AXA FY13 conference call transcript

February 21, 2014

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Mr. Mattieu ROUOT, Head of Investor Relations, AXA

Good afternoon and good morning to all of you, here in the room but also on the webcast. Welcome to our 2013 Full Year Earnings presentation with the management team of AXA. Here with us today is: Henri de CASTRIES, Chairman and CEO of the Group; Denis DUVERNE, Deputy CEO; and, Gérald HARLIN, the Group CFO. The management team will go through the presentation then a Q&A session will follow.

Henri, I will now hand over to you.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

Thank you, Mattieu. Good afternoon, every body. It's good to be here and to see the floods receding. Let's quickly start before handing over to Denis.

2013 was a very strong year for us as you have seen in the numbers and you will now see in more detail. Underlying earnings are up 18%, which puts us in a very comfortable situation when we look at the middle-term goals of Ambition AXA. Adjusted earnings are up 20%, slightly more than underlying earnings because of the realisation of capital gains at the top of the range we had in mind. Last but not least, operating free cash flows for the Group waere up 12%. A strong performance from an operating standpoint.

This translates into good growth in earnings per share, 10%. At the top of the range we had set for Ambition AXA, which was 5-10%, we are at 10%. If you look at what had been the average growth rate since the beginning of the plan, it is at 6%. Adjusted earnings per share, as the base for dividends, are up 12%. This puts us in a situation where the board is recommending to the Shareholders Meeting to pay an 81 cent dividend, which means a 40% pay-out ratio. This is within the range we set of 40-50%. We think that being there is reasonable for the mid- to long-term.

Balance sheet: strong and healthy. The Solvency II ratio is above 200%. You have to notice that we have slightly changed the way we computed compared to last year. We now take out dividends we are going to pay in a few months. All things equal it's an increase of 7 points when compared to last year. We are also very comfortable with the implementation of Solvency II, even if a lot of details remain to be discussed as to the implementation measures on the regulatory side. The approval of our internal model is on track. It's going to go along for most of this year.

The second regulatory front that is important to us is the discussion surrounding the G-SII's. We are one of the nine designated systemic insurers – not sure we fully understand what it means – but we have been designated and we are of course in discussions on the basic capital requirements which are going to be imposed onto these nine insurers. We are very comfortable that our level of capital will enable us to absorb that. There is uncertainty around the process but we still feel comfortable.

If you look at the gearing – and this is one of the new elements for this presentation – you will remember that the target we had set was a target of 25%. At the end of 2013 we were at 24% and we are now changing the target, indicating a range of 23 to 25%. The floor has become a ceiling. Why so? Because we think that in this world it's better to be slightly cautious and navigating between 23% and 25% seems to us to be the right thing to do.

A few words on the implementation of Ambition AXA. You remember the three pillars: selectivity, acceleration, and efficiency. 'Selectivity', meant and still means: a better use of the capital we deploy and more selectivity in the business we are doing, mostly in the mature countries. If you look at what we've been doing since 2010 in the mature countries, we have disposed businesses or extracted capital for 8.5 billion euros, which has been either redeployed to emerging markets or used to decrease the leverage. This has not affected earnings because in between the earnings in mature markets has gone from 3.7 to 4.2 billion euros. This has not affected the growth, since growth has been modest but real during years where the markets were poor and the economy bad. The business mix has improved in mature markets along the lines we set at the beginning of the exercise. Protection & Health has been growing at 7% a year. Unit-Linked has been growing at 8% a year. The direct revenues for P&C have been growing at 6% a year. The combined ratio has decreased by 5 points throughout the period. What has decreased is the portion of the general accounts in the total of the business, which is what we intended to do for the reasons you all know: less attractiveness for the customers and lower margins for us. We will see that later.

Now on to 'high-growth markets' – the second pillar. Have we accelerated? If you look at what top- and bottom-line growth, they have been fairly strong. Earnings growth was approximately 28% on a compounded basis, whereas top-line growth was 17% in Life and 15% in P&C. Two points behind that: it's a source of acceleration for the Group; and, it is not investing in a black hole since earnings have progressed faster than revenues. These are countries where we can extract very decent margins. Even if there is a relative economic slowdown for the moment we are long-term investor. We remain confident that this is going to remain attractive for us for a long time. We think that we now have mostly bridged the footprint gap we had. We have strongly reinforced the operations we have in Asia. One of the elements being the deal we made with HSBC to buy their P&C activities in the region. Another example being the acquisition in 2013 of 50% of Tian Ping, the Chinese property & casualty insurer, who has a license to operate in automobile insurance in China. China, having become the first automobile market in the world, the Chinese buy 19 million cars a year, roughly ten times the French market, most of it being the first equipment of the households buying these cars. No insurance before. Therefore it's a great source of growth.

We have also expanded the footprint in Latin America with the acquisition of Colpatria. We have 51% of Colpatria, a large Colombian insurer. Colombia is a large market. It is far away from here but has nearly 50 million inhabitants with a very fast growing middle class. It is a well-managed country and is very attractive to us. We hope this will produce good earnings moving forward.

The last pillar of Ambition AXA is 'efficiency'. We had set a goal of 1.5 billion euros of efficiency savings over the period. We have already delivered 1.2 billion euros. We have increased the target to 1.7 billion euros and are very comfortable that we will achieve it. This doesn't mean that we are not going to invest in our future. Denis will speak with you later the investments we are undertaking to face digital and big data, which we think are going to be great opportunities for us.

What are the levers of increased efficiency? Increasing the efficiency of the distribution: we are proud of the proprietary networks we have. We are proud of the relationship we have with our distribution, even when it's not proprietary, but we recognise that it's an expensive one. So increasing the efficiency of this distribution is an important point, has been so in the last few years and will remain so going forward.

Second point: improving the operational performance. I think everyone does it. There is nothing specific there.

Third point: we have to offset the increase in IT investments coming from the necessity to face digital and big data by reducing ordinary IT expenses. Make the difference between investment and maintenance. Due to the legacy systems, we have a significant burden we intend to further reduce.

Last but not least, and also a very classical point: how to better leverage the procurement savings? We have made significant efforts over the past few years, so there is no reason to see them stop in the coming years. So, significant levers.

I'm now going to hand over to Denis, and to make things easy… everything has disappeared.

Mr. Denis DUVERNE, Deputy CEO, AXA

Thank you. Good afternoon, everyone. I will now go into more details for our Ambition AXA plan.

Starting with the financial objectives on page A13. We had set a target of 5-10% compound annual growth for underlying earnings per share. This year, we achieved 10% – at the high end of the range. Cumulatively, we are at a growth of 6%. Group operating free cash flow, Henri mentioned the 5.2 billion euros, we have been able to increase our free cash flow by 500 million euros a year. If you do the math, it seems the 24 billion euros of cumulative free cash flow by 2015 will be achieved. Adjusted ROE is 13-15%, with 14.8% this year, close to the high end of the range. As for debt gearing, I will not elaborate that point as it was just covered by Henri a moment ago.

'Selectivity'. Going into more details on the Life & Savings side. We had indicated that we would focus a lot more on Protection & Health and Unit-Linked. This is happening. You can see that over the period we moved the Protection & Health business from 31% of our new business to 39% in three years. The margin has kept growing – it is now at 59% NBV margin. Our customers continued to invest less in G/A Savings. Our margin has gone up because interest rates have gone up – it's now at 11%, but we only have 14% of the business there. Unit-Linked was good in 2013. Unit-Linked sales went up by 14%, and this represents 34% of new business with a margin of 26%. Finally, mutual funds and other equal 12% of the total; this is mainly in the US and the UK.

On the P&C side, our compound annual growth was at 3% - a bit less at the end of 2013, only 2%. Our combined ratio improved substantially to 96.6%. This means that the 96% we targeted for 2015 looks eminently achievable.

'Acceleration' in emerging markets and in high growth markets. We had indicated that we would be able to achieve 15% compound annual top-line growth. On the Life & Savings new business, the growth on a comparable basis was 11%, cumulated over 3 years it is 17% and the contribution of high growth markets to the total of new business of the Group is now 17% compared to 12% in 2010. P&C revenues showed compound growth of 15%. In spite of the slowdown in several emerging markets we were able to achieve 14% growth. The contribution of high growth markets to total Group revenues is now 16%.

'Efficiency'. We are on track as indicated. You see that savings have accelerated in the Life side: of the total 400 million euros additional savings this year, 300 million euros come from the Life side. You can see that we are also saving, as already mentioned, on BAU IT, 0.2 billion euros. Our investments in IT have grown slightly, representing 1.2 billion euros. Our investments in digital have accelerated. We had thought that we would spend roughly 600 million euros over 2013, 2014, and 2015. We have readjusted that target to 800 million euros, having spent more than 250 million euros this year.

Moving to the Group performance in more details. You can see on the slide A19 the breakdown of the earnings by segment. You can see that we had growth in earnings in all segments. I will not comment on this in more detail but focus on slide A20. You can see that we had a negative impact of Forex on our underlying earnings – this is mainly Yen, Swiss Franc and US Dollars – for a total of 166 million euros.

Moving to adjusted earnings. They went up 20% to close to 5.2 billion euros, thanks to strong underlying earnings and higher capital gains. In this 434 million euros of capital gains, our disposal of a substantial part of our shareholding in BNP Paribas accounts for 195 million euros. This shareholding was brought down to 1.4% at year-end and has come down further since then.

Moving to the net income on the next slide. Net income was up 14% to 4.5 billion euros. I would like to comment on two items. First, the change in fair value and Forex, we have hedges that work economically but do not work from an accounting standpoint. We have an accounting mismatch. This year we had two negative impacts: one coming from the increase in interest rates, for 387 million euros; and one coming from the Forex position, for 140 million euros, because we hedged a part of our investments in our operating subsidiaries, the holding companies. The second point I want to highlight is in relation to restructuring costs. They are relatively stable around 250 million euros. You could ask, “Why aren’t you stopping restructuring costs?”: the reality is if you want to reduce your expenses on an on going basis, we have to go through various restructurings in the various parts of the Group and we have frontloaded costs as we restructure our various businesses to cut our expenses.

Moving now to the different segments of the Group. Starting with the Life & Savings segment. On slide 24, you see the breakdown of our new business between mature markets and high growth markets. This year, we resumed growth in mature markets; this was particularly strong in the UK, the US, and in Switzerland – the total being 4%. High growth markets were up 11% and this is despite a contraction of a continued poor performance in Central and Eastern Europe on the back of the pension nationalisations that took place in Hungary and Poland. In spite of that we have a growth of 11% thanks to Asia, which is up 16%. Our new business margins improved in both mature and high growth markets thanks to the improved business mix with more Protection & Health and more Unit-Lined, the total being 35% NBV margin.

Let me know look at the new business sales and margins by sub-segment: Protection & Health, Savings, Unit-Linked, and Mutual funds. I will not comment on the left part of the slide but concentrate on the right part where we have the net flows. Protection & Health, we accelerated the net flows to 5.2 billion euros. On Savings, we have -5.2 billion euros of net flows. Of that, 900 million euros were exceptional in Switzerland due to a change in regulation on an employee pension scheme, which had to leave the company to go to an autonomous pension fund. Unit-Linked, net flows seem to be lower at 0.9 billion euros, but you have two exceptionals: one, we announced to you several months ago, the GMxB buyout campaign in the US where we had a successful buyout and hence negative flows for 1.7 billion euros; second, in Japan, we essentially stopped producing viable annuities because of the very low interest rate. To do that, we reduced commissions to the point where sales were close to zero. Mutual Funds saw a slight increase. In total, we had 1.1 billion euros positive flow in our Life business, but that would have been 5.2 billion euros excluding the three exceptionals I just mentioned.

Looking now at the pre-tax earning by business, they grew by 13%. If we go directly to the right part of the slide, all the growth and more is coming from the Unit-Linked side, thanks to higher earnings on VA side in the US. Remember that we had a number of exceptional negatives last year. I would say we are back to normal on the US VA's. Thanks also to our good performance of equity markets, which leads to higher fees in line with higher asset bases. We have two negative movements in the other two sub-segments. Protection & Health declined 7% largely due to less favourable mortality in the US with a negative adjustment of close to 200 million euros. The other factors are positive: improved investment margin and higher margin on revenues linked to higher sales. G/A Savings was also down 10%, in spite of lower expenses because we have low average reserves following the outflows I mentioned earlier and lower sales hence the lower margin revenues. There is also a negative impact of Forex on this line because all the non-Euro denominated reserves contribute to this for a smaller contribution.

Moving now to P&C. I mentioned that revenues are up 2% at 29 billion euros. This is a contrasted story with personal lines revenues only up 1%. This is due to an average price increase of 2.6%, portfolio growth in direct and high growth markets, but more selectivity and pruning in mature markets – Belgium, UK, and Germany. We re-priced our portfolios and had to accept lower volumes. So we had significant outflows in those three countries in the personal lines side. As for commercial lines, we see growth in revenues of 5% thanks to an average price increase of 3.4% and strong portfolio growth in high growth markets, but also on the SMEside in the UK and in France.

Looking at the pricing environment. I mentioned the overall price increase for Personal and Commercial lines. You can see we were able to increase prices across the broad with the exception of Switzerland, where we have a combined ratio below 90%. Going forward into 2014, we believe that we will be able to continue to increase prices in France and Germany, while the pricing environment has become less variable in the other geographies.

Looking at the P&C revenues and combined ratios between mature markets, high growth markets, and Direct, you can see that all the growth in revenues was in high growth markets and in Direct. In direct, we had 7% growth in revenues in all the markets other than the UK, where it declined by 4% because of the pruning I mentioned earlier. Combined ratio in all those markets was below 100% and improved across the board. This is the first year we have a combined ratio below 100% in Direct, which is something that we expect to see continuing. It is a good sign for this business that we believe has high growth potential. All in all our current year combined ratio improved by 1.1 points to 97.8%.

P&C earnings increased by 13% and you see the explanation of 1.1 points of the current year combined ratio. On one hand we had higher large losses and double the amount of catastrophes we had last year. We still had a relatively benign year for catastrophes because… in our plan we expect natural catastrophes to represent roughly 1 point of combined ratio. The positives are: price increase; expense ratio improvement of 0.4 points; and, lower attritional frequency. Why do we have higher large losses? Because of the continued difficult economic environment in Europe where we have the bulk of our presence. The prior year developments were stable at 1.2 points giving us an all-year combined ratio of 96.6%. Again, 1.1 points better than last year. Investments income was rather stable with an asset yield of 3.9%, the same as last year.

Moving now to asset management. Our average AUM went up by 4% at AXA Invest Managers and by 5% at AllianceBernstein. Net flows are more contrasted with an increase in net flows to 12 billion euros at AXA Invest Managers and net flows continuing to be negative at AllianceBernstein with -4 billion euros. Negative net flows are concentrated on the equity franchise. On the fixed income franchise we continued to have positive flows but much less positive than in prior years. This is because, since the middle of the year with the announcement of the QE tapering, there were significant outflows in Asia. AllianceBernstein has a very strong retail presence in Asia: Japan, Taiwan, Hong Kong, and Singapore. We had significant outflows in fixed income there. Revenues were up 10% at AXA IM, and 7% at AB.

Underlying earnings of the asset management business grew by 8%. They were up 20% at Alliance Bernstein, thanks to higher revenues and a very strong cost discipline. They were slightly down at AXA IM, reflecting the disposal of AXA Private Equity; they would have been up 6% otherwise.

Thank you very much for your attention. I will now hand over to Gérald, our CFO.

Mr. Gérald HARLIN, Group CFO, AXA

Thank you, Denis.

Moving now to the balance sheet and to the shareholders' equity. Shareholders' equity is down 0.7 billion euros. I won't comment on all the variations but I will focus on three elements. First, a change in net unrealised capital gains corresponds to the impact of higher interest rates on the OCI. Second, the Forex movements net of hedging, -2.4 billion euros, that's the impact of our investments denominated in foreign currency. The most impacted ones were in Japan, Switzerland and the US. Next, the change in pension benefits, 0.7 billion euros, corresponds to the actual yield gain coming from higher interest rates.

Now onto debt gearing, which is at 24%. You can see that net debt went down from 13 billion euros to 12.3 billion euros. At the same time, interest cover improved from 9.3 times to 10.2 times.

Now as for economic solvency. Economic solvency as explained by Henri has been restated in order to take into account the future of dividends. We restated 2012 to take into account the dividends that had been paid at 72 cents in 2013. Also, the solvency for 2013 takes into account the planned dividend of 81 cents. As a whole, our economic solvency is improving from 199% to 206%. In the bottom part of your slide you can see that we are still mostly sensitive to the rise or drop in interest rates.

Now, the General Account invested assets. First, our invested assets moved down from 491 billion euros to 470 billion euros. This drop is mostly explained by three reasons: first, the mark to market with a rise of interest rates; second, Forex on the Japanese Yen, US Dollar, and Swiss Francs; and, lastly, the scope effect coming from the MONY disposal. We slightly increased our fixed income investment from 82% to 83%. At the same time, listed equities went up from 3% to 4% but remain modest when you take into account solvency II cost, which is pretty high.

On asset yield, as mentioned by Denis, we are stable in P&C at 3.9%. For Life & Savings we dropped by 10 basis points from 3.8% to 3.7%. We are helped by our long duration. At the bottom right you can see we have been investing at 2.9% and in the Eurozone at 3.2%. Investment margins were at 80 basis points in 2013, within the guidance of 70 to 80 basis points. This included some exceptional dividends from private equity and equity funds – I consider that it is roughly 2-3 basis points.

Next, we have Life operating free cash flow. It increased from 2.2 billion euros to 2.3 billion euros, plus 9 points. In the middle you have the new business IRR, which went up sharply in line with our selectivity strategy and so explaining that since 2012 we moved up from 12.5% to 14.2%.

Now for Group operating free cash flows. On top of the Life & Savings free cash flow 2.3 billion euros you also have the P&C plus the Asset Management. P&C correspond to the adjusted earnings from our P&C business plus the international segment. Remittance ratio is in line with our guideline. We were at 75% last year.

Last, the Group embedded value went up from 37.3 billion euros to 43.0 billion euros. On top of an operating return of 18%, non-operating variance corresponding to the improvement of global economic conditions – mostly higher equity markets but also higher interest rates.

Thank you.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

Thank you, Gérald.

As a conclusion, what can we say? I think it's very simple. Very solid and strong earnings; very much in line with our mid-term plans; clearly a good basis to prepare the future, because this industry is going to be deeply effected by what is going to happen with digital and big-data. One needs to prepare oneself. We are in a very good position for that. That's where we are.

Let's open the room up for questions, both in the room and on the web.

Q&A session

Mr. Jon HOCKING, Morgan Stanley

It's Jon Hocking from Morgan Stanley. I've got two questions. On the dividend, you're at the bottom end of your range, what sign post can we look for to see whether you are going to move up that range? Is it solvency ratio? Is it earnings? Is it the fact you had a good year-on-year dividend growth at the bottom of the range? How should we think about this?

Second question: on free cash flow. The IRR's moved up nicely in the Life business. Free cash flow growth in Life unit going forward, is that going to be a function of new business coming down? And if it is, which markets do you think you could reallocate cash away from?

Thank you.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

For the first part of your question… Denis or Gérald, do you want to take the second part of the question?

On the dividends, we are at the bottom end of the range, but we are within the range. The reason we don't want to go up more is very simply because of a combination of caution and optimism. It's caution because the discussions surrounding the regulatory environment are not over, point one. It's caution because even though the economic environment is better it's still fragile. You all know how much we have suffered during the crisis from the perception of our leverage. We have been bringing it down and we want to continue bringing it down even if we are currently in very comfortable territory. That's the caution part. The optimism part is we have new business to fund. We therefore think that increasing the pay-out would not be the best thing to do. That's where we are.

Denis, operating free cash flows?

Mr. Gérald HARLIN, Group CFO, AXA

On the internal rate of return, go to page B69 in the appendix. You can see that across the board, all countries have an improvement in their new business internal rate of return. To answer your question about the future: it means that cash flows will be impacted because here we are in the real world, which means it is done on a management base, whereas the NBV is done on a market consistent basis.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

Next question.

Mr. Nick HOLMES, Société Générale

Nick Holems with SocGén. I had a couple of questions on reserves. The first is on the GMxB reserve where you have a buyout offer for $6 billion. Can you update on that? I know this has been progressing reasonably well, and you gave some numbers. Can you update how far you think this might go? And also, looking at the reserve releases, I was interested to see you've strengthened reserves with the releases, and I wondered what your view is going forward. Do you think there will be more reserve strengthening here? Or whether you would release reserves?

The second question is on the P&C reserves: do you expect releases to remain at 1-2% going forward? What are the things that would worry you with your reserve strength in P&C? What might put pressure on that level of release?

Thank you.

Mr. Gérald HARLIN, Group CFO, AXA

Nick, if you go to page B28 of the appendix, here you have the rollforward and the impact on reserves. The GMxB reserve is going down from $13.1 billion to $8.1 billion; the buyout program represents $0.6 billion. The most important part of the decrease in reserves comes from the Market and Others. The first element is one I mentioned before: equity markets. With equity markets up 30%, the options go out-of-money, which means you have less reserve. Less reserve also means less risk of suffering from volatility.

To go back to your question on the buyout program. We don't make such a program every year. This program is important to reducing our reserves but markets play a much more important role.

Mr. Nick HOLMES, Société Générale

So far you have achieved about 10%. What do you think you might achieve?

Mr. Gérald HARLIN, Group CFO, AXA

As a rule we are at 10.2%, so that's what we were expecting.

Mr. Nick HOLMES, Société Générale

So we have to wait for next buyout offer. Got it.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

So you had two questions. One was on the Life reserves, and the other was on P&C reserves. Is that right?

Mr. Nick HOLMES, Société Générale

Correct. It was really the GMxB reserves. I noticed that you had taken the $200 million release that you had used to strengthen the lapse reserves in the GMxB.

Mr. Denis DUVERNE, Deputy CEO, AXA

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

We did have two reserves strengthened: one in Japan and one in the US. Do you want to comment on them, Gérald?

Mr. Gérald HARLIN, Group CFO, AXA

First, in the US. Reserve strengthening on page A26. The first one is in the Protection & Health: we had unfavourable mortality in the US, on both the experience and the reserves, which means that we had a 0.2 billion euros hit on that side. At the same time, in G/A Savings, it's the reverse: we had a longevity hit in Japan, which represents a 0.1 billion euros hit. These figures are before tax, so we had roughly 0.3 billion euros one-offs.

Mr. Denis DUVERNE, Deputy CEO, AXA

We don't have any expectation to have this as a recurring phenomenon. The one relating to mortality is the more interesting of the two to comment on. What happened in the US, whereas before we had an improvement in mortality every year in line with the progress of longevity, was that we discovered during 2013 mortality ceased to improve for males over 50: partly due to health – obesity and the like – partly due to suicide. The question for us is going to be: is something we will see in other markets? Is this something that will continue? We have made the best adjustments that we thought was advisable in the circumstances.

Last comment on P&C reserve releases. We are very comfortable with our level of reserves overall. We didn't reduce the strength of our overall reserves in P&C. We had 1.2 points of positive development like last year. I am very confident that this 1.2 is close to the bottom of what we could expect, though I will not commit that this number would increase.

Mr. Gérald HARLIN, Group CFO, AXA

You have information on page B33.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

I've been impressed by Gérald's ability to move from one page to another in the appendices and by the Jesuitic answer of Denis on the prior year reserves. Next question.

Mr. Michael A. Klien, Nomura

Yes, it's Michael Klien from Nomura. I have two questions, first is on the Japanese operations. We saw that the new business value increased sharply year-on-year even though sales in terms of APE were down meaning your margin has materially increased. Can you give us some indications what the key drivers were? You mentioned the discontinuation of the VA sales. Can you give us some indication on how you expect this to progress into 2014?

My second question would be on the UK floods. I guess you can't really say much in terms of estimates, but maybe about what you expect from the market so far and also therefore touch a bit more on your re-insurance program and therefore, what kind of hypotheticals can we think of?

Mr. Henri de CASTRIES, Chairman and CEO, AXA

Paul, do you want to answer on the UK floods? Gérald or Denis would you answer on Japan.

Mr. Paul EVANS, CEO AXA UK

As far as reinsurance is concerned, I would be quite surprised if the floods were a reinsurance event for the UK market, unless they had very low deductibles, it won't touch ours. Obviously, it fell into different years. We saw around £60 million in 2013 across flood and storm. Of course the uniqueness of the UK event was that it was a flood in parallel with very sever storms. In fact, for every one flood claim there are 25 storm claims. That carried through January and February. We think it's very early for January and February, but I would say that it's about £60 million of flood so far, and more for windstorm – perhaps another £20 million of windstorm.

But it's not a reinsurance event.

A pricing event? I would say that all the flooding did last year was that it returned the weather to a normalised year. We saw next to zero weather losses in the first 11 months of 2013. We were expecting for it to be a softening market, and indeed rates did start to soften. AXA did not. We did not soften our rates at all and therefore we lost some volume. Will competitors need to reprice? That's the question. We haven't seen that so far. Those who did soften into the mild weather may have caught a cold.

Mr. Denis DUVERNE, Deputy CEO, AXA

As for Japan, basically I have partly already addressed this question.

It's almost no VA sales and marginally very few Savings sales. We have focused on the two most profitable lines of business, which are pure Protection & Health. We have continued to be innovative on the product front. We have expanded our distribution and have a very strong distribution network - a multiple distribution network, but we have a proprietary distribution network with the Japanese Chambers of Commerce, where we are adding new people on a net basis. This has been going for two years and we expect to continue. We are strengthening our relationship with what is called in Japan the agents' network but in fact with the brokers. We have expanded our presence with medium sized brokers. This is the focus. Again, Protection & Health has generated very high margins. On those lines of business we have not only high margins but also strong growth in our sales.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

Regarding the selectivity in Japan we are tied to have because it reputed to have a market with no growth, but if you are selective and you target the right segments, you can achieve pretty good growth with very high margins.

Next question.

Mr. Ralph HEBGEN, KBW

Thank you. Ralph Hebgen from KBW. Just three things. On the remittance ratio, I saw that it's pretty much stable at 75%, but I also remember a slide from the June 2011 Investor Day, which would indicate an ambition at the time that you wanted to grow this to 80% potentially. The question is, is that ambition still there?

Second, on the movements of the economic solvency ratio. I saw one point that was 7 points down due to model refinements. If you could just make some explanatory comments around that, what were these refinements? I saw the annotation but it would be interesting to here what's behind the annotation on the slide.

Finally, a point of detail. I believe there was a reserve increase in France relating to a court judgement on bodily injury. If you could quantify that it would be fantastic. If not, some qualitative comment on how that might have impacted the reserve release that you show.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

You want to keep Gerald on his toes?

Mr. Denis DUVERNE, Deputy CEO, AXA

I will take the remittance ratio and let Gérald take the other two.

For the remittance ratio, I have to disappoint you Ralph because yes we had the aspiration to grow from 75% to 80% and we see that we have a very hard time achieving that, especially because of the move from Solvency I to Solvency II we see the various supervisors being quite cautious and trying to keep as much capital in each locality instead of accepting that the Group should operate as a Group and upstream a maximum level of dividends. Upstreaming dividends is not an easy undertaking and I don't expect us to be able to move from 75% to 80%.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

It's an industry phenomenon. The risk of seeing fragmentation of European markets is a real one. We are fighting against it. We don't think there is any reason for it, but it is happening.

Mr. Gérald HARLIN, Group CFO, AXA

In relation to your question on model refinement. It is linked to the absorption of policyholders. To make it simple, when you have a shock in equity markets, you can suppose that it is absorbed by policyholders. The same is for interest rates. However, when you combine the two, you have a kind of cliff effect because they cannot absorb twice the initial amount, to make it simple. That's exactly it. That's the type of refinement we did.

On French reserves, we increased our reserves by roughly 150 million euros, mostly offset indeed by positive prior year reserves release.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

But the total this year reserve increase was not bodily injury … it was a mix of different things.

Mr. Peter ELIOTT, Berenberg

Peter Elitiott from Berenberg. I wanted to first touch on the economic solvency, but looking at it from your exposure and your appetite for exposure to market risk. I was going to say that I thought it was hurt by about 10 percentage points due to that – it may have been slightly less – the economic solvency development was certainly hurt by that. When I look at the sensitivities, it didn't really change much. When I look at percentage of your earnings to market risk, they seem to have come down a lot recently. I'm just trying to square that circle. If you could update us on your thoughts on that?

Secondly, if I could just come back on Jon's questions, when I listened to your answer on the pay-out ratio, I was thinking that I need to pencil in 40% for the next few years, but then I think that you are doing well on your targets, in particular on cash flows, as you mentioned, your current run rate is well above that, your leverage is within the target range. I was thinking: what needs to happen for us to move above the bottom? Or is that a wrong assumption?

Mr. Henri de CASTRIES, Chairman and CEO, AXA

I think you will need to live with your impatience, as long as we will have to live with the uncertainties surrounding the regulatory framework and the macro environment. Once more, we learned our lesson from the 2008-2011 years. We think the operations of the Group are always tightly managed but we have disproportionately suffered from the fact that the balance sheet was seen as being slightly more aggressive than others. We don't want to see that happening again, even if it is at the risk of seeing you being slightly impatient.

On the solvency ratio and the ability to reconcile sensitivities we've moved from one year to another. Gérald, do you want to reply?

Mr. Gérald HARLIN, Group CFO, AXA

I will try. Your question was on both equities and interest rates.

On page B11. Here we are dealing with the impact on earnings. What you can see with equities is that if they go down by 25% the P&L will be impacted through net income by -0.6 billion, of which -0.4 billion due to the impairment rules. At the same time, on the balance sheet, the net unrealised capital gains and losses would be down 1.1 billion euros. It's the reverse when going up. As for interest rates, it's much easier because net income is only hit by some mutual funds that are mark to market, there only a few. That explains why +/- 100 basis points is only -1 billion to +0.2 billion. On the reverse, on the balance sheet, you have a sharp increase of 7.4 billion if you have a drop of 100 basis points, and a sharp drop of 6.9 billion in case of a rise of 100 basis points.

I hoped that helped.

Mr. Denis DUVERNE, Deputy CEO, AXA

I would like to add two points.

First, we have reduced the earning sensitivity from a net income standpoint of interest rate moves by a slight change in the way we account for some hedges in the US. So the earnings sensitivities that you saw in 2013 will be lower in 2014 on interest rate moves.

Secondly, there is a comment in the press release on the economic solvency where we talk about the model refinements and the increased market risk exposure due mainly to high interest rates and equity markets.

I will take those two elements.

Higher exposure to equity markets because equity markets have gone up, and the fact our allocation has moved from 3-4% leads to an increased market risk. The interest order element is positive because options are less in the money, so our solvency coverage should be better. There are second order effects leading to what happens on the lapses. In fact, because of the correlation between financial markets and insurance risk, in reality, we increase our financial risk exposure because we have higher lapse risk because of higher interest rates. That's what happens on the interest rate side.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

Welcome to the magic of models.

Mr. François BOISSIN, Exane BNP Paribas

Good afternoon. François BOISSIN from Exane BNP Paribas.

Two questions. The first, I would like to go back over the optimism side of the dividend policy. So you mentioned you have growth to fund? Could I have a bit more clarity on this? Is this future M&A? If so, I think you mentioned the gap had been bridged in many emerging regions. What regions and which business lines are you targeting now? Or, is it that you intend to write products that are more capital intensive going forwards?

Secondly, I would like to come back to the remittance ratio, which is hard to raise. I appreciate this is difficult because of regulators. However, you are in many countries so I wanted to know if you could provide any clarity on where it is difficult to upstream capital? And where is it easier?

Mr. Henri de CASTRIES, Chairman and CEO, AXA

Denis or Gérald will take the second point.

As for the first point, we intend to stay pragmatic, as we have always been over the past 40 years. We want to be sure that if there is an opportunity we can seize it. Secondly, we do not intend to undertake any major acquisitions – this is not in the picture. Third, we have some existing businesses, which are going to require additional funding because their growth is going to be extremely strong. Take the Chinese example. On the Life side with ICBC and on the P&C side with Tian Ping, growth expectations in terms of premiums are such that additional funding will be needed even if the business is extremely profitable. It cannot be self-funding given what the growth rate is. So if you add to that last but not least the fact that we want to start a Greenfield in Brazil on commercial risks and a couple of other things, you understand why we want to have some cushion.

Mr. Denis DUVERNE, Deputy CEO, AXA

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

Mr. Oliver STEEL, Deutsche Bank

Oliver Steel at Deutsche Bank.

Two questions. The first is on Japan: bond yields remain very low. Could you remind us of your liabilities there and how you're feeling about that? The second question is about Ambition AXA. You started off with a 10% per annum growth earnings target, which you then understandably cut to 5-10% based on the macro sensitivities that you gave us. However, since then, equity markets have lifted back into your trend line. Bond yields have lifted although I must admit they are still below the trend line. If we were to try to pinpoint what we should really be looking at in terms of the macro-adjusted earnings growth rate from here? My gut sense is it's higher than 6% per annum.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

Maybe you're right. But we are not going to update that half way through a quarter. We don't think it would be the right thing to do. As you said, interest rates rose last year, not by much – yes, in the US, but not by much in many other places… by the way, some peripherals have come down significantly in Europe. Even if it was good for us given the fact we had bonds in both these countries, given that we had both bonds and discount rates, it's a point. Second, it's not because equity markets have risen for a year that we should fundamentally change our assumption. If you look at the start of the year, I don't think there is much reason for hype. 5-10 seems to us to be the reasonable guidance we can give.

On the other points.

Mr. Denis DUVERNE, Deputy CEO, AXA

As for Japan. We still have a legacy portfolio with high guarantees. We have been able to manage that portfolio in such a way that our investment margin was roughly 'zero'. 2013 has been exceptionally good thanks to the equity markets in Japan, some private equity gains realisation. I would say the guidance should remain the same. We expect to have 'zero' investment margin offsetting the cost of those guarantees with relatively aggressive investment strategy with which we are reasonably comfortable because we have a competent investment team there.

Mr. Blair STEWART, Bank of America Merrill Lynch

Blair Stewart, Bank of America Merrill Lynch.

I'd just like to go back to the comment you made about bridging the footprint gap in emerging markets. I know you too well to know that's not true. You still harbour ambitions to get bigger there. It's still only 12-13% of your earnings. Is that really the case? Have you really bridged the gap that you identified? Are you where you want to be in emerging markets? Or perhaps, are the growth businesses you have there going to absorb your ability to finance them organically?

Then, back to the mundane. In terms of the leverage you talked about with IT costs and the distribution side, could you quantify what you can do with IT costs and on the distribution side to make it more efficient and what impact that might have on the bottom line.

Thank you.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

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

More seriously, Blair, I think we have covered most of what we were willing to cover. Having said that, we remain pragmatic as far as opportunities are concerned. What were the big holes? China – it was a big hole for everybody in the industry given the ability of the Chinese regulators to contain the non-Chinese presence in their market. I think with the two deals we have done, we are now in pretty good shape. I don't expect us to do much else other than grow the operations we now control, and grow fast.

If you look at the rest of our operations in Asia, we may have bolt-on acquisitions here and there, but it's never going to be a major thing. In Latin America, where we had Mexico, which is performing well, we now have the Columbian operation, which looks promising and we are not going to grow it by acquisitions for a while. The real hole was Brazil, because we have no intention to go to Argentina. If we had, you should alert us. In Brazil, we are starting on commercial lines. It is going to be a way for us to test the market. At this stage I think we are fine. I think the distribution agreements we have in many places – in Asia as well as elsewhere – are allowing us to grow our businesses organically at a very significant pace. We are relaxed about that.

Mr. Denis DUVERNE, Deputy CEO, AXA

On efficiency, I don't think I'm going to make any bold statements. We have the target of 1.7 billion euros and we said we are confident to achieve it. That contains the totality of our expenses program until 2015. We know that we will still have expense challenges, but we will keep you updated in due course. This is our target and we have told you the breakdown of distribution and internal costs. I'm not going to change the guidance on this at this stage.

IT costs overall are stable. We will reduce the BAU costs, we increase investments – in total we spend roughly 2.5-2.6 billion euros in IT. It will continue at the same pace.

Mr. Andrew CREAN, Autonomous

Andrew Crean with Autonomous. Three questions.

Your Protection & Health underlying results, if we adjust for mortality, was still flat. It's somewhat surprising given the fact you've been focusing on that.

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

Thirdly, could you talk a little bit more about release of capital from old-world businesses? You sold MONY last year. Are there other disposals that can be done? Even without disposals, are there any actions you can take to release capital from some of these old world businesses?

Mr. Henri de CASTRIES, Chairman and CEO, AXA

I'll take the last part of the question.

It's something that has been going on now for some years. We had a plan to release 3 billion euros from existing operations. We have now released 2 billion euros so we think there is more to come. It's going to be a combination of disposals, buyouts… there are many possibilities in many places. We are looking at it on a more and more granular basis.

On the other hand, if we want to sell some of these portfolios… we are not in a situation where we need capital. What we want to do is have a pragmatic use of the capital we deploy. We are not ready to sell at any price. We have to find buyers on a pragmatic basis.

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

Mr. Gérald HARLIN, Group CFO, AXA

In response to your question about the Protection business, you will see in the appendix, if you take gross revenues that grew by 4%, and we can expect to take into account the APE growth in this business, then normally, revenues should grow in the future. At the same time, we present our business just like P&C with the combined ratio. This year we were at 95.5%. We have some one-offs so we can be expect to be more within the range 94.5-95%.

Mr. Denis DUVERNE, Deputy CEO, AXA

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

As regards restructuring costs, you are right in part. Because we're mixing two different elements in restructuring costs. This is for simplicity. We are mixing restructuring costs that arise out of acquisitions or disposals.

Let's take MONY as an example. We sell MONY, and therefore we shrink the balance sheet of the company, as a result of that shrinkage - which I think really is a net income event – we do have restructuring costs to reduce the cost base of the US. Take that example.

For any M&A type activity, I think restructuring costs are well located in net income. As for the rest of the restructuring costs for operations that don't change in scope, we could have perhaps put that in underlying. We have, for obvious reasons, put this in the net income line.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

Just another point on Protection & Health. This is clearly an area where we could do more in terms of growth. It's an area where we want to beef up the teams we have, so reinforcing the talent pool is one of the elements we have in mind looking at the coming years. We think there is a huge potential in Asia, in particular, and for that we will need to have more people on board.

Ms. Claudia Gaspari, Barclays

Good afternoon. Claudia Gaspari from Barclays.

I just had a question on the new financial leverage target. I was wondering if you would consider active deleveraging overall or whether it's just a function of earnings retention and book value growth? And on the leverage front, whether you're happy with the mix as it currently stands? Or would you change that?

On balance sheet strength, I appreciate your comments there, but it gets to a point where balance sheet strength becomes inefficient, so I was wondering: are you happily with your balance sheet as it is? How much more do you feel you need to do? And what, if you could give us some examples?

Mr. Denis DUVERNE, Deputy CEO, AXA

First, on the composition of our debt. You have on page B64. You can see, we are gradually reducing the amount of senior debt, which is now only 2.4 billion euros. The bulk of our debt is undated or dated subordinated debt for which we have credit from a solvency standpoint. I guess that we will keep some debt because we want to maximise the credit we get from a solvency standpoint. We want to make our balance sheet as efficient as possible from a ROE standpoint and maximise the amount of sub-debt that is admissible from a regulatory standpoint. We will keep some leverage because that's efficient from an ROE standpoint.

Up until what point will we strengthen the balance sheet? I will remind you that we are a financial institution and these days there seems to be very few limits where regulators are happy with solvencies. We will remain reasonable but we must take into account the fact we are a global insurer that is considered systemic and therefore will likely have to retain more capital than a company that is local. Even if I believe a company that is mono-line and local is much more risky, that is not the feeling among regulators. We therefore have to take that into account.

Mr. William ELDERKIN, Goldman Sachs

Just one question on slide A31 where you show the different contributions of why the combined ratio improved year-on-year: price increases, expenses, and so on. Can you give a sense of the proportionate contribution of each of those elements to that combined ratio improvement?

Mr. Gérald HARLIN, Group CFO, AXA

I believe you get the answer on page B34 by line. Starting with personal motor and personal non-motor. You can see here the price effect is -1.5 for personal motor; -2.6 for total commercial lines; and, -2.1 for personal non-motor. I believe you get the answer to your question on this page.

Mr. Nick HOLMES, Société Générale

Nick Holmes for SocGén. One question: 2015 is approaching, it's an obvious question, isn't it? What are you thinking in terms of replacing Ambition 2015? And what are the real benefits that you've gained from Ambition 2015? Are there any bad things about it?

Mr. Henri de CASTRIES, Chairman and CEO, AXA

Something will come after Ambition 2015. We are already thinking about it but it's not the right time to communicate about it. We can assure you that we will continue to deliver up to the very last day on Ambition AXA.

I don't think there were bad things about it. I do think there were good things about it. I think what we have extracted from that is a much more aggressive capital management in terms of internal redeployment. I'm happy that, without raising any capital from our shareholders, we've been able to move the portion of the business coming from emerging markets – 5% at the beginning of the financial crisis to something that is going to be around 20% by 2015. So really, a significant shift, especially when you consider the size of the company.

Secondly, I think it has enabled us to focus better on the Life side of the business segments that were generating both growth and margins. De-emphasising General Account, because interest rates are low, and because it's not attractive neither for our policyholders, nor for our shareholders. Putting more emphasis on Protection & Health and Unit-Linked.

Lastly, it has helped us better understand – and this is probably going to be a major part of the next strategic plan – what could be the impact of new technologies on the business. I'm in the camp of those who think that the combination of big data and digital is probably going to affect insurance more than many other sector, because data understanding, data manipulation, and data pricing are at the core of what we do. If we have the ability to understand slightly better or slightly faster than others the way we can use it, it is going to be a very significant competitive advantage on the manufacturing side of the business. On the other side, on the distribution side, customers' expectations are changing fairly fast. We have been confirmed in our beliefs that becoming truly multi-access was the right way to create an environment enabling the business to grow.

This is just one of the positive outcomes of Ambition AXA, and there will be more to be done in the years after 2015.

This is a short answer to a very interesting and intriguing question.

Mr. Blair STEWART, Bank of America Merrill Lynch

Not many non-Chinese have made money in China. Why do you think you will be different? And how should we measure your success in terms of the return on the capital you're going to invest over the next few years?

And if you have time, you talked about the fragmentation risk for regulators and the risk for capital add-ons. I guess the biggest risk for you is around US equivalence. How do you see that developing?

Mr. Henri de CASTRIES, Chairman and CEO, AXA

In response to your first question, do you know the joke about the joint venture as seen by a Chinese? It's a great deal because at the very beginning, what the foreigner is looking for is an experience in the Chinese market, and what the Chinese is looking for is to make money. And a few years later things are perfectly fine because the Chinese man has the money and the foreigner has the experience.

I don't think it will be like that for us. I think the quality of the partners is extremely important. Also, the ability of the partner to move within the Chinese environment is also extremely important. As far as we are concerned, it has taken us time because we started in China more than 15 years ago. With ICBC on the Life side, I think we have the best possible partner. They are the largest bank in China, they are professionals, they understand the way you manage a distribution system and they have a very large chunk of the Chinese retail banking market. Their aspirations are very high ones as far as our joint venture is concerned. They wanted to be profitable as soon as possible, and we have good reason to think the venture is going to breakeven around the end of this year. This would be fairly fast considering the time a business normally needs to become profitable when coming from nothing.

If I look at the other venture, the one we are starting with Tian Ping. We think they are good quality partners: because of the quality of their teams and their ability to cooperate with our direct teams; and, because of their ability to understand the Chinese regulatory environment. It took us twice as long to have the ICBC approved by the Chinese authorities as it took to have the Tian Ping deal approved. This is not just a learning curve of the AXA teams, it is also the manoeuvrability of the Chinese teams within their own system. We are pretty confident that we are in the right hands.

That being said, it is still China, so the uncertainty and the risk remain. I'm not going to deny that. But I think it is the price to pay for the potential rewards.

Mr. Denis DUVERNE, Deputy CEO, AXA

Henri mentioned breaking even on the Life side this year. We expect to break even on the P&C side in 2016, which means that this company was profitable before the JV, but we have jointly planned to accelerate our growth. This means we accept to make some losses because we will substantially invest on the marketing side to have a sizeable direct operation. These investments in China are long-term investments. We believe that this is the right thing to do for the future.

Mr. Henri de CASTRIES, Chairman and CEO, AXA

The reward is potentially huge because China is the largest automobile market in the world; its primary equipment and the ability to gain sophisticated Chinese clients through the web is real. Also, they are not buying cheap cars; they are buying very expensive cars. Therefore, in terms of average premium over time this should be quite interesting. Of course, other people are going to try and do things – look at what Alibaba is trying to do with Tian Ping – we will face competition. But I think it's an opportunity we would be absolute fools to miss.

On your second point, regulatory fragmentation. If I look at our worries, there are two things that worry me and I don't think the regulators have a holistic view of what is going on in the financial market. Financing of the economy in Europe and understanding the benefits of diversification. It is very clear, and Denis alluded to it, that one of the basic rules of insurance is that diversifying the risks is reducing the risk profile – not putting all your eggs in the same basket. That is the reason for which large groups diversifying their risks on geographical basis and by business line have been successful. Not just AXA, but also Zurich, Allianz, and others.

If you start to fragment the market by building barriers within what is supposed to be a single market, you just make the model less efficient. I'm not sure this is the right thing to do in the long run for the stability of the system. If you look at the AXA experience, it is precisely because there was a real fungibility of capital that we were able to make deals that were good for us, our shareholders, and the market. We would not have bought Equitable, we would not have bought Guardian, we would not have bought Nippon Dantai, we would not have bought National Mutual – these were companies in a difficult situation – if the financial market had been fragmented with regulator trying to keep the capital local. The instability of the system therefore would have been greater because the number of bankruptcies would have been higher. I think they underestimate the benefit of diversification, and this is wrong.

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

These are two elements that are creating uncertainty and frustration on your part and on our part. We need to have further discussions with them to try to come to a common understanding of what would be a reasonable framework.

I hope it will come. If it doesn't – in particular in Europe – if we see a very fragmented market with regulators trying to build buffers everywhere, it is going to be a bad story because there will be lower earnings growth, lower revenues growth, lower policy holder protection. Remember the story I told you about five or six years ago about the squirrels in the forest. If they mutualise the nuts, they survive the winter. If they are selfish and keep their nuts for themselves, two of them are going to die, and one of them is going to survive. Not an optimal system.

We are for the mutualisation of the nuts.

On this note, if we don't have any additional questions I think we will stop.

Thank you very much.