey.

When it comes to the free cash flow, we said between Euro 28 billion and Euro 32 billion. On a cumulative basis, we are at Euro 25 billion by the end of 2019, again, on a good journey. When it comes to the adjusted return on equity, the initial target was below the range that we have now. So now, we have already upgraded to 14% to 16%. We are now at 16%, which I think is a very attractive return on equity. And on the solvency, I spoke about it earlier. We want to be in the range of 170 to 220. We are now at 198. And the 198 of today is a very different solvency than four years ago because we do not rely on equivalence anymore. So I'm very pleased with where we are.

And I'll now hand over to Etienne, who will lead us through the details of the financials. Thank you

## Etienne Bouas-Laurent, Group CFO, AXA

Thank you, Thomas, and good afternoon to all of you. I'm very pleased to be here and to present this very solid set of numbers. I'm going to start with the presentation of the earnings by business units. The second presentation are the same earnings by line of business, just to have an exhaustive view of the situation. I'll then move to roll forward from underlying earnings to net income. And lastly, we'll finish with the balance sheet items.

Starting with the underlying earnings by geographies. What you can see is that the growth is driven by France, Asia and international new markets, which represent quite a lot of different countries. Europe remains positive despite the restructuring of the group life business, so which is very sign of strong resilience. XL is up versus last year. It's certainly below the expectations we had in '19, but represents a very strong upside potential for 2020.

Moving to or starting with France, you see that the growth is solid, +4%, driven by Health and Life & Savings, while P&C is relatively stable with some pluses -- strong plus in commercial lines, offset by a negative on personal lines. If we look at the net flows, which is -- it may be very interesting to understand the dynamic of France, where you have two good news. The first one is that the Protection & Health business is growing big time, in terms of net inflows, and on the savings side, you see that the growth comes from the unit-linked more than from the general account, which bodes very well for the future. And we think that AXA France is a very, very solid engine, not only today, but for the future of this company.

While looking at the underlying earnings, the growth is driven this year by the P&C business. You see that the combined ratio is down minus 1.6 to 90.7%, which is a very strong performance, and it's driven not only by the current year, but also by the prior year reserve development and by the expense ratios. So a very solid business. The health is temporarily hit by an adverse claims experience in the Group health business in one international contract. It's very much related to the strong growth we have in this business, and we expect a reversion to the mean next year.

Lastly, in Life & Savings, the resilience of our investment margin is remarkable. It's certainly due to the fact that we have a capacity despite lower investment yield to manage crediting rate in a very dynamic way.

Europe, growing as well by +4%. Here with a very balanced growth among the different business -- lines of business: P&C +3%. UK is a very strong contributor. We are number two in the UK market with 8% market share. It's a combination of prices and new business.

Germany, which is a leading health insurer in its own market, with a 5% market share, very strong price increases, leading the gross revenues. And lastly, Life & Savings, growth +6%, strongly driven mainly by Italy, with strong multiline contract, and you'll see the very strong growth, not only in G/A Savings, but mostly also on Unit-Linked. So very strong momentum and very well balanced.

Underlying earnings is up +1%. As you can see, the P&C is extremely solid, with a combined ratio down 1.3 points to 93%, with an improvement across the board, across the countries, and due to both current year experience improvement and prior year reserve development improvement as well. Moving to health. There, again, there is a one-off effect, an exceptional experience in the UK PPP last year, which is, as you all know, a reference in the UK market in health.

Life & Savings, the transformation of the Group Life business and the amortization of VBI due to the low interest rates, explain the decrease. Without this impact would have been flat on the life business. Showing, again, the resilience of our model.

Asia and international is, of course, a source of growth, not only in top line, but also in terms of bottom line. Very well balanced in terms of top line between P&C, Health and Life & Savings. P&C, driven by Turkey, +18%, very spectacular growth. I must confess as well with very high pricing component, two-third of it where -- market where we are number four player with a strong position.

Mexico, Thomas referred to the vertical integration, which certainly makes our entity there, which is number two in the market with an 18% market share, a dominant player, benefiting from a very strong new business momentum, as well as tariff increases.

And lastly, Hong Kong, with a solid growth last year, especially in the first half of the year. For reasons you might understand, the second half of the year was more of a slowdown, but the growth was so much, so high in the first year that we finished on a positive note.

Underlying earnings, up +6%, driven by P&C and Health. The P&C, like in the other regions of AXA, is improving, minus 2.5 points, mostly this time due to the variation in prior year reserve development but with a strong growth, as we said.

Health is up +16%, mainly driven by Asia and notably, Japan. Life & Savings is down 4%. And here, it's mainly due to our JV with ICBC, which has invested in the distribution networks of the bank and in asset management services.

XL, I would say, lastly, for this geographic presentation. So as Thomas has highlighted, the result has been up this year, but not at the level we expected. Why? First, because we experienced an abnormal level of nat cat, Eur 0.3 billion. So on the normalized level, we might have expected 0.8 billion. Second, we had -- we observed, and we experienced a current year deviation from long tail lines in casualty, Eur 0.2 billion. And lastly, elevated large losses all over the year, partly offset by positive prior year's development.

So the question is what do we do? And we have tackled the issue with two components. The first one is the pricing, very spectacular pricing: 8% price increases on the insurance side, with a very strong acceleration of the price increases quarter-by-quarter, as you can see here. And to give you an idea, to give some flavor to this, this is an average, but actually the lines hit by social inflation and adverse experience have accelerated even more.

In Q4, excess casualty in North America was up +29%. At the moment, it's +43%, January. On professional, +19% in Q4, it's +22% in Q1. There are not so many times in a cycle where you see such a high level of price increases, and we intend to benefit from it. But of course, the impact will be partly in 2020, partly in '21. The second aspect we wanted to tackle are the three problems I just described, with the experience of this year, which is, first nat cat; second, large losses; third, casualty lines. And we have taken measures on these three issues over the recent months. So we have not been waiting. We have addressed this in a very proactive way.

Starting with the nat cat. We have underwritten less risk, -10% gross revenues in '19. There will be another -10% next -- in 2020. And we have put in place a quota share, 15% quota share on the reinsurance nat cat, which we hadn't last year.

Second, on large losses, we have set up an aggregate cover with an attachment point, which is not very far from the current level of experience, which means no further deviation is expected. And lastly, on the casualty, we have not only increased massively the prices, we have also reduced our capacity. So line sizing in a market, whose capacity is shrinking by 25%, which is actually both a risk today and an opportunity for tomorrow.

So the last point, which we'll tackle in the balance sheet is the reserving. Thomas said, he's comfortable with the level of reserve. I can say that I feel very comfortable with the level of reserves because we are reviewing it regularly and very -- over the recent weeks. So based on the pricing dynamic, based on the measures we have taken to reduce the volatility and based on the adequate level of reserving, it makes the Eur 1.2 billion underlying

earnings very achievable. And beyond, I mean, from 2021, we will get the full benefit of these measures, notably from the pricing.

If we take a view by business line, I would say, in terms of messages that, first, of course, the P&C business is the main contributor, but with a strong double-digit growth, which is very satisfying. Second, Life & Savings business, down 1%, but in a context of very low interest rate environment, so very resilient. The third, Health is a steady growth business in line with the revenues. And lastly, Asset Management, flattening result, what I call -3%, but with upside potential, and I'm going to get back on these four statements, right now.

Starting with P&C. The increase is, of course, helped by the growth in revenue, the 5% growth in revenues, but also -- and mainly by the lower combined ratio. You can see here the numbers, -0.6 points on a reported basis. Excluding XL, we would be at -1.1. And this -1.1 points is due to current year experience, -0.5, due to better business mix, a better pricing, a better frequency, partly offset by higher severity.

On the prior year reserve development, -0.7, we have three main explanations. The first one is France. Very strong profitability, very high level of reserves and the reserving ratio is not decreasing in France. Switzerland, same mechanism. And lastly, in the UK, Ogden effect with the change in discount rate generating some surplus. So all of this more than offset the decline in asset yield of 17 bps. So a business, which is in excellent shape.

Life & Savings. Life & Savings is resilient, as I told you, starting with something which might look odd, which is the investment margin. So further to the Swiss Group Life transformation, we had a slight decrease in reserves because we have transformed ourselves from an insurance provider to an insurance manager, I would say. But the delta between the investment yield and the crediting rate is positive. Therefore, the 2 bps is at constant scope, so excluding any adverse or any exceptional items. And I think this is a very encouraging number. Slightly lower technical margin due to non-repeat of the one-off from last year. Higher fees and revenues, very much in line with the growth in revenues with the growth in volumes. So a very, very expected number.

And lastly, there is a negative component, which are the expenses. Of course, expenses increase with revenues, but we have two other elements, which are first the VBI due to lower interest rates, it's quite mechanical. And second, some more investments notably in quality of service, to improve the quality of service. And Thomas insisted on the importance of the Net Promoter Score and the quality of service with a customer first approach. And so this is absolutely something which we accepted.

On the Health side, I told you, very steady growth, revenues +6%, earnings +5% with a balanced growth between the individual part and the group part, which we think is a very good balance, with a slightly higher combined ratio with a lower expense ratio due to the growth, but also with some less favorable group claims experience, and we expect a reversion to the mean in 2020.

Asset Management. I call the performance of asset management sort of flattening. It's not for me a decrease economically speaking, because the assets under management are going up by +10%, mostly from the market

effect and partly as well from a net inflow effect about 13 billion. So the main explanation for the decrease is a non-repeat of performance fees of last year. So if we exclude that, put this aside, it's a relatively flat number.

What is interesting is the development of the alternatives. So the management of non-quoted, non-listed assets. This is an expertise few companies have. We have it at AXA Investment Managers with real asset, but also with structured finance. It's growing big time, +13% to Eur 137 billion, and it has a high profitability. So if you make the math, in principle, everything being equal, you should expect an increase in earnings next -- this year, in 2020.

Let's move now to the roll forward from underlying earnings to net income. So of course, the number looks good, +75%. But it's something, which was expected because we had last year, the goodwill impairment of Equitable, Inc., which is nonrecurring, of course.

So what are the real elements to understand the difference between underlying earnings and net income? First of all, the usual program of capital gains, mostly driven by real estate, France, Belgium. Second, change in fair value, we have three subcomponents there. The first one is equities, equity hedges. We have equity hedges, so when the equity markets are going up, the value of the hedges are going down. I want to reassure you, the increase in the shareholders' equity is much higher than the decrease of the value of the derivatives. So economically speaking, no problem.

Second, we have some forex hedges. It's exactly the same. We have, with the weakening of the euro against the other currencies, a stronger balance sheet, stronger earnings. However, the value of the derivatives is going down. So all these elements are quite mechanical. And lastly, we have interest rate swaps because the financial debt of AXA SA has been moved from variable to fixed. So when the interest rates go down, you have a negative value. So these are the three components.

Then we have, of course, the big part, which is the exceptional and discontinued operations. Those elements are related to Equitable, Inc., AXA Bank Belgium, AXA Life Europe. Integration and restructuring costs, 75% of them being incurred at AXA XL.

Moving to the balance sheet. So the shareholders' equity is going up, which is a good news, but also something which is quite mechanical because the main value driver is the change in unrealized capital gains. Fixed income assets are going up by Euro 5.9 billion, mostly rated to the drop in interest rates of around 50 bps on average. And equity is up Euro 1.7 billion, mostly related to the average 20% market increase in '19.

Net income for the period and dividends are clear. Change in pension benefits, driven by low interest rates, mostly in Europe. For your information, tangible net asset value is up by Euro 10 billion to Euro 36 billion. Following the higher unrealized capital gains and lower DAC from Equitable Holdings, Inc., which is something which is interesting, and I just wanted to flag it. Return on equity up to 16%. We think it's a very solid number, both on an absolute level and relative level.

Solvency ratio, up 5 points, 198%, which is, we think, a pretty good number in the low interest rate environment. Bang in line with our target range of 170% to 220%. It's explained, of course, by the recurring operating return. And we have, as expected, and very much in line with the key sensitivities we have always been publishing the interest rates impact was a negative in '19, partly offset by the sell-down of our US activities. So as a whole, in the context, we think a solid number. You look at the key sensitivities on the right-hand side, we should not forget them. But this is something, which is manageable.

And we wanted to give you some indicative outlook for 2020. So I think most of the elements, which are here listed are not new to you, operating return net of dividends, disposals, the conversion of AXA Group from a standard model to an internal model and the deleveraging we intend to pursue to reduce our gearing. However, I would like to highlight the seasonality. Everything will not be linear. So when you make your projections, don't forget from quarter-to-quarter, these elements will play, certainly, in '19, but not all at the same time and in a linear way over 2020. So here, no other signals, that's just the seasonality and the prospects to get some more Solvency II points this year.

We spoke about the adequate level of reserves, Thomas in his introduction. I gave this message as well when speaking about the P&L of AXA XL. Here, we have two messages. The first one is that the level of prudence has increased at AXA, excluding XL. Why, the second message, the level of excess reserves at AXA XL remains sufficient? So if we look at the left-hand side of the slide, you see that what we compare is the IFRS reserves, which is accounting, and we compare this to the best estimate liabilities, undiscounted, to make them comparable with the IFRS reserves which are themselves undiscounted. In the previous presentations, we were comparing IFRS reserve, I think, with discounted best estimate liabilities, which gave the impression that the number was higher. But here, this one is more comparable and more fair, I would say.

So you see that excluding XL in '18, we had Euro 5.2 billion. Here with XL, we are Euro 6.8 billion, with an increase excluding XL, which is relatively strong. And despite all the prior year reserve development you have been looking at. On the right-hand side, we want to explain to you how we manage the P-GAAP because I think this is a recurring question. We started the year with Euro 1.5 billion, which includes as well, AXA Corporate Solutions excess reserves.

So all in, Euro 1.5 billion. These excesses were unallocated. So what we have decided this year is to start allocating the risk we had identified in the opening balance sheet to certain lines of business, mostly on the long tail casualty lines. And we are left with Euro 0.8 billion at the end of this year.

I would like to make something clear. This P-GAAP is not a sort of buffer we booked just in case. It was a result of audit reviews, clearly identified a certain number of risks, including social inflation. So therefore, it's absolutely normal to use part of it when the risk appear and to allocate them. Euro 0.8 billion is a number which has been reviewed in the recent weeks by the Group. So it's not only XL. You have always the entity making appreciations

of reserve and the group review. And it makes us comfortable with the level of reserves of XL at the end of '19. And I don't see the risk from now to have a deficit on this side, so relatively comfortable.

Cash at the holding level has been reinforced from Euro 1.7 billion to Euro 3 billion. Gross financial debt has been reduced by Euro 5 billion. Euro 1.8 billion at the level of AXA SA, the rest being linked to the financial debt of Equitable Holdings, Inc., which has been deconsolidated. But it's very significant, and it explains the debt gearing. So the debt gearing, we told you that we would get back to debt gearing level comparable to the levels before the acquisition. So our objective is to be between 25% and 26% this year, so 2020. And everything being equal, if you reimburse between Euro 2 billion and Euro 3 billion level of financial debt, you are there. So it is in our hands, I would say, everything being equal.

So the drivers for the evolution of the cash, are first the cash remittance, Euro 5.6 billion, which includes Euro 0.7[2] billion of one-offs, including the proceeds from the Group Life transformation in Switzerland. Dividend paid which is normal, holding costs, including the interest charges.

Then we have the M&A proceeds, I would say, pluses and minuses, but the Equitable Holdings, Inc. sell-down was a major event. The reimbursement of the external debt at the level of AXA SA, cash buffer rebuild, which is, I would say, fungibility of cash within the Group. We used some of this fungibility to fund the XL transaction, and we have committed to come back to the pre-acquisition level. So we have reimbursed part of it this year. We'll certainly reimburse the other part in 2020. And the other is very, very different items, including margin calls. This is the end of my presentation. I hand it over back to Thomas, and thank you for your attention.

## Thomas Buberl, Group CEO, AXA

Thank you very much, Etienne. And now we have the opportunity -- or you have the opportunity to go into Q&A, and we are first dealing with the Q&A in the room. And then later on, go to the digital Q&A. Let's start with Jon.

[2] During the presentation, it was mentioned Euro 0.5 billion of one-offs. It has been corrected in the transcript.

## Q&A SESSION

**Jon Hocking | Morgan Stanley** Good afternoon, everybody. It's Jon Hocking for Morgan Stanley. I've got three questions, please.

Firstly, all on XL, I'm afraid. So firstly, looking at the casualty reserves. So in the narrative, the Company results, you're talking about litigation financing, financial lines, etc. I wonder if you could give us a little bit more commentary in terms of what specific factors you take into account when you were setting the reserves at year end? That's the first question.

Second question. Just looking in the B slides, the B appendices, you look at B 17. If you look at the sort of volume changes versus pricing, it looks like the exposure actually went up the most in casualty and financial lines, which seems a bit surprising given those are the areas where the reserving issues emerge in the back end of the fourth quarter. I wonder if you could talk a little bit about how comfortable you are with that mix of exposure movements over the course of the year.

And then finally, just looking at the earnings bridge to get to the Euro 1.2 billion. I see there's nothing in there unless I'm sort of missing another in terms of into rebuilding the reserve buffer at XL. So, is the message effectively that you've got sufficient aggregate reserve buffer at a Group level that we shouldn't be too concerned about, the sort of XL solo? Thank you.

**Thomas Buberl | Group CEO, AXA** Very good. I suggest that Alban, you start with the first question. And also the second question, and then Etienne, you'll go for the third question.

**Alban de Mailly Nesle | Group Chief Risk and Investment Officer, AXA** So, good afternoon. So, the first question was on the quality of the reserves and what we factor in. So, when we review the reserves, obviously, we look at different things, and to name only one or two. One is, obviously, the cost of litigations in the US. Only 2% of the claims that we have on the casualty go to court, 98% are settled, fortunately, obviously, before we go to court. Nevertheless, the court settlements drive the trend for the overall reserves and the claims to be paid. So that's something that we look at and we look at it on a claim by claim basis. Looking also, obviously, at the previous trends.

The other thing that we look also, which is slightly different. Those, sometimes, it's under the same word of social inflation. It's systemic risks such as talc, opioids, child abuse and so on. And so, what we do is we review our exposure over the last 10 to 15 years on what has been our underwriting on those lines in the past. And we re-assess what could be the losses given what we hear, what we see in the market on those fronts. That's something that we monitor systematically, and that has been the case for a long time because those systemic risks have always existed.

And the third part that you should also keep in mind is that those casualty lines in the US are significantly reinsured through quota shares between 40% and 60% from one year to the other. So that, obviously, also reduces the impact of what I described earlier in terms of litigations or settlements.

The second question was on the growth in casualty and in growth in volumes in casualty and financial lines. So I think there, we need to be extremely clear that if you look at financial lines, you have a number of different aspects in that and different aspects in terms of geography, US versus Europe, and different aspects also in terms of customers, large versus mid-market. If you look at the financial lines and notably, D&O, the issue was more in the US on large corporates. It is much safer, much sounder when you look at mid-market and European. So we shifted the underwriting from the latter to the former. And you've seen despite the reduction in US large, that overall, we have grown the volumes on selected segments.

**Thomas Buberl** | **Group CEO, AXA** Thank you, Alban. Third question, Etienne, on the Euro 1.2 billion.

**Etienne Bouas-Laurent** | **Group CFO, AXA** Yeah, on the Euro 1.2 billion, we have absolutely not reflected any release of provision of any kind. So the P-GAAP was set in place originally to face with the development of prior year claims up to the end of 3Q18[3]. So the P-GAAP will neutralize the possible adverse elements from these years.

So this is neutralized. When looking at 2020, and you'll see how the roll-forward is constructed, we just have a sort of economic approach on this. So we started with Euro 0.5 billion, which embeds some good news, some bad news, but more bad news than good news. And then from this, we look at the impact of our actions, the impact of the pricing, and the earnings impact of the volatility measures, and this is how we come to Euro 1.2 billion.

So in the Euro 1.2 billion you don't have a positive from the reserves of a release. If there is some allocation within the P-GAAP, it will be only to compensate some new views on other risks, which have been identified during the P-GAAP and not yet allocated, which is a different mechanism. And I think this is a key message. Why do we believe in this Euro 1.2 billion? Because we have all the elements, which mechanically expect that in the normalized year, it will happen. And as a CFO, I feel very comfortable with this target.

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

**Nick Holmes** | **Société Générale** Nick Holmes at Soc Gen. A couple of questions again on XL. I wondered if you could give us just a little bit more color on the decision-making behind the Euro 600 million allocation, what were the key drivers? Was it environmental? Was it changes in your own conservatism, if we can call it that?

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[3] During the presentation, it was mentioned that the P-GAAP was set in place originally to face the development of prior year claims up to the end of 2018. It has been corrected in the transcript.

And also, with the Euro 800 million, you sound extremely confident that this is a sufficient number. Can you draw on any sort of illustrations relative to market, relative to your own perception of risk profile, why you do think that this is sufficient?

And then secondly, a rather simpler question, I hope, is how confident are you that XL's internal model will be approved in, I think, you're saying, Q4, which is an acceleration, is it not? No, Alban, you're saying no.

**Thomas Buberl** | **Group CEO, AXA** We've always said end of 2020. So if it is in September, it's an acceleration. Good. two questions. I think, again, for Alban. On the reserves, how comfortable are we on the Euro 600 million or the Euro 800 million, and then the question around the internal model.

**Alban de Mailly Nesle** | **Group Chief Risk and Investment Officer, AXA** So on the Euro 600 million. As Etienne said, when we bought the company 18 months ago, we had identified a number of potential risk or potential issues, that led us to the booking of the P-GAAP reserve. And now we're saying, okay, we have more certainty on the risks and the need for identifying those reserves. And that's related to exactly what I described a minute ago, in terms of US casualty, mainly where we had seen that there was a deviation because of social inflation. And social inflation did not appear in 2019 nor in 2018, we had identified that at the time of the acquisition. So it's just the realization of this. Now the Euro 800 million buffer, at this stage, as Etienne said, we are comfortable. Now we know that it is a business where you have some uncertainty. You have potentially large cases, and that can go one way or the other. But we think that the Euro 600 million allocation today is sufficient, and that the Euro 800 million is a good enough buffer against that potential volatility. Again, having done that analysis of our potential exposures on the path to casualty, social inflation and systemic risks. And on the internal model, so we have discussed at length with the ACPR, the changes in the model and the fact that we want to include XL into our model. The formal application is in June. But by then, we will finalize the discussion. And you know that you submit six months before the approval. So we will submit in June in order to have XL in internal model in December, as planned.

**Thomas Buberl** | **Group CEO, AXA** And Nick, just to add to that, on the casualty piece. I mean, when you look at the whole market, if your prices are increasing by over 40%, if your exposure is significantly reduced and if some competitors, which was the case, are even exiting the market, you have an issue of insurability. And so what you've seen always in the past that when there are these anomalies, at some point, it will come back to normality.

James? Maybe you can just hand the mic, it's the easiest to.

**James Shuck** | **Citi** James Shuck from Citi. So three from my side. I just want to go back to slide A30, if I can. So the margin over best estimate. And I'm just initially thinking of the difference between the Euro 5.2 billion and the Euro 6 billion. Can you just explain to me what drove, so excluding the XL part of it, what actually drove that increase in the margin over best estimate that you're showing there? And kind of linked to that, if I look at that, what's left in the P-GAAP margin in XL in relation to the reserves, it's 3% of XL reserves. And the total of the Euro

6 billion is closer to 12%. So kind of returning to Jon's question earlier, at some stage, will you look to increase the XL margin over best estimate more towards the Group adequacy level because it's the Group adequacy level that's driving the expectation for the 1.5 to 2.5 points of PYD? That's my first question.

Secondly, Thomas, I mean, the Euro 1.2 billion in 2020, that includes about Euro 200 million to Euro 300 million probably from legacy AXA Corporate Solutions. So if you look at the Euro 12.4 billion acquisition price, this is post synergies you're doing this. It looks like a kind of 7% or 8% ROI on the deal. I'd just like to get your insight into whether you think that's a sufficient number?

And then finally, just around the dividend. I think you've been pretty clear that you would grow the dividend in line with underlying earnings. You increased the payout ratio and target range last year from 45 to 55[4], to 50 to 60. We've got this year which is depressed earnings, so you can argue whether you hit 50 or not. At some stage, you need to rebase that dividend up. Otherwise, what's the point in increasing that target range? If we're not going to get that this year, then we're going to be next year, perhaps. But just like some guidance over how to think about that payout ratio, please?

**Thomas Buberl** | **Group CEO, AXA** Very good. I suggest Alban, Etienne, on the first question around the margin of best estimate. And then linked to the question, P-GAAP, 3% of XL reserves, are you bringing it to the Group adequacy level? And then I will talk about the other two questions.

**Alban de Mailly Nesle** | **Group Chief Risk and Investment Officer, AXA** So on your first question, to the same extent, we review the XL reserves very regularly. We review the whole Group reserves very regularly. And we assess what is our best estimate liability for Solvency II purposes. It so happens that over the last year, the difference between the best estimate liabilities and the IFRS reserves has increased. Why? Simply because we can have a change in the best estimate reserve, in best estimate liabilities, that does not flow immediately through the P&L. And it might flow afterwards. But then when you look at the PYD – boni - the PYD positive that we release every year, that comes fundamentally from that difference. Do we want to bring XL to that percentage? No, not specifically because we want to manage this at Group level, and XL is one division, among others. The excess of a best estimate is not proportionately dispatched among the various entities of the Group. For instance, Etienne said that this year we had positive project developments coming from Ogden. So it can pop up in one entity and not in another. And we're not planning to have a proportionate allocation in all our entities.

**Thomas Buberl** | **Group CEO, AXA** So on the two other questions. Number one is the question around the Euro 1.2 billion in 2020: is it post-synergies still an attractive deal. Again, let's go back to the rationale of the deal at that time. The rationale was, how do we reduce our exposure in financial risk and how do we move towards technical risk. Always looking at the question, how do we make sure that we are not too much exposed to interest

[4] During the presentation, the old payout ratio target range was mentioned 40 to 50. It has been corrected in the transcript.

rate risks where we have no lever to act. So the first question would be, let's compare the exposure to Equitable against the exposure to XL. Fortunately, we have sold the totality of Equitable, but for those of you who have followed Equitable, you have certainly seen that in the last year, towards the end of the year, AXA Equitable has made a significant increase necessary in reserves when it comes to policyholder behavior. This was just below Euro 1 billion. This would have certainly hit us had we owned 100% of Equitable. For this amount, you can allow yourself quite a few natural catastrophes.

Second point, I wish AXA Corporate Solutions would have made Euro 300 million. Unfortunately, they made only between Euro 150 million and Euro 170 million, and would have been hit exactly in the same way on the topics that we've been discussing. So no separate treatment. When we come to the question around the Euro 1.4 billion or the Euro 1.2 billion, at the end of the day, nothing has changed. The Euro 1.4 billion has been designed in AXA XL, or XL at the time, plus corporate solutions plus the cost synergies. We are well on track when it comes to the integration, so the cost synergies are flowing through. We still have not achieved everything, but they are flowing through. We are working on the profitability of the portfolio, which you've seen, we have taken very clear measures in up pricing the portfolio, again, 10% increase of a premium. 10% increase on net earned premium of Euro 10 billion is certainly a significant upside that will come through the earnings.

And then thirdly, we have taken a decision, which was after the combination of the acquisition, of reducing volatility. So when we talk about Euro 1.2 billion at reduced volatility or Euro 1.4 billion, we're talking about exactly the same thing. So for me, nothing has changed. The strategy is exactly the same. And again, coming back to my first point, have we taken the right decision of shifting our risk profile from financial to technical risk? Definitely, in this environment.

Your last question on the dividend. When we speak about the dividend and when we look at how do we determine the dividend, we always said we want to have an adequate and attractive growth in the dividend. So what we'll do, we'll look at where do we need to position the dividend, how should we be increasing the dividend, and the payout ratio is a resulting figure of it and not a determining figure. And so that's why you see, with the Board, we have been very comfortable to have a 7% increase in the dividend, which is more, as you stated yourself, than the 5% underlying earnings per share. But we took account of the fact that we had more than normal natural catastrophes, and by the way, this was the same for the full year of 2018 that came to the 7% dividend. And that's how we will continue to look at it. The first question is, how do we get to an attractive dividend growth and the resulting figure is the payout ratio. And I guess, what you're saying, between 50% and 60%. We are still at the lower end, and there is a big room for flexibility.

**James Shuck** | **Citi** Could I just clarify one point there? Just, I mean, one way of hitting that is to shrink earnings, I suppose, let's hope you don't go that way.

**Thomas Buberl** | **Group CEO, AXA** I wasn't thinking about it this way.

**James Shuck** | **Citi** But if you want to - I mean, if you're going to raise the target range, I mean, are you categorically ruling out a rebasing of the dividend to the midpoint of the range at some stage and then grow in line with underlying earnings?

**Thomas Buberl** | **Group CEO, AXA** The reason why we changed the range at that time was exactly the change in the risk profile and the taking account of the fact that we have more volatility through natural catastrophes. You've been following AXA for a long time. The volatility of Equitable, which was also very high, was always absorbed to the DAC. So you didn't really see the volatility because it was inherent in the deferred acquisition cost. Here, we don't have that mechanism. What is volatile here is volatile at the bottom. And so we said, in order to take account of this and to make sure that we have the flexibility of breathing, we need to move from the initial payout ratio of 45% to 55%, to 50% to 60%. But always in the spirit, number one criteria is we need to have and determine what is attractive dividend growth and the payout ratio is the resulting figure.

Let's move. Sorry, I can't see who it is because the light is very difficult.

**William Hawkins** | **KBW** Thank you. It's William Hawkins from KBW. Picking up on one of the points you've just made to James and you've made a lot about the improvement in the volatility in XL. I'm surprised that you have been clear about the earnings hit of your de-risking but you haven't been clear about the capital benefit of your de-risking. I mean, if you bought more reinsurance protection, your volatility has gone down, there should be some capital release from that? So if you're able to say to us, look, we've freed up Euro 2 billion of capital from this, for example, that would usefully offset the downside to earnings. So I'm surprised you haven't been clear about the capital freed up. Could you be clear about the capital freed up, please?

And then secondly, with regards to the cash buffer rebuild, Etienne you showed on slide A31. You showed that Euro 1.9 billion of cash buffer rebuild. Can you just remind us where we are with regards to the stock on that number? My original memory, correct me if I'm wrong, was that when you did the XL deal, you talked about cash at hand of Euro 3.5 billion being spent. If we just subtract the Euro 1.9 billion from that, are we saying that you've got another Euro 1.6 billion to go? Or is the number bigger or smaller?

**Thomas Buberl** | **Group CEO, AXA** Those were your two questions. So thanks, Will. First one is for Alban. Is the capital release from the further protection. Second one for Etienne, where is the stock on the cash.

**Alban de Mailly Nesle** | **Group Chief Risk and Investment Officer, AXA** So I'm afraid, I have to be a bit technical for a second, so bear with me. The way our internal model is built, there is a benefit of diversification. And when you look at the investment risk, there is little diversification from one country to another, because when you have a crisis, that goes everywhere. So when you hedge your financial risks, you do have immediately a benefit on your capital. Going to your question on hedging or reducing our insurance risks. Because there is a lot of diversification, because when you hedge a windstorm in Japan you don't have at the same time necessarily a casualty issue in the US reducing, hedging part of the book doesn't lead to a significant amount of capital reduction because of the benefit of diversification from what is done locally to what is needed at Group level. You

see? So if I were to do a 50% quota share of my whole book in P&C, yes, you would see it. But reducing the Nat Cat from Euro 500 million at 20 years to Euro 400 million, you would hardly see it in the capital required.

**Thomas Buberl** | **Group CEO, AXA** Farooq, I think, yeah.

**Etienne Bouas-Laurent** | **Group CFO, AXA** So the second question was…

**Thomas Buberl** | **Group CEO, AXA** Sorry, sorry, sorry, sorry. Yeah, the stock. I'm sorry. Too fast.

**Etienne Bouas-Laurent** | **Group CFO, AXA** Yeah. So around Euro 2 billion.

**Farooq Hanif** | **Credit Suisse** Hi, Farooq Hanif from Credit Suisse. Firstly, on the walk to get to Euro 1.2 billion. When I look at the Euro 600 million uplift, I think to myself, you talked about Euro 400 million pre-tax synergies. You had Euro 200 million of excess large losses last year. Pricing drive the top line, but also margin expansion presumably. So what's the negative factor in that Euro 600 million that you haven't really talked about, is question one.

Question two, I personally am quite surprised that you are reducing risk in property. I agree that you've got a reinsurance business, and it's volatile, and you probably want to reduce exposure there. But given the strong increase in property pricing, also the fact that it's got a short-tail business. So yes, you've reduced volatility, but you don't get things biting you, you know, then five years later, it was what we're seeing in social inflation. So why tilting more towards long tail business which pricing might be going up, and it's going up for a reason? Just wanted to understand the philosophy.

And then lastly, on the cash at the holding, I mean, you started to show this number now? And I was kind of wondering what significance it has? So next year, obviously, it sounds like another Euro 2 billion hit from buffer rebuild, but over time, obviously this is built given your payout ratio, given your earnings. So I'm just kind of wondering what level would you like to have at the holding, why are you showing this number, in essence? Thank you.

**Thomas Buberl** | **Group CEO, AXA** So I suggest, Etienne, you take the first question, why Euro 0.6 billion, were there any negative factors. Then the question on reducing property I will quickly answer them And then Etienne, you'll go back to the holding question. When it comes to property and when it comes to taking risk, it's always the question of what you'll get for the risk. You are absolutely right that prices are increasing. And what you see as a phenomenon, and Scott will certainly agree with that, that prices in primary insurance are increasing far more than prices in reinsurance. So you have roughly a factor of one to two. So we have in primary insurance, 10% to 12%. In reinsurance, 5% to 6% if you look at the renewal. So yes, prices are increasing, but you have to ask yourself, are they increasing enough so you can make a decent return. And what you've seen, certainly in the property area is that there is a lot of alternative capital streaming into this market because they have exactly the same logic that we have applied with our own portfolio - how can I go into risks that are not correlated with financial risks. And if I was a pension fund not being subject to Solvency II, not maybe being subject to the same

economic rationale that AXA is, not having a 16% return on equity, they will come in with a very different view, and they will write that risk for, I don't know, 5% return on equity. This is not what we can afford. So you have to see how do you balance your exposure that you, yes, get the right price and get the premium increase, but also that you get the right return. And at the moment, in particular, in reinsurance, we are, in some areas, and notably in Europe, not at the right levels of return. Therefore, the exposure reduction, you've seen that the 10% exposure reduction that we mentioned is linked to the reinsurance Nat Cat area, and that's the rationale. Etienne, question number one and three.

**Etienne Bouas-Laurent** | **Group CFO, AXA** The question will refer to Euro 0.6 billion. The Euro 0.6 billion reflects mainly the pricing effect, net of the possible claims inflation. That's it. So when you start from the Euro 0.5 billion, of course, you have Euro 0.2 billion deviation in large losses. We have not said, for the large losses, that there would be a reversal to the means. Because this works for the natural catastrophes, we have models; for large losses, it's not the same mechanics. So we are not averaging the large losses. They are in the Euro 0.5 billion, and we consider that they stay. I don't say this is what will happen. I just said this is how we build our forecast, right, in a very structured way. So it's mostly the pricing net of inflation. There are, of course, some cost synergies, but as Thomas was saying they are well advanced. So if we speak about big numbers, I really think this is the pricing, net of further claims inflation. Knowing that what I said for large losses it's also true for the social inflation impact, it's in the Euro 0.5 billion and we don't say it comes back to zero immediately and we'll rebase everything. So Euro 0.6 billion encapsulates all those different items.

The second question, why do you show that? I must confess that we get always a lot of questions about the cash variation in the holding. Therefore, I thought you would be pleased to see that and that you would not ask us why do you show us what we want you to show us. So thank you very much for your question, but I was not prepared for this one. So seriously speaking, on the long run, we are happy with some cash buffer at the holding level. Just in case, you know, there would be a very stress test for, let's say, one year of financial catastrophes or whatever. So between, let's say, Euro 1 billion and 3 billion we are happy. The intention is not to build, you know, like Microsoft, hundred billions of euros in cash and not returning it to the shareholders. So the message here is really bringing clarity on what are the flows, so that you can better understand. There is no hidden message. And we will not put as a headline, you know, the level of cash in the holding, in the front page, never. It's just to give you a hint of where we are and how we manage the cash.

**Farooq Hanif** | **Credit Suisse** Just a quick comment, rather than a question. It seems to me that you've lost the cost synergies although it's a general revenue and cost synergies, because they weren't quite there in 2019. We didn't really talk about them. In 2020 they were going to come, but now it seems to be gone.

**Etienne Bouas-Laurent** | **Group CFO, AXA** No, cost synergies starting in 2018 continued in 2019. I must confess that in terms of cost, we had a slightly positive element, non-recurring for next year, but the synergies will continue to play in 2020. But, if you, if you compare that with the impact of pricing, it's much lower. But don't

forget that it was already in the 2018 and 2019 numbers. So when thinking about 2020, you cannot take the Euro 250 million total announced because part of them were already in the previous numbers.

**Thomas Buberl** | **Group CEO, AXA** Let's just move. Sorry, I can't see because

**Ashik Musaddi** | **J.P. Morgan** Hi, thank you. Ashik Musaddi from J.P. Morgan. Sorry to go back on that Euro 600 million number again. I mean, if that is net of claims inflation, I mean, was that already expected when you gave the Euro 1.4 billion number because pricing more or less happened last year and Euro 1.4 billion number was given before that if I'm not wrong. I mean, I've just started following AXA more closely for the last six months. So any thoughts on that? I'm just a bit confused on that one. So that's first one.

Secondly, you mentioned that some of the pricing improvement will follow in 2021 as well and more volumes as the 10% volume growth will follow in 2021. So how should we think about that? What sort of numbers are we talking about? Is it an incremental number or is it still within the range bound of Euro 1.2 billion?

And lastly, just one simple question, maybe a bit naive question, but you mentioned that the volatility, it would most likely go down. I mean, what are we talking about here in terms of volatility? I mean, let's say we have another 2019 and 2020, what sort of XL number would be? What sort of profit XL would print? Thank you.

**Thomas Buberl** | **Group CEO, AXA** So, Etienne, it's best if you take those three questions. I think for the third question, we should maybe have a look at one of the slides B39 or whatever it was, 59, I can't remember.

**Etienne Bouas-Laurent** | **Group CFO, AXA** B52.

**Thomas Buberl** | **Group CEO, AXA** 52. Sorry. Exactly. Etienne?

**Etienne Bouas-Laurent** | **Group CFO, AXA** So I must say that back to 2018 when the target of Euro 1.4 billion was set, a lot of things were different. So we expected certainly lower level of large losses, and we expected social inflation but not by the magnitude and the speed of increase we are facing now. And, of course, at the same time we didn't expect such high level of prices. So I think it's pretty clear. And therefore, a lot of things have changed, and if you look at the end of the day what Thomas was saying, what's the difference between Euro 1.4 billion and Euro 1.2 billion. It's just the same with less volatility and less risks. So this is another way to look at it. So yes, certainly, we didn't expect so much volatility on this market.

And to make the link with your second question, which is what happens in 2021/2022? Of course, the Euro 1.2 billion is our forecast as of now for this year. We don't set a target for 2021, for 2022. What you can just mechanically expect is that the pricing increase, as we see it today, will continue to produce some incremental positive results, but we don't want to quantify at all, and we don't expect a minus for 2021. We expect mechanically a plus, but we don't want to quantify it today.

**Thomas Buberl** | **Group CEO, AXA** Let's have a look at the last question, which is around, is volatility actually going down?

**Etienne Bouas-Laurent** | **Group CFO, AXA** So the horizontal line is the best estimate in terms of CAT charge in our forecast today. So if you were to draw the line more on the left-hand side, you would come with, one out of two years, with everything at Euro 800 million. So when you look at what happened in 2019, you see that our experience was much above Euro 1 billion. It was between, so 1 out of 5 or 1 out of 10 years, we were not far away from Euro 1.3 billion, something like this, net of reinsurance. So the supplementary measures we have taken is, now bring us to a result which is the dark blue bar, which shows a decrease in terms of volatility of around 25%.

And second, what is interesting is that you see that there is an impact, short-term, for the 1 in 5, but it's flattening as well up to 1 out of 50. So this is where it's the most effective, especially if you look at the euro numbers. So when looking back at 2018 and 2019, we would have saved in 2019 $100 million and in 2018 $200 million. So there is a real impact at the XL level.

**Ashik Musaddi** | **J.P. Morgan** That's quite clear. Thank you.

**Thomas Buberl** | **Group CEO, AXA** Let's move over to this side, so far right.

**Mikael Huttner** | **Berenberg** I had a question. So you mentioned that XL earnings will go up. It sounded as if Life earnings will go up because they were a bit depressed this year. It sounds as if asset management also, you're very confident. If I add all these, I get to Euro 1 billion more, which would mean that your earnings would be up like 13% - 14% this year. And I just wondered, is there anything I'm missing either on the plus or maybe on the negative side here?

The other thing is, on the debt. So you have a slide where you use the word limit down, I hope, of cutting the leverage to the bottom end of the target range 25%, and I just wondered what will nudge you? At what stage, will you decide or we'll do the maximum, or we'll do the minimum? And what will influence that decision?

And the last question is that France which seems to be the star of the show today. How sustainable is that Euro 1.7 billion? What can we expect this year?

**Thomas Buberl** | **Group CEO, AXA** Etienne, three questions for you.

**Etienne Bouas-Laurent** | **Group CFO, AXA** Thank you. Maybe you missed the contribution of AXA Equitable Holdings, if I understand your question well. So you will have positives from asset management, even if it goes up, it will not be very significant in absolute numbers. But the contribution of AXA Equitable will disappear fully next year. So I think this is the, maybe the missing element in your projection.

Second on the level of debt, I would say, it's pretty simple. I told you the main value drivers reduction of debt, but you must have available debt, if you see what I mean, so debt which we have the possibility to reimburse in advance. So if you make the math, you will understand what kind of number we are talking about and then it's purely a question, and this is an information we cannot disclose - what are the debt, specific debt that we are going to reimburse. And your third question…

**Thomas Buberl** | **Group CEO, AXA** It was for Jacques. AXA France, is Euro 1.7 billion sustainable? I think that was the question?

**Jacques de Peretti** | **Chairman and CEO, AXA France** Thank you very much for the question. Concerning AXA France, we have a very, very solid engine that is growing each year at the same level. So it's not new that we are performing. So the question is are we going to perform in the long-term? Definitely yes. If you look at, for example, the P&C business, we are at 90 combined ratio now, but if you look at what is the level of the improvement, it is definitely a very strong level. It's a level concerning the current year reduction of claims, and that is due to our underwriting which is each day improving, and it's also due to the decrease of the expense ratio, and that is just the fruit of the work we are always doing in order to be better.

And if you look now at the Life business. Life business, we are at the tipping point now, and we are jumping in the new era where we have a wonderful potential of course. And this potential relies on four pillars that you have to have in mind. First is the reform of the pension in France. And this this reform is done. It's not the reform that is discussing now at the assembly. I am speaking about the reform that went into effect in October with the Pacte law. This has created a tremendous potential of development of our volumes, but also of our profitability.

We, as you know, just as a reminder, we have now attractive products. You can go upon retirement with the lump-sum. You have portability. You have the keeping, let's say, of the favorable fiscal treatment. And on this market, the pension market in France, we are a leader with roughly 18% market share. And if you look at the expectation of the government on this market, the government expects in three years by 2022, to go from Euro 220 billion assets under management to Euro 300 billion assets under management. It's a 40% growth in two years. And if you look at the revenues that's involved, it's a triple of the revenues each year to reach this target.

And if you look at the first months on this new market that is opening, when you look at it, on the first three months, we have improved. We have increased our revenues by 60%. And if you look at our market share, it's even more than the last market share that we used to have. Our market shares is 22%. And if you look at year end, and if you know that this market has 60%+ unit-linked rate compared with the market we have in saving with, let's say, 27% unit-linked bucket, you can calculate with math what will give for the leader in France who has a very strong track record on this market for taking the opportunity. And you know that we have been the first one in France to deliver this product, a few days after the law took into effect.

Second pillar, EuroCroissance. EuroCroissance is now Euro 200 billion, it increased by 40% compared with last year. And this EuroCroissance, I think that in the shift of the behaviors that our clients must have in their head due to the change of the environment of low interest rates, this EuroCroissance will be a very strong answer, a very strong response to what they need, because it will permit them to have a guarantee at the end of the contract, a choice, but also to have a potential of a good performance.

The third pillar is innovation, innovation on Health. We have a large boulevard in front of us. You know that we have always had very good UL rate in France, in AXA France, compared with our peers. And I can tell you that this

year with 39% UL rate, we have even grown the gap between us and the market. The gap is now 11 points and we can still grow it through innovation. Innovation - we did it with structured funds that was in the early 2020, but we did also in 2012 with real estate. We will do it with private equity in the few months thanks to the Pacte law that have softened, let's say, the rules concerning private equity enough.

And the last but not the least, concerns our contract, or the term of our contract. We are able to adapt the term of our contract to the low rate environment we face. We can modify this term in order to adapt the guarantees to what we can serve. And also the last one, the underwriting policy, you know that. All the French insurers have taken now more stringent underwriting policy to raise the unit-linked rate.

So, thanks to our track record, thanks to our expertise, thanks to the strong links we have with AXA Investment Managers in France, we are very, very confident in the capacity we have to grow the underlying earnings in the coming years.

**Thomas Buberl** | **Group CEO, AXA** Thank you, Jacques. Michael, you must be convinced now. So. Let's just move forward, yeah.

**Colm Kelly** | **UBS** Thank you. Colm Kelly, UBS. Most of my questions have been asked and answered, but I have a few remaining. In AXA XL, to what extent have the changes announced today impacted on the diversification benefit you expect to achieve with the merger of the internal models. So, you know the risk exposure here as measured by the best estimate liability has increased, but also there is an accelerated mix shift that is different to what was expected at outset from the transaction. So, to what extent will that impact on the capital synergies as dictated by the diversification credit?

And then secondly, related to that, you have the guidance for capital synergies of 5 to 10 percentage points. But I suppose, what's driving that confidence ahead of discussions with the ACPR, around what that number will end up at, I mean it's difficult to predict what the outcome of those discussions between regulatory authorities and companies will be, as the diversification credit is always a key lever of change in those discussions.

Then lastly on the operating free cash flow, which I typically use as a good measure of dividend progression and capacity. The operating free cash flow was down 5% this year but hasn't either exhibited growth over since 2015. It was pretty much the same number. So I mean how important is this in setting the dividend? I mean it's the cumulative free cash flow that is one of the main targets within the Ambition 2020 plan. It's not exhibiting any growth at the moment. So, I suppose, how is that supporting confidence to grow the dividend at 7% this year? And when I look at the next plan, how does that give me confidence in the progressive dividend strategy within that plan, if the cash flows themselves are not exhibiting growth? Thank you.

**Thomas Buberl** | **Group CEO, AXA** So before Alban is answering the first two questions, let us remind ourselves that we are here to discuss the full-year results 2019 and not the plan 2021 to something. So when we are ready to discuss the plan we should go back to the question around cash flow. I don't know if Etienne wants to make a

statement afterwards concerning Ambition 2020, but let's be clear, we're not talking about the plan today. Alban, on the question about diversification benefit, business mix shift, and then the question on the capital synergies. What is our confidence?

**Alban de Mailly Nesle** | **Group Chief Risk and Investment Officer, AXA** So your question on the change in business mix and its impact on the model, it's a bit the same question as the one earlier on the release of capital or the absence thereof. It's not significant enough, that change, to impact the amount of capital that we need to hold at Group level. So don't expect a change coming from that shift.

And on your second question, we started the discussions with the ACPR. We have explained to them, how we plan to integrate XL in our internal model. Now those discussions are still being held. We have not come to a conclusion yet, and I would say nothing leads me to believe that the 5 to 10 points wouldn't be achieved, but I don't want to put pressure on the ACPR by saying this. And so that will come in the next month.

**Thomas Buberl** | **Group CEO, AXA** Good. Let's move on. Let's go ahead. Sorry. Yeah, the cash one, I think, I just checked with Etienne, we'll come back to that when we talk about the plan, because for the existing period, we have seen Euro 28 billion to Euro 32 billion. We are at Euro 25 billion, there should be no reason to believe that we are not achieving the range that is targeted for Ambition 2020. And what everything else that concerns afterwards, let's deal with it when we talk about it afterwards.

**Thomas Fossard** | **HSBC** Thank you. Thomas Fossard from HSBC. Two questions left on XL, so if you come back to this one. The first question would be regarding the claims inflation you're seeing coming into your book. Actually, could you help us to better understand how this compared to the 8% price increase in commercial lines, or even better, how the claims inflation is currently versus 14% price increase that you have recorded in Q4 standalone? That will help us to better understand what is the potential underwriting margin improvement in 2020 or 2021 that you're talking about?

The second question would be related to slide B17 where you, in fact, you're splitting XL by different business lines. Sorry to insist again, but I think from this slide it's still difficult for us to understand what is XL exposure to the most tricky line of the US casualty market at the present time? What do you have in terms of business on the lead umbrella, on excess liability, which is a part of the book where you're insuring Fortune 500 in the US. I think that it's this type of granularity we're still missing. And also on the premium in the reinsurance side where you've got more than of Euro 3.5 billion, what is the volatility of the business which is behind? Thank you.

**Thomas Buberl** | **Group CEO, AXA** Good. Thank you very much. Etienne, Alban, do you want to talk about the first question. Who takes it, Alban?

**Alban de Mailly Nesle** | **Group Chief Risk and Investment Officer, AXA** So, on the claims inflation. I think the main message that we want to give is we do believe that we are ahead of the trend, i.e. that the price increases are greater than the claims inflation that we're seeing. That's a very strong message. But then when you look at

the claims inflation and the price increases, the price increase that we showed is an average. On excess casualty in the US, as Thomas said at the beginning, we see 40% price increase in January, 40%, 4-0. And so depending on the layer you're at and the business you're in, you would not have the same price increase because you wouldn't see the same claims inflation. Obviously, when you are in the umbrella layers, you do see a significant claims inflation, but that's also where the price increases are greatest and that's also a place where we have significantly reduced the layers there. Typically on that one, we used to provide a Euro 25 million capacity, we now provide a Euro 10 million capacity. So that's the kind of underwriting measures that we have taken on umbrella, but same on others. But obviously not all of them are affected the same way by claims inflation. And, therefore, our price increases need to be selective but significant.

**Thomas Buberl** | **Group CEO, AXA** Thank you, Alban. Scott, maybe it is an opportunity for you to talk a little bit about XL and by business line. And I think it would also be important to shed a bit of light on the social inflation which is not a general problem everywhere. It's very focused on some parts, like rail, like commercial auto. Can you talk a little bit about that so we get it a little bit more into perspective?

**Scott Gunter** | **CEO, AXA XL** Yes. And in the casualty number you see, that is a basket, as Alban says, that is a basket of goods. There is motor in there, our work comp book, we have United States is in there. And so it's a geographically spread book plus different products. It's not just excess casualty in the United States. But yes, so social inflation, there is lots of conversation about that, it affects, as Alban says, it affects the excess casualty, particularly on the larger risk more prevalently than the smaller middle market accounts, right. And then it's just the jury award, you see in the United States and the tendency for the plaintiff's part to ask for more money from bigger companies. You can see it in the settlements and you can see it in the court cases. So it is not a universal number across the entire portfolio that says everything goes up, but it is still all going up. It just goes up at different levels.

**Thomas Buberl** | **Group CEO, AXA** Let's move on.

**Kamran Hossain** | **RBC** All right. Kamran Hossain from RBC. On results, I guess we haven't hit coronavirus. Yes, so let me just ask about that.

**Thomas Buberl** | **Group CEO, AXA** It took a long time.

**Kamran Hossain** | **RBC** In terms of, I guess, being prepared for, I think we can probably ignore the claims environment due to coronavirus, but if you look at SARS, post that happening back in the early 2000s, there was a huge spike up in kind of Health sales following that. How prepared are you to kind of take advantage of that? That's the first question. The next Q, sadly, are both on XL.

**Thomas Buberl** | **Group CEO, AXA** You don't have to apologize for that.

**Kamran Hossain** | **RBC** Coming back to the Euro 0.6 billion. To what extent are you already recognizing what you hope are margin improvements on long-tail price improvements there? So we've seen claims inflation spike, to

what extent do you think that doesn't happen again? And the second question is that slides on CAT exposures is fantastic. But I would expect that your CATs, your kind of average Nat Cat number, should probably come down because I know on 1 in 5 year basis it comes down quite a lot. So is the 4% Nat Cat number for AXA XL still the right one going forward? Thank you.

**Thomas Buberl** | **Group CEO, AXA** Good, thank you very much. I'll do the coronavirus one. And then Etienne, if you could do the other ones on the Euro 0.6 billion and the margin improvement and the question around does the Cat exposure come down.

So on the coronavirus, look, the short term is certainly that we are being affected by it both operationally, so just to understand people cannot work anymore in the company, they have to work from home, which causes always operational difficulties. We have been dealing with it, both in Hong Kong and in China. You see that because people don't leave their home anymore, there is also a negative impact on sales. Luckily, we've been investing significantly on our digital capabilities. So for example in Hong Kong, we've launched a service, still under the leadership of Etienne at the time, called Emma where we have most services being digitally present and the digital interaction numbers have skyrocketed. So that is actually very good to see that if you can't move physically anymore, you can still move on digital basis. You were absolutely right that, as a reminder, a function of this crisis means that people are thinking more about health, and when I think about the upside that is exactly that. We are focusing on expanding our Health business with now the fully-owned AXA Tianping. You've probably seen that we have launched three products recently that are exactly focusing on the Health area always in combination of I've got a Health insurance offer plus I've got a physical offer of Health care delivery. In this case with Tencent-trusted doctors. So yes, we see a great opportunity. Once the dust is settled and we are getting back to normality, and that is exactly where we want to focus on. Etienne, on the other two questions.

**Etienne Bouas-Laurent** | **Group CFO, AXA** So Euro 0.6 billion, the famous now Euro 0.6 billion at XL. What I can reiterate in the Euro 0.5 billion, the starting point, we have minus Euro 0.2 billion of casualty deviation. We didn't touch this because we think there is a lag between the pricing and the effect on the recognition of the claims inflation. So the Euro 0.6 billion, reflects a level of price increase, which is substantial and which is supposed to grow more or less in line with the further potential inflation. So this is an estimate that you had a lot of assumptions behind that, as you can imagine. And I take the opportunity just to come back to a question which was related to the page B17 on the casualty line and saying that around 20% refers to the lines particularly hit by the social inflation.

So if I come back to question number three, which is the Cat exposure, I would say that the main benefit of what we are doing is to reduce the volatility. This being said, it's true that the net average load of Cat Nat has come back from the sort of 4% plus to a 4% minus which is mechanical mathematically. However, in our forecast, we are still very near to the 4%. The main benefit comes from, the volatility.

**Thomas Buberl** | **Group CEO, AXA** So last question. And Andrew Crean, you've got the mic. So I can't prevent you from asking that question. Go ahead.

**Andrew Crean** | **Autonomous** Three questions. One, only one on XL.

**Thomas Buberl** | **Group CEO, AXA** That's a record.

**Andrew Crean** | **Autonomous** So firstly, as you going back, and this is on XL, going back to James Shuck's question, I think the Euro 0.8 billion, excess of the best estimate, is a 2% margin, which looks a bit scarily low. Is it right to apply it against all the reserves of XL, rather than just the casualty lines? I noticed that the P-GAAP reserve of Euro 1 billion was applied just to the casualty line, in which case you get a margin of 5%, which is slightly more comforting?

And then secondly, coming back to Colm's question, could you address the question related to 2019 as to why the cash flow went down 5% in 2019. So we're not looking forward too far.

And then thirdly, your reinvestment rate on new business, I think it was 2% in the first half, 1.7% in the second. In the full year, so it was about 1.4% in the second half and is probably now down at about 1%. What is the outlook for investment margins? Do you intend to keep cashing crediting rates to maintain your margin? Or do you look to the fact that the policyholders are getting rather a bad deal?

**Thomas Buberl** | **Group CEO, AXA** Thank you, Andrew, for those three questions. I suggest, Etienne, you take the first two. So the question around, do we have to relate the reserves to casualty only or the total? Second question as well, why has the cash flow gone down in 2019? And then, Alban, you take the question on the reinvestment rate and also may be linked to the question of the crediting rate, and if you need some help from Jacques because that is very much linked to France, we can happily do that. Etienne?

**Etienne Bouas-Laurent** | **Group CFO, AXA** So the P-GAAP identified a certain number of risks at the end of 2018, most of them being related to casualty. But, of course, they are basically unallocated. The Euro 0.6 billion this year are focused on the liability lines on the casualty lines because those are the ones where we observed a deviation. So the Euro 0.8 billion is left open. I expect that the big bulk of it will be there to cover casualty lines because we don't see negative, or much less negative deviations, on the other lines.

Second, fundamentally if we want to increase our earnings and dividend at 5%, let's take that as a sort of average, of course, the cash upstream, the operating cash upstream, will have to follow this path going forward. It's purely logical. So then from year-to-year, you have some variations related to specific country situations, which are I would say, non-recurring, so generally, we share the view that this cash flow streams, more than the operating free cash flow themselves which is a proxy, have to increase by the same level of pattern as the dividend and the, and the, earnings per share.

**Thomas Buberl** | **Group CEO, AXA** Alban, on the reinvestment rate.

**Alban de Mailly Nesle** | **Group Chief Risk and Investment Officer, AXA** Thank you. So on the reinvestment rate, you're right in saying that in 2019, the investment rate was around 1.7% on average. We expect the same in 2020 and the way we achieve that is by benefiting from something that Etienne mentioned earlier, which is the expertise of AXA IM in alternatives. So we are progressively increasing the share of alternatives in our balance sheet. We were at 20%. We want to move to 25%, that's higher yield without more capital and therefore it's good for everyone. In terms of margin on the Life side. So we've done projections with the whole group and notably with AXA France, with the current level of interest rates and reinvestment rate similar to the one I've just described. And over the next 10 years, we believe that we can both keep margin similar or close to what we have today and still give a very decent return to our policyholders, notably when you compare with the negative interest rates that you would have today on the market.

**Thomas Buberl** | **Group CEO, AXA** Good. Thank you, Alban. We, unfortunately, have to come to an end. I know there is plenty of questions. We will still be here, so if there is any urgent questions we can deal with them bilaterally. I want to thank all of you for being here for your numerous questions. Thanks to my colleagues for having supported us here, and I wish you a great afternoon and hope to see you soon. Thank you.

*** END OF THE TRANSCRIPT ***