IFRS 17 PRESENTATION TO EFRAG BOARD

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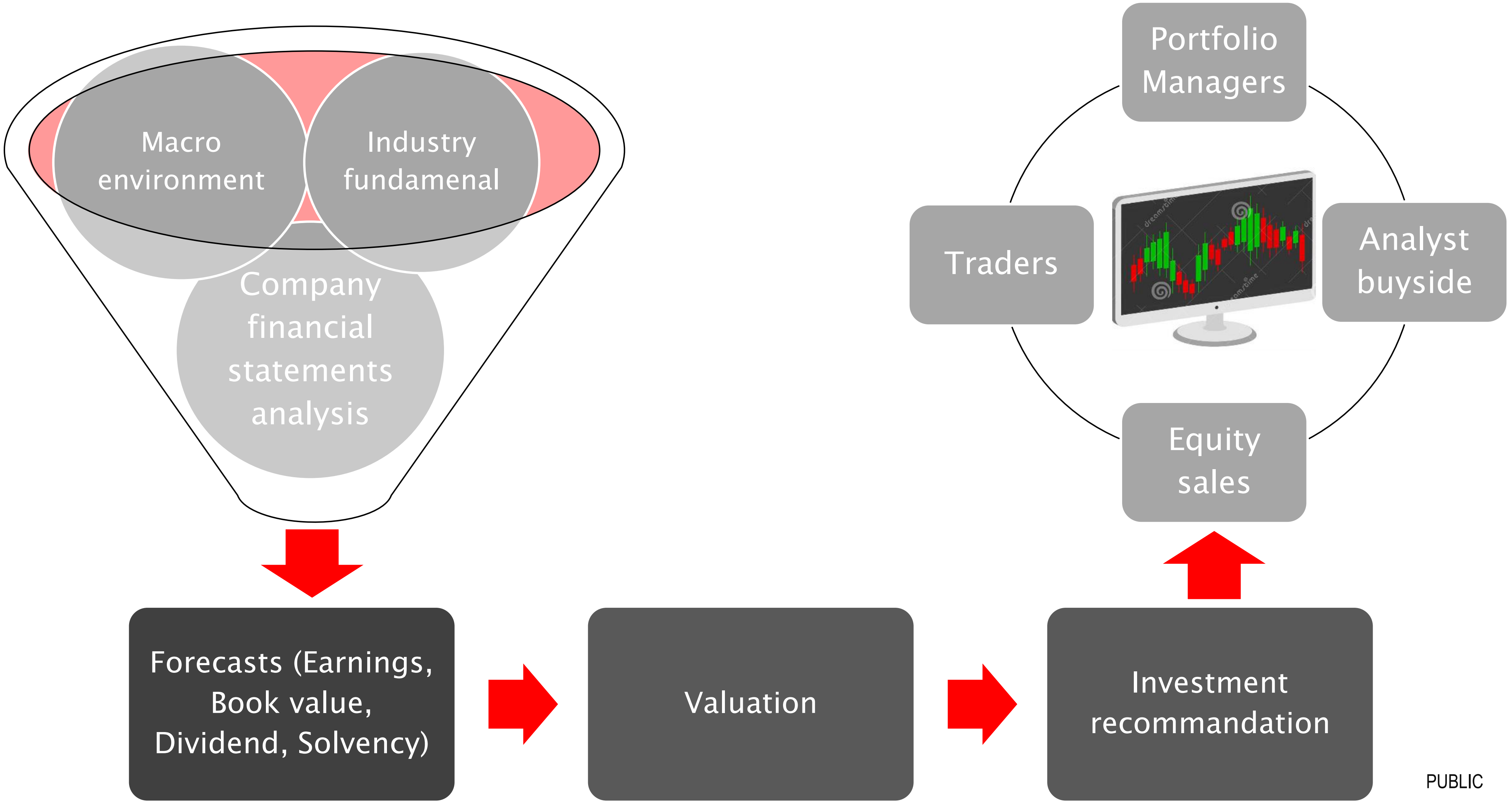
THE ROLE OF THE EQUITY ANALYST



THE ROLE OF THE EQUITY ANALYST

Price discovery is key on Equity and Corporate Bond Markets.

Sell side was used mainly to understand the company business model and to have access to the corporate contact and information. As a public information it is a public good i.e. more coverage → more efficient capital market.

The 'service for free' model had a lot of weaknesses and cash equity was structurally a breakeven industry

Post Financial Crisis and MIF2 the allocation of Equity Analyst is moving toward the 'buyer side', it is a reversion from a process of 'sell side' development shown between 1960's and 2000's. The number of sell-side equity analyst was sharply reduced in Europe since 2000, example of Paris, from over 600 to less than 250.

Which model for Sell Side insurance service : top 10, global specialist, boutique, machine crunching ? Predominance of non European providers ?

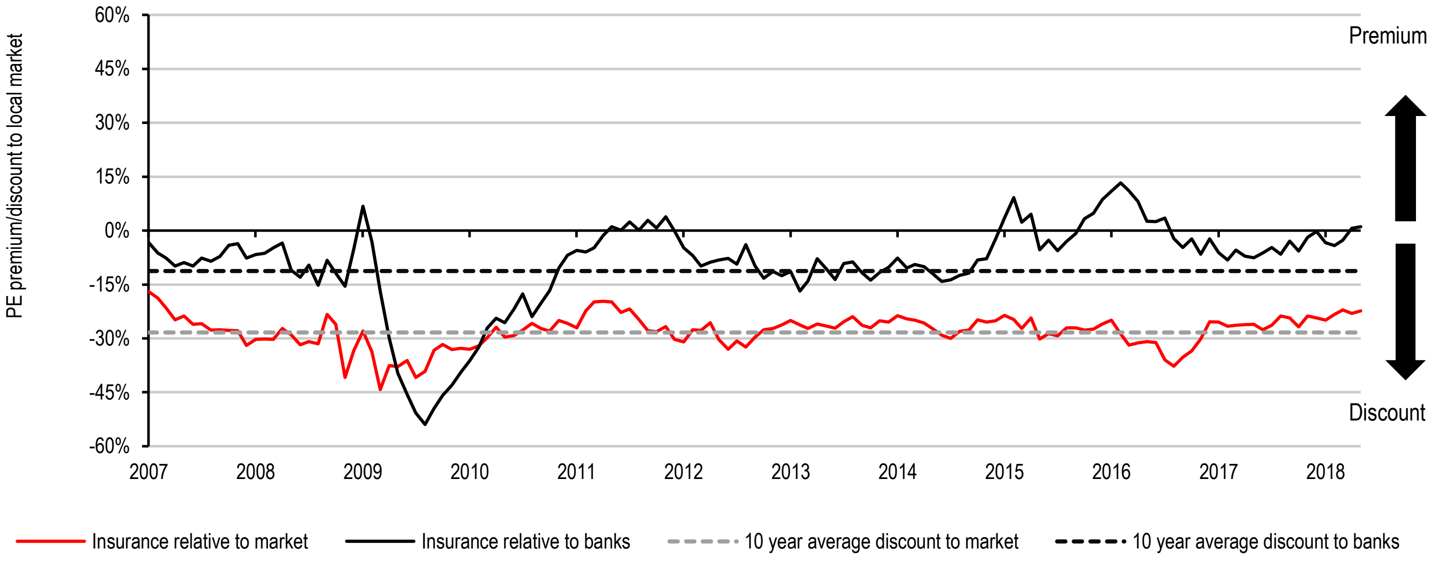
INS SECTOR INVESTORS' PERCEPTION (I)

Ins sector has traded between 17-44% prospective PE discount to the market over the past 10 years

The Ins sector has never traded at a premium to the market

Current insurers' PE at a discount of 23% to the market and a premium of 1% to the banks sector, vs 10- year average discounts of 28% and 11%.

European insurers 12-month forward consensus PE ratios vs. the European market and banks



INS SECTOR INVESTORS' PERCEPTION (II)

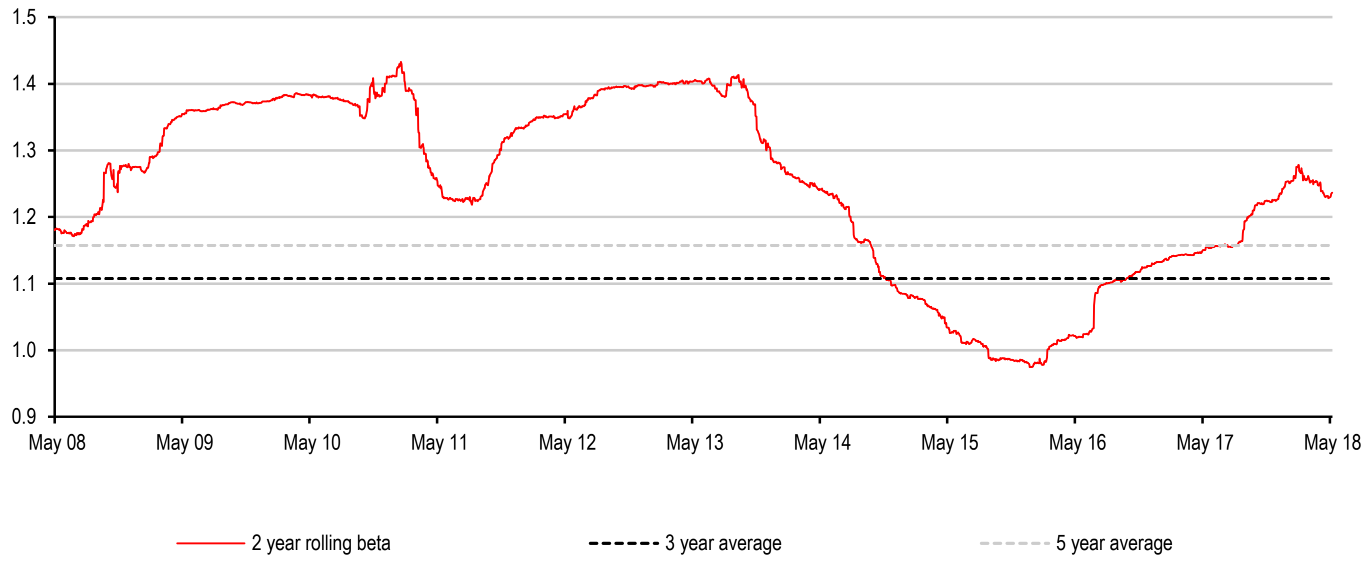
Sector beta decline from 1.4 in 2013 to a 10-year low of 1.0 in 2016

However it has since recovered over 2016-2017 to 1.15 at the start of 2017 and has further increased to 1.25 in 201, above its 3 and 5 years averages

ST increase in beta has been due to increase financial volatility (eg. UK's "Leave vote") and macro-political concerns

LT reduction in beta is largely down to the improvement in the Solvency positions of insurers as well as steps taken to improve their ALM, reduce the asset and financial leverage, and reduce BS volatility

2 year rolling beta of the Stoxx 600 Insurance relative to the Stoxx Europe 600 index



INS SECTOR'S MAIN ATTRACTION

Coverage universe 2018e FCF yield a c. 6% is the highest across European sectors

Insurance offers second highest dividend yield in European market

Particularly attractive given the low interest rate environment and preference of investors for high yield sectors / companies with some visibility of cash generation

Communication on cash generation and dividend paying capacity has been a key factor to re-start the discussing process with the generalists portfolio managers

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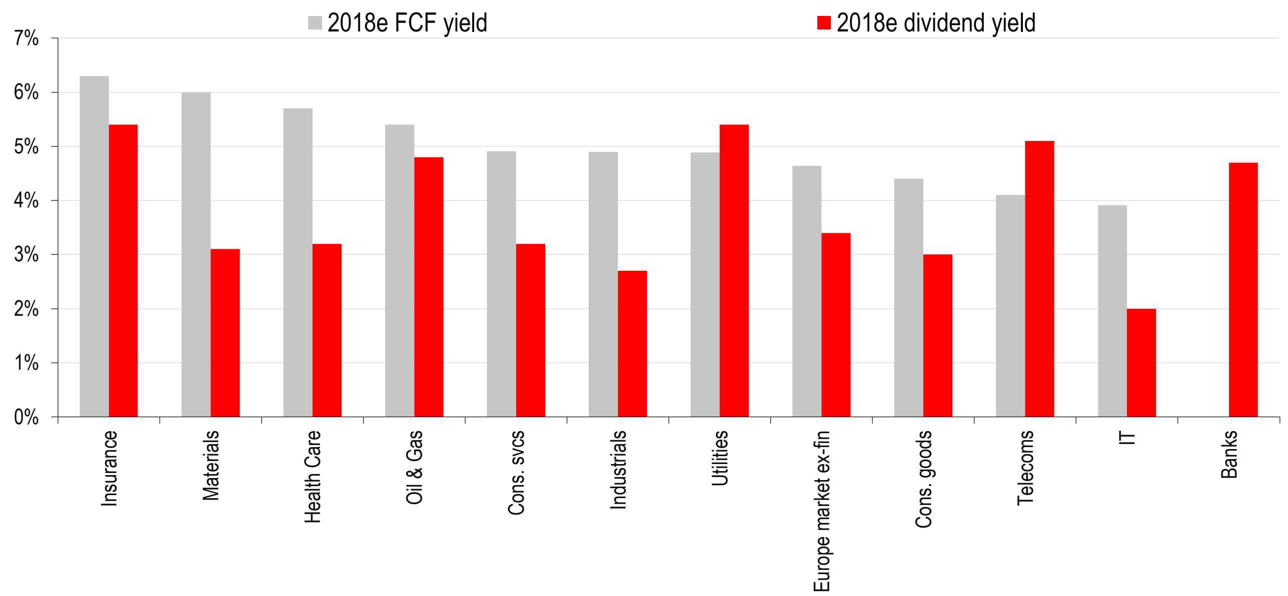
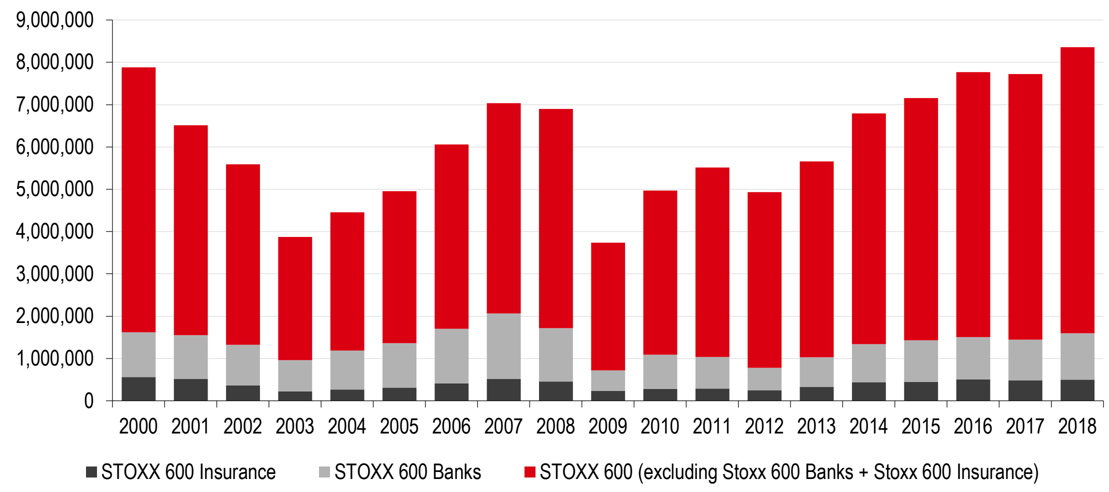
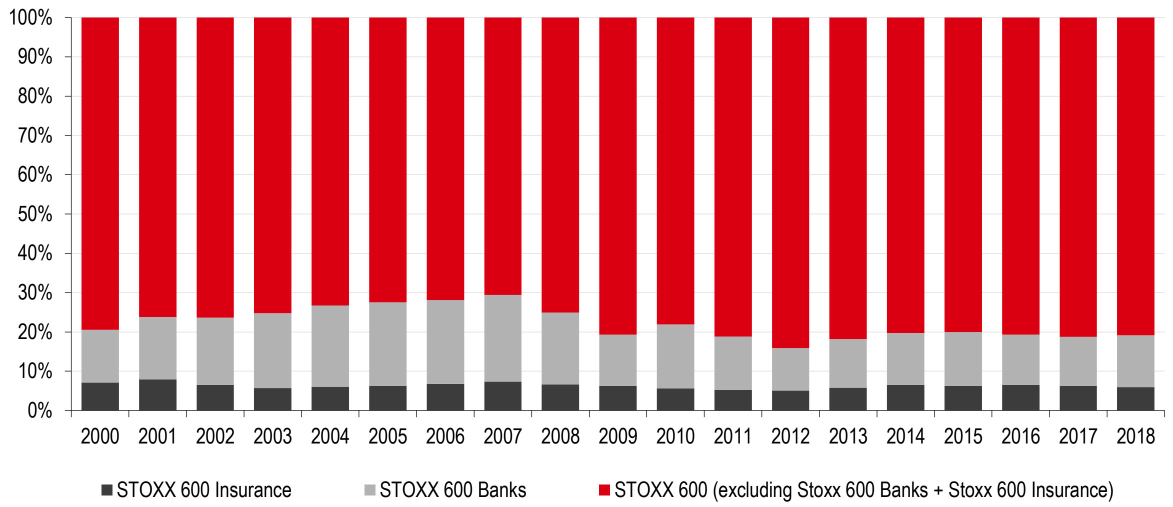


HOW IMPORTANT IS THE INS SECTOR FOR INVESTORS?

Absolute market capitalisation size since 2000 (EURbn)



Relative market capitalisation size since 2000



Current market capitalization = EUR498bn

Lowest (2000-2018) = EUR249bn in 2012

Highest (2000-2018) = EUR560bn in 2000

Current market capitalization = 6.2%

Lowest (2000-2018) = 5.0% in 2012

Highest (2000-2018) = 7.1% in 2000

STANDARD VALUATION MATRIX TO BE IMPACTED BY IFRS17

Key valuation KPIs likely to be <u>significantly</u> impacted by the implementation of IFRS 17

Primarily PE and P/Book value matrix

Impacts could be material for life insurance companies

Cash #1 matrix for investors since the fin crisis. Likely to remain the top priority for investors

No impact on the dividends capacity but adjustment will be required for those using pay-out guidance

New valuation matrix to be looked after : P/UT1 (SII)? IFRS17 shareholders' equity with or without CSM for Life businesses? Others?

Key valuation KPI	**Impacted by IFRS 17**	**Comments**
Price Earnings (PE)	**Yes**	Impact on the level of the IFRS earnings and on the profit emergence - Impact on the future EPS expected growth?
P / Book Value (P/TNAV)	**Yes**	Change in the Group shareholders' equity (book value) - Impact on the expected profitabilty vs. COE?
P/FCF (cash flows)	**No**	Accouting rules do not impact cash flows, economics unchanged
Dividend yield (regular / total)	**No**	No impact on the Group's dividend paying ability, until IFRS 17 applied to local gaaps

MANAGEMENT INCENTIVES : KPI EVOLUTION

Management KPI	Revenues	Expenses	Combined Ratio	operating Result	LOB profits	Net Profit	RoE
Axa	gross	economic	current				
Allianz				yes		yes	yes
Generali		general	yes				yes
Munich Re				value added			rorac
Prudential plc					yes	group / IFRS	
Zurich				yes	yes		on allocated E
Lloyd's of London			yes	yes		pre tax	
CNP Assurances			cost/income	EBIT			
Talanx	Premium		net				yes
CA Assurances	yes			gross		yes	
Aviva			yes			pre tax	yes
usage (%)	**27%**	**18%**	**55%**	**55%**	**18%**	**45%**	**55%**

Source : Deloitte, the influence of IFRS 17 on rewards KPI

IMPACT ON THE INSURANCE COE (I)

Clear long term benefits from the implementation of IFRS17 to reduce the sector's opacity

But, possible significant short term risks

Need for an enhanced disclosure before the D–Day implementation

And

Early communication to provide sensitivities and reconciliations with IFRS4 will be key to manage smooth transition period

FINANCIAL COMMUNICATION : A KEY FACTOR for A SUCCESSUL IFRS 17 IMPLEMENTATION

Long term benefits (+)	vs	Short term risks (-)
Consistency with others industry although the terminology and acronyms are likely to create hurdles for the generalist PM		Lack of historical reference
Comparabilty - accross markets and intra-sector		Comparabilty reduced by entity-specific judgements (DR, RA, initial CSM)
Transparency - enhanced product profitability disclosure, cost of garantees, and ALM strategies		Transition options
Enhanced information about insurers' performance		New performance measures
		NEED FOR ENHANCED DISCLOSURE
=		=

IMPACT ON THE INSURANCE COE (II)

! KEY PARAMETERS TO KEEP IN MIND !

- Usually it takes almost 2-3 years for stakeholders to get used to a new reporting format (SII implementation provides a useful guide)

- Every Groups' business plans / guidance currently in place will end by 2020

- Formulation of new guidance under IFRS17 likely to challenging beyond 2021?

- Steep learning curve, as well, for the management teams (change in the steering approach)

- Use of non-gaap disclosure is likely to survive

! POTENTIEL IMPLIED RISKS !

- Lower confidence level in the earnings estimates = negative – limited ability to forecasts the variances between actual and expected variances on the inforce book under the EV approach

- Higher volatility of the reported earnings = negative – IFRS9 & IFRS17 to be implemented at the same time)

- Lack of comparability, initially

- The insurance 'blackbox' discount to be replaced by a 'complexity' discount?

IMPACT ON THE INSURANCE COE (III)

! UNANSWERED QUESTIONS AT THIS STAGE !

- Disclosure vs. Volume vs. Complexity => ability of the various stakeholders to understand the enhanced disclosure required on Day 1 to explain the management decision around the key areas of judgment? Would the required disclosure be enough? Would the specialists have to partner with actuarial consulting firms in order to understand the notes to formulate a view?

- Start of the education process => no communication at this point in time from any of the listed companies on the expected impacts on their own businesses. Busy with the internal process to deliver IFRS17 compliant figures on time and to decide on the more appropriate options. Timing for the education process unlikely to be before the FY2019 results i.e. in Feb / March 2020.

- Capacity to model earnings from the outside => ability of the IFRS17 users (sell side analysts, buy-side analysts, PM) to model the future earnings streams? Performance attribution may improve but what about the predictability of the future earnings streams? Better or worst vs. IFRS4? How to project the roll forward of the CSM as limited ability to roll forward the MCEV and SII, currently

- Harmonisation of new IFRS17 performance indicators => Implementation of IFRS17 likely to lead to the emergence of new KPI for business steering / financial communication purposes. Any harmonisation of this new KPIs under the stewardship of the CFO forum?

- Greater use of SII disclosure in the sort-term => growing focus on the SII operating earnings although disclosure is still weak and patchy at the present time

WHAT BRINGS IFRS 17

Transparency:

– on the revenue analysis: breakdown between service and finance in margin, performance analysis front vs. back book, profitability disclosure by type of contracts

– on the BS: risk margin and service margin (CSM) shown within the BS, market consistent valuation, impacts of the options and guarantees, and ALM strategies

– same accounting principles than non insurance activities

Comparability:

– existing information was old: not updated, strange discounting rate

– existing information was opaque: black box of insurance liability , weak recognition of options and guarantees

– existing information was not always useful and required the use of non gaap disclosure to better communicate on the economics of the business

NON GAAP DATA USAGE

Profitability analysis | L&S underlying earnings margin analysis

	FY17	Change
Investment margin	2,476	-4%
Average G/A reserves	343,112	+2%
Investment margin (bps)	72 bps	-5bps

	FY17	Change
Fees & revenues	6,609	+3%
o/w Unit-Linked management fees	2,811	+10%
Average UL reserves	171,621	+7%
UL average management fees	164 bps	+4bps
o/w loadings and other	3,798	-2%
L&S revenues	49,907	-3%
L&S average margin on revenues	6.8%	0bps

	FY17	Change
Net technical margin	763	-40%
o/w Mortality & morbidity margin and other	1,060	
o/w GMxB VA margin[1]	-298	

Includes unfavorable model and assumption changes in the US and lower deferred acquisition costs amortization linked to unlocking and reactivity impacts of the model changes

	FY17	Change
+ Investment margin + Fees & revenues + Net technical margin		
- Acquisition expenses	3,359	-14%
- Administrative expenses	2,690	+1%
- VBI amortization	44	-72%
Pre-tax underlying earnings	**3,755**	**+6%**
- Taxes[2]	579	-7%
+ UE from associates	175	+1%
- Minority interests	62	-19%
Underlying earnings	**3,288**	**+9%**

1. Includes basis (Euro +5 million), equity and interest rates volatility (Euro +85 million), model and assumption changes (Euro -189 million) and interest rates, credit spreads and other (Euro -198 million)
2. Tax rate decreased to 15% in FY17 vs. 17% at FY16

Changes are at constant Forex

KEY FOCUS OF ATTENTION

Some of the major issues still outstanding on IFRS 17

Level of aggregation – it affects the allocation of the CSM to insurance revenue and the level at which onerous contracts are identified. Accordingly, those requirements affect how the performance of the insurer will be reported in the financial statements. Issues on the aggregation level in non-life (vs. pooling of risks concept) and annual cohort in Life VFA

Transition requirements – Choice between the different models (full retrospective vs modified retrospective vs fair value approach) will last for years and could reduce comparability in between the financial statements of insurers

Regulatory involvement – local regulators have no say on accounting standards per se, but some regulators have been more vocal already about advocating certain approaches (eg. Canada and HK)

Company specific factors – there is discretion for companies to set their discount rates (including illiquidity premiums), risk adjustment, long-term actuarial assumptions (mortality, lapse, expense, etc) and these do not need to be disclosed

Need for a gradual convergence towards SII – no consistency but overlaps which will create needs for explanation

COMPARISON WITH BANKS

- Also an inverted operating cycle : in insurance clients pay in advance for risk coverage (capital protection, risk protection) whereas in bank, clients pays (are charged) in advance for expected loss. In both cases data are important to build knowledge with experience and compute expectations. In both industry unexpected losses are covered by regulatory capital → Introduction of expected losses in 2018 with IFRS 9
- Relative Importance of BS over P&L due to prudential monitoring, Prudential surplus as key for computing the performance, concept on Return on Equity and Return from Equity (profit that could be distributed)
- Importance of own operation against client operation : proprietary trading, investment of Equity
- Performance analysis : difficulties to separate flows and stocks in performance, limitation of yearly results : sharing of benefits by vintage but also by segment, group of clients, community (mutual entity) which influence prices and return. Need to understand ALM contribution.
- Importance of behavioral data : experience and moving trends
- Diversification gives importance to segment data (for forecasts)
- However bank services are mostly purchased where insurance product are mostly sold (except from compulsory coverage). Selling cost (DAC) recognized in Insurance BS only.

BANKS EXPERIENCE : CURRENT ESTIMATES

Reserves : Too little too late

Expected losses :

+ : introduction of updated information, concept closer to prudential view

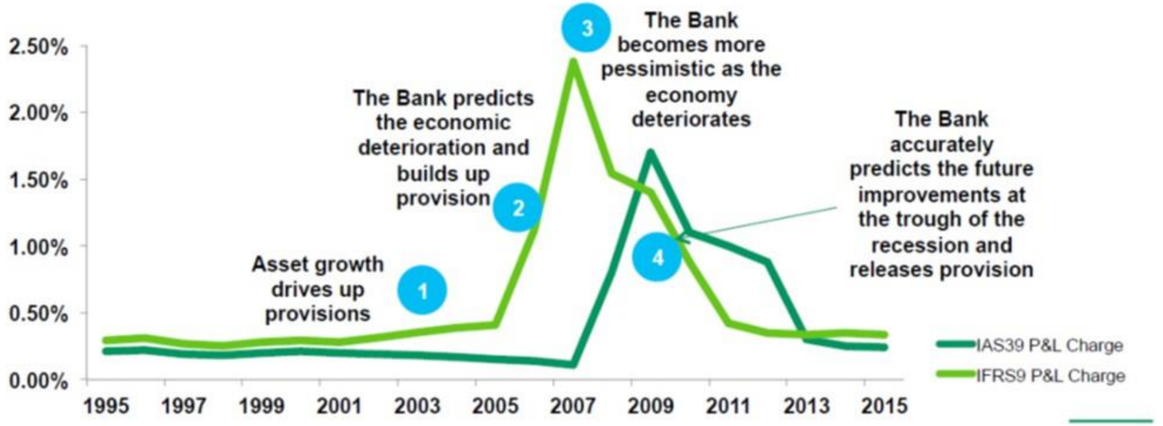
– : subjectivity (importance of judgement), not a bright line between market or management view, complexity and opacity of the data

IFRS : no general provisions,

WILL IFRS9 LEAD TO INCREASED P&L VOLATILITY?

LLOYDS BANKING GROUP

- The introduction of IFRS9 should lead to early recognition of losses, but could result in increased P&L volatility
- Consider a hypothetical example of a UK Mortgage Portfolio which has significant asset growth between 2001 to 2007 and large write-offs in the peak of the last UK recession (2008)



BANKS EXPERIENCE : PRUDENTIAL LINKAGE

Citigroup as a laggard in term of valuation metrics

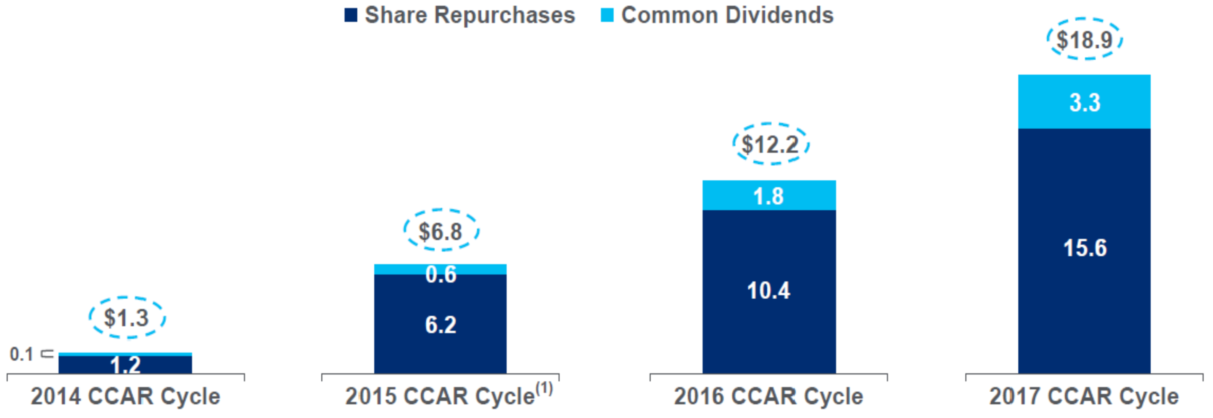
In 2017-2018 : good relative performance linked to the capacity to payback shareholders in cash without damaging the credit and prudential assessment

1 Capital Optimization: Addressing the Denominator

Demonstrated significant increase in capital return

Total Capital Return

($B)



	2014 CCAR Cycle	2015 CCAR Cycle[1]	2016 CCAR Cycle	2017 CCAR Cycle
As a % of Capital Generated	11%	43%	95%	114%[2]
As a % of Net Income to Common	17%	48%	86%	129%[2]

Note:
(1) 2015 CCAR period calendarized to represent the four quarter period from 3Q'15 to 2Q'16.
(2) Illustrative based on consensus net income expectations, assuming $2B of DTA utilization, $1.2B of preferred dividends and neutral OCI impact.

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BANKS EXPERIENCE : SEGMENT ANALYSIS

Group mix of businesses

* local and global

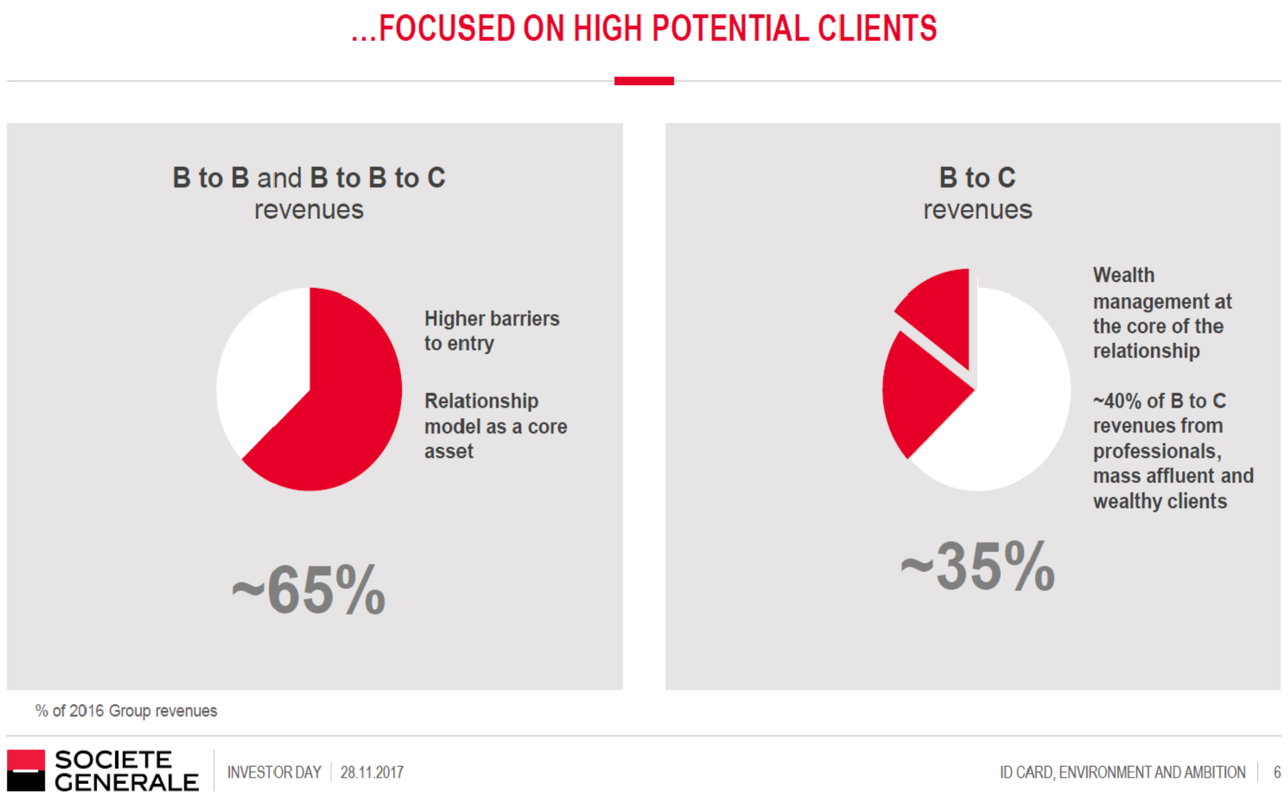
* B2B (Wholesale) and B2C (Retail)

Understanding the breakdown between fixed and variable cost → flexibility to adapt to different environment (legal, macro, regulatory,…)

Limitation of consolidated account for performance forecasting

Business Model is something difficult to use for accounting (Long term investors or not) but some flexibility (option) could be given to management with an explanation of the rationale. Business Model should be different from Management intention (excuse my French).

However problems arise in banking when banks change their business model without a clear assessment of their governing body.



BANKS EXPERIENCE : SENSITIVITY ANALYSIS

Bad experience of trial to improve IFRS 7 information package

Sensitivity data provided for

Interest rate risks

FV levels

Useful up to a certain point: it is important to position the entity in its peer group but it is also important (even more) to understand the 'economic' hedge