Occupational benefits insurance

Operating statement 2018

Semi-autonomous solutions offer the chance of higher interest on retirement assets and, therefore, higher vested benefits. They ease the pressure of having to make further reductions to conversion rates.

AXA is focusing on semi-autonomous Pillar 2 solutions

As Switzerland's biggest insurer of SMEs, AXA is focusing entirely on semi-autonomous solutions. Companies and their employees can thus enjoy better conditions, while at the same time it will be possible to improve generational fairness within the second pillar.

Thomas Gerber
Head of Pensions, Assets and Health, AXA Switzerland

An interview with Thomas Gerber

In your seventh year as Head of Pensions, Assets and Health, you have gone through a major transformation. One year after the departure from full-value insurance: how would you summarize the situation? What was your personal experience of the process?
We are very satisfied. The transformation of the pension business has been successful: 9 out of 10 customers have decided to switch to AXA's new semi-autonomous solution. The fact that most SMEs took this step with us is confirmation that our semi-autonomous pension solution is more attractive, fairer and more flexible for our customers and their employees than full-value insurance, given the changed framework conditions. We view this as a success, and as proof of our customers' trust in AXA and the foundations.

The reform of Swiss retirement provision is proceeding, but only at a sluggish pace. The electorate rejected the Pensions 2020 reform. The low interest rate environment is disastrous for insured persons. What can be done so that the "third contributor" makes a higher contribution again?
The interest rate on retirement assets is the critical factor that determines how much someone can save in Pillar 2, and how high the pension benefit will eventually be. There is a good reason why investment returns are also called the "third contributor". A glance at the insurance models shows clearly that semi-autonomous solutions are the only way to utilize additional earnings opportunities for insured SMEs and their employees. In some cases, this can result in at least a 20% increase in the pensions paid out to insured persons. In contrast to semi-autonomy, investment policy in full-value insurance is restricted by a tight regulatory corset. The interest paid on the retirement assets is the decisive leverage factor for retirement capital. This factor can produce an effect in semi-autonomy, whereas it is blocked in full-value insurance. This is why, at AXA, we have consistently focused on semi-autonomous solutions for our insured persons – including many SMEs with employees in all age categories – since the beginning of the year. We are confident that this will benefit the insured persons, because semi-autonomous solutions are fairer, more attractive and more flexible.

What are your ambitions for the future in the BVG business?
As a result of the transformation, we have created the conditions that will allow us to continue supporting SMEs as a reliable, long-term pension partner, and to stabilize pension levels for the insured persons on a sustainable basis.

> **"Semi-autonomous solutions are fairer, more attractive and more flexible."**

Following the successful completion of the transformation, we are now focusing fully on acquiring new customers. In 2018, we already increased new business in this segment by 80% – and this confirms the ambitious growth targets we have set. As a comprehensive insurer for individuals, we aim to return to the number one position not only in the Group Personal Insurance business, but also in the BVG business.

Constance Reschke
Head of Collective Foundation Operations, AXA Switzerland

An interview with Constance Reschke

From Thomas Gerber, we learned that AXA aims to become the number one in the BVG business again. How will you achieve this goal?
We are strongly positioned in the semi-autonomous market. Although 2018 was a poor year for the stock exchange, the three former full-value insurance foundations were able to enter into semi-autonomy with a strong average coverage ratio of 110.5% on January 1, 2019. Moreover, the foundations do not have to take over any current pension obligations. It is particularly worthwhile to switch to one of AXA's semi-autonomous solutions right now. That is because potential customers will be joining a healthy pension fund with a high coverage ratio. Our financial and structural situation is comfortable, as is our risk capacity. Our offering therefore meets all the requirements that will already allow us to grant attractive interest rates in 2019. The basis for this is an interest model that guarantees maximum transparency for our customers. In this way, we have created the prerequisites for sustainable growth in the BVG market.

You have stated your commitment to security, competence and transparency. How is this reflected in the ongoing development of business?
To ensure greater transparency and predictability vis-a-vis the affiliated pension funds, for example, the trustees of the AXA Foundation for Occupational Benefits, the AXA LPP Foundation Suisse Romande, the AXA Foundation for Supplementary Benefits and the Columna Collective Foundation Group Invest have adopted an interest model that is clear and comprehensible. Generally, interest is dependent on the level of the target fluctuation reserve, and hence on the coverage ratio. The major advantage of this for customers and insured persons is that the base interest rate and any supplementary interest can be estimated beforehand.

How does AXA intend to evolve into an even more valuable partner for its customers?
We are committed to providing our customers with comprehensive information. To take one example: the new online presence for our foundations, which provides useful information about the foundations as well as monthly performance and coverage ratio trends. This creates a high level of transparency for the affiliated occupational benefits funds and prospective new customers. Alongside transparency, we also place emphasis on services that deliver genuine added

> **“Our offering meets all the requirements that will already allow us to grant attractive interest rates in 2019.”**

value for our customers and their employees. The pensions portal is a good example of this. It offers a simple, clear overview of the current pension situation, with options for various simulations to plan the customer’s personal situation – either for retirement, or for an advance withdrawal to acquire residential property. As our next step, we are planning the integration of Pillars 1 and 3 to allow an all-round pension view; we also have plans for various pilots with cooperation partners for more extensive services.
We continue to be convinced that employees are a company’s most important resource in the endeavor to achieve sustainable success. For this reason, we aim to empower the employees of our BVG customers and to offer them the best possible service.

Patricia Mattle
Head of Autonomous Market,
AXA Switzerland

An interview with Patricia Mattle

2018 was an intensive year for AXA, not only in the collective foundations business but also in the reinsurance business for pension funds. What was your experience during the year?
Indeed: in the reinsurance business for pension funds, 2018 was also an intensive year. That’s because in our business area too, we transferred many customers from a full-value insurance solution to a semi-autonomous solution. We developed new solution concepts, tailored to the individual needs of each pension fund, for all our customers. For most of our customers, we achieved this by developing an all-round solution that takes account not only of reinsurance for the biometric risks, but also of business management and asset management aspects. On request, our advisors are available to assist our customers with such complex evaluations. We focused intensively on this demanding transformation process last year. I am pleased that the transformations have progressed with great success thus far, and that we have been able to develop a new solution with the customers within AXA; this will enable us to successfully continue partnerships that have been in place for many years.

In addition to these efforts, did you also have time to continue actively pursuing your growth strategy?
I am proud to say that we were also able to continue the successful pursuit of our growth strategy last year. We achieved this in spite of the resource-intensive transformation process, in a market environment where competition was once again fierce. As well as competitive prices, our solution with risk coverage of the regulations again played a key part in this success during the year. This risk coverage product allows us to develop solution concepts that are fully coordinated with our customers’ needs. At the same time, a pension fund with risk coverage from AXA benefits from high-quality benefit case processing with integrated Care Management.

Which issues will you be focusing on in 2019?
The transformation process that was launched in 2018 will continue to be a focus of our work again in the current year. Above and beyond this, we aim to continue increasing the quality of our Care Management services. As we see it, we could make further improvements to the interaction between the parties involved. We aim to utilize this factor consistently so that our customers – and, in turn, their insured persons – can benefit more directly from the advantages of efficient Care Management. In this way, we intend to make further progress towards our key concept: “From Payer to Partner”.

Daniel Gussmann
Chief Investment Officer,
AXA Switzerland

An interview with Daniel Gussmann

The transformed foundations were launched on January 1, 2019 with an average coverage ratio of 110.5%. Why does the initial coverage ratio differ for each foundation?
All the foundations received the same investments, including the related capital gains, at the end of the year. In addition, the foundations received an interest reserve resulting from the reversal of provisions for future retirements. From the total of resources transferred, individual provisions for future retirement losses were then formed in the semi-autonomous model for each foundation. There were differences in the levels of these provisions due to differences in age structure. But despite these differences of detail, all the foundations offer high security and attractive earnings opportunities.

Were the foundations already able to benefit from the positive performance of the financial markets in the first quarter of 2019?
Performance is very positive. We were able to increase the coverage ratio even further, from what was already a very high level. We substantially increased our equity exposure as compared to the prior year, so return in the first three months has already exceeded the expected annual return. This has been a successful start. As CIO, my investment team and I endeavor to ensure that the insured persons’ pension assets will continue to be invested successfully and optimally with AXA in the future.

What role does sustainability play in the investment business for AXA?
Sustainability is the core of our business model. This is reflected in many different ways. First of all, we select the world’s best specialists for each asset class, so that our customers benefit optimally in terms of return and risk. Furthermore, we set high standards for ESG (Environmental, Social and Governance). By 2030, for example, we aim to have 75% of our real estate certified with a recognized sustainability label. Again, this is fully in keeping with sustainable returns for our customers, and it is also a contribution to society. In addition, we are promoting renewable energies and abandoning fossil-fuel heating to achieve significant reductions in CO_2 emissions from our real estate.

> **“In retirement provision, the interest rate on pension assets has the biggest leveraging effect on pension benefits at a later time.”**

In his interview, Thomas Gerber said that higher returns from the financial markets – as the “third contributor” – will increase the prospective pensions for our insured persons. How does AXA Asset Management ensure the success of the “third contributor”?
In retirement provision, the interest rate on pension assets has the biggest leveraging effect on pension benefits at a later time. This is why AXA makes every effort to obtain the most attractive possible returns on pension assets. AXA is one of the world’s largest providers of asset and portfolio management. We enable our customers to gain exclusive access to the investment purchasing community as well as unique market access to illiquid assets, as a preferred partner benefiting from top conditions. We aim to offer more earnings opportunities while continuing to maintain a high level of security.
The insured persons can rely on this: their pension assets are always in good hands.

Transformation of full-value insurances into semi-autonomy

As announced in April 2018, AXA Life Ltd. (AXA) decided, together with the trustees, to convert the Swiss full-value insurance foundations into semi-autonomous foundations as of January 1, 2019. As part of this transformation, the risk of old age as well as the investment risk and/or the savings process were transferred to the semi-autonomous collective foundations. Existing recipients of retirement and survivors' pensions from AXA up to the changeover date continue to be insured with AXA. This transformation was implemented successfully, and the foundations are already operating as semi-autonomous collective foundations.

AXA Foundation for Occupational Benefits, Winterthur:	110.2% [2]
AXA LPP Foundation Suisse Romande, Winterthur:	110.9% [2]
AXA Foundation for Supplementary Benefits, Winterthur:	112.0% [2]

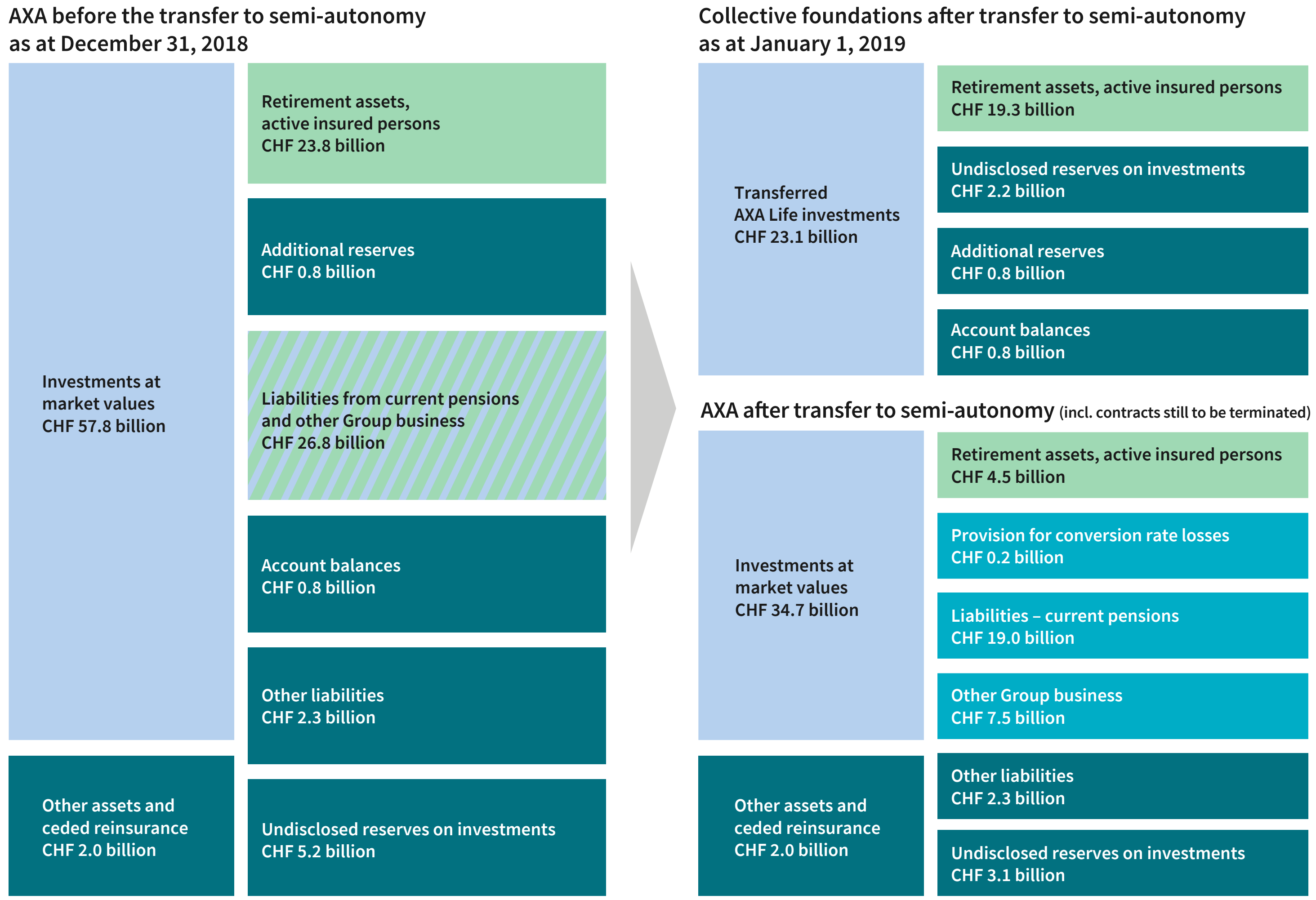
In connection with this transformation, investments with a value of CHF 23 billion were transferred to the foundations. In addition to the retirement assets, AXA transferred additional funds (undisclosed reserves on investments and additional reserves) amounting to + 15.2% [1] of the retirement assets. Transfers to the foundations' account balances included the employer contribution reserve, the unallocated assets and other current accounts. The purpose of transferring the additional funds was to enable the foundations to start out in semi-autonomy from a solid position, so that they can grow in the semi-autonomous market in the future. The resultant average coverage ratio across all foundations was 110.5% [2].

The transformation took place in collaboration with the BVG and Foundation Supervision of the Canton of Zurich. FINMA (the Financial Market Supervisory Authority) verified compliance with requirements under insurance supervision legislation, with the focus on equal treatment of all policyholders. The undisclosed reserves that were allocated in connection with the balance-sheet separation were distributed in equal proportions between the portfolio of pensioners, the rest of the Group business that is remaining with AXA, and the portfolios transferred to the foundations.

The transfer took place on January 1, 2019, so it has no impact on the Occupational Benefits Insurance Operating Statement for 2018. Nevertheless, it is intended to show the effects transparently here, on the basis of the balance sheet. For this purpose, AXA's Occupational Benefits Insurance Balance Sheet as at December 31, 2018 is compared to the situation as at January 1, 2019 after the transformation had taken place.

[1] Average across all foundations

[2] Transfer coverage ratio applicable for the comparison with competitors



Balance sheet: key figures

Explanations regarding the liabilities side of the balance sheet
The most important element of the transformation was the transfer of retirement assets to the foundations, as can be seen here from the significant reduction in retirement assets from CHF 28.3 billion to CHF 4.5 billion. The remaining retirement assets originate from insurance contracts with other occupational benefits institutions (e. g. company-owned foundations and associations). Since the existing recipients of retirement and survivors' pensions as well as the risks of death and disability continue to be insured with AXA, the allocated reserves also remain on AXA's Occupational Benefits Insurance Balance Sheet.

The provisions for future pension conversions of CHF 783 million which are no longer required due to the transformation were reversed and transferred to the surplus fund in the 2018 accounting year, and they are being disbursed to the foundations involved in the transformation as a special surplus in 2019.

The employer contribution reserves, the unallocated assets of the foundations, occupational benefits institution asset accounts and other current accounts transferred to the foundations are included in the Other liabilities. All of the other positions on the liabilities side of the balance sheet remained unaffected by the transformation.

Explanations regarding the assets side
The investments were transferred to the foundations in accordance with the changes on the liabilities side. Investments with a book value equal to that of the retirement assets being transferred were selected and transferred to the foundations. For those recipients of retirement and survivors' pensions remaining on the AXA balance sheet, investments were also selected at book values that correspond to the pension payments. In this process, it was ensured that the ratio of market value to book value is identical in the remaining portfolio and the transferred portfolio.

Asset items	01.01.2019		31.12.2018	
Cash and cash equivalents, time deposits	1,854	6.83%	9,370	17.86%
Bonds in Swiss francs	10,165	37.46%	12,065	22.99%
Bonds in foreign currencies	3,645	13.43%	11,407	21.74%
Real estate	3,147	11.60%	7,978	15.20%
Mortgages	4,967	18.30%	6,132	11.69%
Equities and participating interests	483	1.78%	1,401	2.67%
Alternative investments	1,345	4.95%	2,474	4.72%
Investment fund units	65	0.24%	178	0.34%
Net credit balances from derivative financial instruments	15	0.06%	15	0.03%
Investments in participations and associated companies	0	0.00%	0	0.00%
Other investments	1,453	5.35%	1,453	2.77%
Total investments	**27,140**	**100.00%**	**52,475**	**100.00%**
Liabilities from derivative financial instruments	**655**		**655**	
Other assets	**1,903**		**2,051**	
Ceded reinsurance	**55**		**55**	
Total net assets	**29,754**		**55,236**	

Liability items	01.01.2019		31.12.2018	
Retirement assets	4,507	16.98%	28,282	56.21%
Provision for future pension conversion rate losses	177	0.67%	177	0.35%
Actuarial reserves for current retirement and survivors' pensions	13,894	52.35%	13,894	27.61%
Actuarial reserves for current disability pensions and disabled person's child's pensions	1,611	6.07%	1,611	3.20%
Actuarial reserves for vested benefits policies	1,588	5.98%	1,588	3.16%
Strengthening of actuarial reserves	3,492	13.16%	3,492	6.94%
Provision for insurance cases which have occurred but have not yet been settled	377	1.42%	377	0.75%
Provisions for interest guarantees, claims fluctuations and value fluctuations	200	0.75%	200	0.40%
Other technical provisions	342	1.29%	342	0.68%
Cost-of-living provisions	352	1.33%	352	0.70%
Technical provisions	**26,539**	**100.00%**	**50,314**	**100.00%**
Surplus fund	**230**		**1,013**	
Unearned premium reserves	**0**		**0**	**0.00%**
Credited surplus portions	**0**		**0**	**0.00%**
Other obligations	**0**		**0**	
Other liabilities	**2,985**		**3,909**	
Total net assets	**29,754**		**55,236**	

Monetary amounts in CHF millions

Key data

Number of insured persons

In occupational benefits insurance at the end of 2018, AXA had 405,236 active insured persons, 70,954 pension recipients and 110,439 vested benefits policies.

The portfolio of insured persons decreased by 3,396 or 0.6% year-on-year. This can be attributed to the trend for vested benefits policies. In 2018, for example, credit balances from 7,166 vested benefits policies were transferred to the new occupational benefits institutions of the insured persons concerned.

AXA will continue to review and streamline the portfolio of vested benefits policies, so the number of such policies will decrease again next year.

On the other hand, the number of active insured persons rose by 2,936 and the number of pension recipients increased by 833.

Conversion rates

The statutory pension conversion rate for mandatory benefits remains at 6.8%. On the other hand, life insurers have some leeway as regards the conversion rate for extra-mandatory benefits. The reduction of the conversion rate to 5%, which AXA announced in spring 2015, was achieved in 2018.

Costs for active insured persons

Operating expense for active insured persons increased year-on-year from CHF 181 million to CHF 203 million. This increase is due to the one-off additional expense caused by the conversion of the collective foundations from full-value insurance foundations into semi-autonomous foundations. Cost per active insured person therefore rose to CHF 502.

	2018		2017	
Existing customer base at end of accounting year	586,629		590,025	
Number of active insured persons	405,236		402,300	
Number of persons with full-value insurance	263,282		301,024	
Number of other active insured persons	141,954		101,276	
Number of pension recipients	70,954		70,121	
Number of vested benefits policies	110,439		117,605	
Interest and conversion rates	**Mandatory benefits**	**Extra-mandatory benefits**	**Mandatory benefits**	**Extra-mandatory benefits**
Effective interest rate including surplus participation	1.00%	0.25%	1.00%	0.50%
Interest rate applied to retirement assets	1.00%	0.00%	1.00%	0.00%
Pension conversion rate for men retiring at age 65	6.80%	5.00%	6.80%	5.17%
Pension conversion rate for women retiring at age 64	6.80%	4.88%	6.80%	5.05%
Technical interest rate for valuation of the pension liabilities	1.00%		1.35%	
	Total in millions	**per capita**	**Total in millions**	**per capita**
Total cost premium	189		190	
Active insured persons	189	467	190	473
Vested benefits policies / per policy	0	0	0	0
Other cost premiums	0	0	0	0
Total operating expense	238		217	
Active insured persons	203	502	181	450
Pension recipients	30	419	30	433
Vested benefits policies	5	46	5	46
Operating expense for other cost units	0	0	0	0

Monetary amounts in CHF

Income statement

Explanations regarding earnings
In occupational benefits insurance, the total income consists mainly of savings premiums, risk premiums and cost premiums together with investment income. This figure rose by 4.9% year-on-year. Premium income in Group Life increased by 3.5% or CHF 229 million to CHF 6.8 billion – single premiums rose by 6.7% to CHF 3.5 billion, while annual premiums were stagnant at CHF 3.3 billion. Investment income increased by CHF 136 million year-on-year.

Single premiums grew by CHF 220 million, due mainly to the increase in retirement assets brought in by our existing customers. In 2018, AXA again followed a selective underwriting policy for new business in full-value insurance.

Explanations regarding expenditure
The most important items making up overall expenditure are benefits for insured persons, technical provisions, administrative expenses, and insured persons' participation in the surplus which is allocated to the surplus fund. Benefits increased by 45.1% or CHF 3.1 billion to CHF 9.8 billion in the reporting year. This increase is due to higher expenditure for redemptions and vested benefits.

In 2018, the technical provisions decreased by CHF 3.1 billion (prior year: increase of CHF 430 million). Retirement assets decreased by CHF 3.0 billion due to the increase in redemptions and vested benefits (prior year: decrease of CHF 82 million). Because of the conversion of the collective foundations from full-value insurance foundations to semi-autonomous foundations, the provision for future conversion rate losses could be reduced by CHF 733 million. The amount released was credited to the surplus fund to enable transfer to the foundations. Provisions for vested benefits policies could be reduced by a further CHF 179 million thanks to the smaller portfolio (prior year: reduction of CHF 241 million), and it was also possible to reduce the cost-of-living provision by CHF 299 million. Other technical provisions were strengthened again due to the sustained low interest rate environment, with the exception of provisions for current disability pensions; in this case, a reduction of CHF 39 million was possible thanks to a higher rate of return to active status (prior year: reduction of CHF 108 million).

The allocation to the surplus fund in favor of insured persons rose to about CHF 968 million; this was mainly because the amount released by reversing the provision for future conversion rate losses was passed on to the insured persons. In 2018, acquisition and administrative expenses together with other expenses were CHF 226 million above the prior year's level, due mainly to higher project costs. The operating result for 2018 amounted to CHF 191 million (before tax). The increase of CHF 15 million is mainly attributable to an improved investment result and higher risk premiums.

Income	2018	2017
Retirement credits	2,473	2,508
Individual deposits due to start of employment, purchases, PHO or divorce	2,987	2,678
Retirement assets brought in connection with contract transfers	427	540
Deposits for retirement and survivors' pensions	58	40
Deposits for disability pensions and disabled person's child's pensions	39	30
Deposits for vested benefits policies	2	3
Savings premiums	**5,984**	**5,799**
Risk premiums	**625**	**580**
Cost premiums	**189**	**190**
Gross premiums written	**6,799**	**6,569**
Gross investment income	1,523	1,634
Cash and cash equivalents	0	0
Bonds	553	652
Properties	405	419
Mortgages	124	131
Other investments	441	432
Result from disposals	116	329
Balance from write-ups and write-downs	333	–113
Currency result	–380	–442
Interest expense	–54	–22
Asset management costs	–236	–218
Net investment income	**1,302**	**1,167**
Other income	**15**	**10**
Reinsurance result	**–8**	**–20**
Total income	**8,108**	**7,726**

Expenditure	2018	2017
Benefits on retirement	1,455	1,475
Pension benefits	797	775
Lump sum benefits	658	700
Death and disability benefits	532	539
Pension benefits	412	411
Lump sum benefits	120	127
Individual lump-sum benefits (vested benefits, PHO, divorce, VBP)	3,733	3,546
Surrender values from contract terminations	4,088	1,189
Benefit processing expenses	30	30
Benefits	**9,837**	**6,780**
Retirement assets	–2,957	–82
Provision for future conversion rate losses	–733	200
Actuarial reserves for current retirement and survivors' pensions	514	662
Actuarial reserves for current disability pensions and disabled person's child's pensions	–39	–108
Actuarial reserves for vested benefits policies	–179	–241
Actuarial reserves for other coverages	0	0
Strengthening of actuarial reserves for annuity capital and vested benefits policies	312	15
Provision for insurance cases which have occurred but have not yet been settled	–9	–10
Fluctuation and interest guarantee provisions	0	0
Cost-of-living provisions	–299	0
Other technical provisions	276	–6
Change in technical provisions	**–3,114**	**430**
Allocation to surplus fund	**968**	**144**
Change in unearned premium reserves	**0**	**0**
Acquisition and administrative expenses	**212**	**187**
Other expenses	**15**	**10**
Operating result	**191**	**176**
Total expenditure	**8,108**	**7,726**

Monetary amounts in CHF millions

Balance sheet: key figures

Explanations

On December 31, 2018, the balance sheet value of investments was approximately CHF 53.1 billion. As compared to 2017, the main reduction was in fixed-interest securities in foreign currencies: a decrease of 11.03 percentage points brought this component to 21.74%. On the other hand, the holding of cash, cash equivalents and time deposits rose by 15.14% to 17.86%.

The technical provisions are shown on the liabilities side of the balance sheet. These provisions indicate the value of contractual obligations vis-à-vis insured persons that must be guaranteed in the long term. Insurers are obligated to form adequate provisions and to review their adequacy regularly on the basis of the currently applicable mathematical parameters.

As at December 31, 2018, technical provisions amounted to approx. CHF 50.3 billion. Of the retirement assets, 51% related to mandatory benefits and 49% to extra-mandatory benefits.

Due to the increase in redemptions and expenses for vested benefits, retirement assets decreased by CHF 3.0 billion to CHF 28.3 billion; together with the reduction in the provision for future pension conversion losses, this was the main factor driving the decrease in the technical provisions.

Asset items

	2018		2017	
Cash and cash equivalents, time deposits	9,370	17.86%	1,475	2.71%
Bonds in Swiss francs	12,065	22.99%	13,065	24.03%
Bonds in foreign currencies	11,407	21.74%	17,821	32.77%
Properties	7,978	15.20%	8,222	15.12%
Mortgages	6,132	11.69%	6,529	12.01%
Equities and participating interests	1,401	2.67%	1,519	2.79%
Alternative investments	2,474	4.72%	3,791	6.97%
Investment fund units	178	0.34%	87	0.16%
Net credit balances from derivative financial instruments	15	0.03%	199	0.37%
Other investments	1,453	2.77%	1,669	3.07%
Total investments	**52,475**	**100.00%**	**54,378**	**100.00%**
Liabilities from derivative financial instruments	**655**		**1,033**	
Other assets	**2,051**		**2,464**	
Ceded reinsurance	**55**		**58**	
Total net assets	**55,236**		**57,933**	

Liability items

	2018		2017	
Retirement assets	28,282	56.21%	31,239	58.47%
of which mandatory benefits	14,361		15,655	
of which extra-mandatory benefits	13,921		15,584	
Provision for future pension conversion rate losses	177	0.35%	910	1.70%
of which mandatory benefits	122		839	
of which extra-mandatory benefits	55		71	
Actuarial reserves for current retirement and survivors’ pensions	13,894	27.61%	13,380	25.04%
of which mandatory benefits	7,644		7,286	
of which extra-mandatory benefits	6,250		6,094	
Actuarial reserves for current disability pensions and disabled person’s child’s pensions	1,611	3.20%	1,650	3.09%
of which mandatory benefits	920		959	
of which extra-mandatory benefits	691		691	
Actuarial reserves for vested benefits policies	1,588	3.16%	1,767	3.31%
Strengthening of actuarial reserves	3,492	6.94%	3,180	5.95%
Provision for insurance cases which have occurred but have not yet been settled	377	0.75%	386	0.72%
Provisions for interest guarantees, claims fluctuations and value fluctuations	200	0.40%	200	0.37%
Other technical provisions	342	0.68%	66	0.12%
Cost-of-living provisions	352	0.70%	651	1.22%
Technical provisions	**50,314**	**100.00%**	**53,428**	**100.00%**
Surplus fund	**1,013**		**251**	
Unearned premium reserves	**0**		**0**	
Credited surplus portions	**0**		**0**	
Other liabilities	**3,909**		**4,254**	
Total net assets	**55,236**		**57,933**	

Monetary amounts in CHF millions

Investments

AXA aims to achieve the optimum combination of profitability, liquidity and security when managing its investments. It has been investing for some years now to enhance its asset-liability management (ALM) capability. The analyses and findings from this process provide the basis for an investment strategy that aims to optimize the risk-return ratio of the portfolio as well as the level of risk capital. It is vital to ensure that, despite fluctuations in the value of investments, there is always enough equity available to meet the company's obligations at all times.

Investments broken down by asset class
In line with our principle of security, the majority of funds are invested in fixed-interest securities, with the portfolio's focus on top-quality and corporate bonds. Top-quality bonds include Swiss government bonds and mortgage bonds. As they are considered to be virtually risk-free, they offer correspondingly low returns.

The decrease in fixed-interest securities is mainly attributable to a restructuring in favor of cash and cash equivalents. This was necessary in order to make the required liquidity available in connection with the conversion of the collective foundations from full-value insurance foundations into semi-autonomous foundations. The exposure in alternative investments was also reduced.

Net credit balances from derivative financial instruments mainly comprise derivatives for currency hedging and the corresponding collateral deposited.

The "Other investments" item comprises mortgages, loans, and cash and cash equivalents. The higher figure here is due to an increase in cash and cash equivalents.

The valuation reserves show the difference between market and book values. The decrease is driven mainly by a lower existing customer base and negative market trends for fixed-interest securities.

Investments

	2018		2017	
	Book value	Market value	Book value	Market value
Real property and buildings	7,978	10,770	8,222	10,912
Shares in real estate companies	198	376	198	324
Shares in associated companies	0	0	0	0
Participations	0	0	0	0
Equities and units in investment funds	1,381	1,685	1,408	1,869
Other non-fixed-interest securities	0	0	0	0
Own equities	0	0	0	0
Fixed-interest securities	23,473	24,973	30,887	33,105
Hedge funds	787	1,026	1,763	2,015
Private equity	1,687	1,967	2,028	2,351
Net credit balances from derivative financial instruments	15	15	199	199
Other investments	16,955	16,955	9,673	9,673
Total investments	**52,475**	**57,768**	**54,378**	**60,448**
Share of collective investments		3.19%		4.69%
Share of investments with non-specified costs		2.34%		2.73%
Valuation reserves at the end of the accounting year		**5,293**		**6,070**
Change in valuation reserves compared to previous year		**– 777**		**906**

Monetary amounts in CHF millions

Return earned and performance of investments
The gross return on investments of CHF 1.538 billion corresponds to a return on book values of 2.88% (prior year: 2.50%). After deduction of asset management costs, the net return was 2.44%. The increase in book yield was due mainly to lower write-downs on real estate.

Trend of return on investments

	2018		2017	
Direct earnings from investments	1,523		1,634	
Other investment income	15		– 249	
Result from disposals	116		329	
Balance from write-ups and write-downs	333		– 113	
Currency result	– 380		– 442	
Interest expense	– 54		– 22	
Investment income, gross	**1,538**		**1,385**	
Asset management costs	– 236		– 218	
Investment income, net	**1,302**		**1,167**	
Asset management without real estate maintenance	– 236	– 0.44%	– 218	– 0.36%
Maintenance and servicing of real estate*	– 80	– 0.15%	– 83	– 0.14%
Total asset management costs	**– 317**	**– 0.59%**	**– 302**	**– 0.49%**

Monetary amounts in CHF millions

* Costs of maintenance and servicing of real estate are directly offset in the income statement against real estate earnings (net view).

Gross market yield is the market yield before deduction of asset management costs; Total Expense Ratio costs (TER costs) are already deducted from the net market yield. Net market yield fell by 0.89% year-on-year. This is mainly attributable to negative market trends for equities and higher interest rates for US bonds.

In 2018, asset management costs amounted to CHF 319 million. The year-on-year increase of CHF 15 million is due to an increase in transaction costs for direct investments, which were only compensated in part by lower costs for administration and management. At CHF 80 million, maintenance and servicing costs for properties were unchanged year-on-year.

Return and performance

	2018		2017	
	Gross	Net	Gross	Net
Total return on book values	2.88%	2.44%	2.50%	2.11%
Market value performance	1.29%	0.89%	3.76%	3.40%

Asset management costs, 2018

	2018	2017
Direct investments	– 176	– 181
Single- and multiple-level investments	– 53	– 69
TER costs	– 228	– 249
TTC costs	– 70	– 35
SC costs	– 20	– 19
Asset management costs (gross)	– 319	– 304
Capitalized costs	2	2
Maintenance and servicing costs for properties	80	83
Asset management costs (net)	– 236	– 218

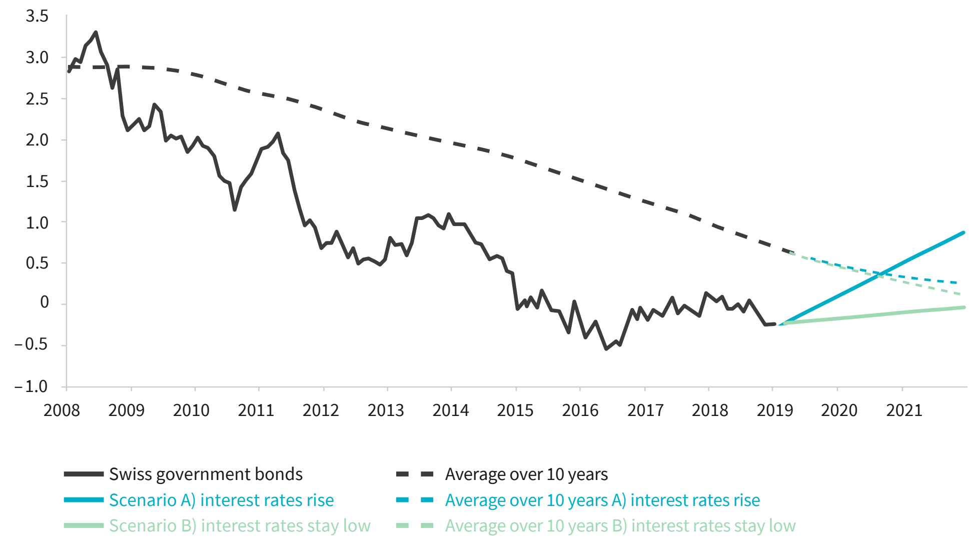
Monetary amounts in CHF millions

TER costs: Costs of administration and management (internal and external)
TTC costs: Transaction costs
SC costs: Costs that cannot be allocated to individual investments

Outlook for 2019

The end of 2018 was marked by price corrections – which were substantial in some cases – on the global equity and bond markets, accompanied by a corresponding increase in volatility. However, it was almost possible to compensate for the losses by the start of 2019. Likewise, volatility decreased to some extent. However, we expect volatility on the markets to increase again in the further course of the year. The reasons for this include the ongoing trade dispute between the US and China as well as the uncertainties related to Brexit, and also geopolitical tensions coupled with a bleak outlook for the euro zone due to political and economic risks, primarily in Italy. Interest and currency policy continues to pose a challenge. Returns for Swiss government bonds with a maturity of 10 years fell again year-on-year, and they continue to be at a very low level (– 0.24%). As a consequence of the persistent low interest rate environment, the average return over 10 years on fixed-interest securities is constantly falling, with further convergence in the direction of the current market situation. Even if interest rates should rise again, the average yield on fixed-interest securities will continue to decline in the near future due to low interest rates in preceding years. In order to mitigate the effects of low interest rates, AXA is adhering to its tried-and-tested strategy of diversified investment.

Yield on 10-year Swiss government bonds



Source: Bloomberg; interest rate trend to February 2019

Minimum distribution ratio (MDR)

Explanations
The majority of Group Life business is subject to statutory provisions governing the minimum distribution ratio (MDR). These provisions state that at least 90% of the income generated must be used for the benefit of active insured persons – i.e. for insurance benefits, strengthening reserves, and allocations to the surplus fund. At 91.0%, AXA's distribution ratio exceeded the statutory minimum in the reporting year.

Explanation of business processes
We distinguish between three basic business processes:

Process	Revenues	Expenses (benefit)
Saving process	Net investment income	• Interest paid on retirement assets and actuarial reserves for current pensions, conversion losses • Formation and reversal of technical provisions for longevity risk, interest guarantees and fluctuations in the value of investments
Risk process	Risk premium	• Payment of death and disability benefits • Formation and reversal of technical provisions for insurance cases reported but not settled, for insurance cases which have occurred but have not yet been reported, for claims fluctuations as well as for rate adjustments and rate restructuring
Cost process	Cost premium	• Administrative and customer advisory services related to occupational pensions and insurance

	2018		2017	
	Subject to MDR	Not subject to MDR	Subject to MDR	Not subject to MDR
Sum of income components	**2,035**	**82**	**1,853**	**84**
Saving process (income from investments)	1,302	0	1,167	0
Risk process (risk premiums)	557	68	509	71
Cost process (cost premiums)	176	13	177	13
Total expenditure	**–1,659**	**–21**	**–1,361**	**–41**
Saving process (mainly technical interest)	–1,133	0	–898	0
Risk process (mainly death and disability benefits)	–326	–12	–284	–33
Cost process (mainly administrative costs)	–200	–8	–179	–7
Gross result, operating statement	**376**	**61**	**492**	**43**
Change in technical provisions in the saving process	**569**	**0**	**–227**	**0**
Longevity risk	–465	0	–27	0
Gaps in coverage on conversion into pensions	733	0	–200	0
Interest guarantees	0	0	0	0
Reversal of cost-of-living provisions in favor of strengthening measures	300	0	0	0
Fluctuations in value of investments	0	0	0	0
Change in technical provisions in the risk process	**142**	**11**	**5**	**7**
Insurance cases reported but not yet settled	142	11	5	7
Insurance cases which have occurred but have not yet been reported	0	0	0	0
Fluctuations in claims	0	0	0	0
Rate adjustments and rate restructuring	0	0	0	0
Total change in technical provisions	**711**	**11**	**–222**	**7**
Cost of raising additional risk capital	**0**	**0**	**0**	**0**
Allocation to surplus fund	**–904**	**–64**	**–103**	**–41**
Result, operating statement	**183**	**8**	**167**	**9**
Dividend ratio	**91.00%**	**90.73%**	**91.00%**	**89.52%**
Recapitulation of the operating result				
Share of business subject to MDR	183		167	
Share of total income as %	9.00%		9.00%	
Share of business not subject to MDR		8		9
Share of total income as %		9.27%		10.48%
Operating result	**191**		**176**	
Share of total income as %	9.01%		9.06%	

Monetary amounts in CHF millions

Earnings and expenditure
In occupational benefits insurance, the various elements of income and expense are assigned to the saving, risk and cost processes. Within each of these three processes, certain items of income are posted against certain expense items. Although, as a general rule, each process should cover its own costs, cross-subsidization is possible. In fact, cross-subsidization is required: it was increasingly necessary to finance conversion losses from risk premiums in recent years. This expenditure is actually allocated to the saving process, but the earnings from investments are no longer able to cover it.

Change to technical provisions
Technical provisions are reserves that AXA uses to strengthen its ability to meet future challenges. In 2018, the technical provisions for longevity were strengthened by CHF 465 million. On the other hand, it was possible to reduce the cost-of-living provision by CHF 300 million and to reduce the additional reserves for disability by CHF 142 million.

A large proportion of the provision for the gap in coverage on conversion into pensions is no longer required, due to the conversion of the collective foundations to semi-autonomy and the resultant assumption of annuitization losses by the foundations. CHF 733 million could therefore be allocated to the surplus fund, and this will benefit the insured persons in 2019.

Division of income between insured persons and AXA
AXA's operating result depends directly on the applicable revenue, which consists of the return on investments, the risk premium and the cost premium. It is limited to a maximum of 10% by the dividend ratio (Legal Quote). For business subject to the minimum ratio regulations, a total of CHF 1 852 million went to insured persons in 2018 – in the form of benefits, higher reserves and allocations to the surplus fund. This equates to a dividend ratio of 91.0%. AXA's profit – the remaining 9% – was CHF 183 million (before tax) in 2018.

Redistribution

	2018	2017	2016	2015	2014	2013	2012
Total	**456**	**499**	**811**	**827**	**520**	**416**	**352**
Conversion rate loss in the current year	242	272	241	257	270	196	132
Strengthening of provisions for recipients of retirement pensions	214	227	570	570	250	220	220

Monetary amounts in CHF millions

How the minimum distribution ratio is calculated

		2018	2018 Total	2017	2017 Total
Income components					
Saving process	Income from investments	+ 1,302	Total 2,035	+ 1,167	Total 1,853
Risk process	Premium income from death and disability insurance	+ 557		+ 509	
Cost process	Premium income for operations and service	+ 176		+ 177	
At least 90% of the income components go to insured persons in the form of benefits			91.0%		91.0%
Use for the following benefits for insured persons					
1. Interest on retirement assets of insured persons and conversion rate losses		– 1,133	Total – 1,659	– 898	Total – 1,361
2. Benefits in the event of disability and death		– 326		– 284	
3. Administration, operations and service		– 200		– 179	
Formation of reserves for future benefits for insured persons					
1. Longevity		– 465	Total 711	– 27	Total – 222
2. Gap in coverage on conversion into pensions		733		– 200	
3. Interest guarantees due to persistent low interest rate phase		0		0	
4. Reversal of cost-of-living provisions in favor of strengthening measures		300		0	
5. Expected benefit cases due to disability		142		5	
Allocation to surplus fund to be used for insured persons			– 904		– 103
Total benefits allocated to insured persons			– 1,852		– 1,686
The profits of life insurers are limited by law and cannot exceed 10% of the income components			9.0%		9.0%
Operating result for AXA Life Ltd. from business subject to MDR (gross before tax)			183		167

Monetary amounts in CHF millions

Risk process

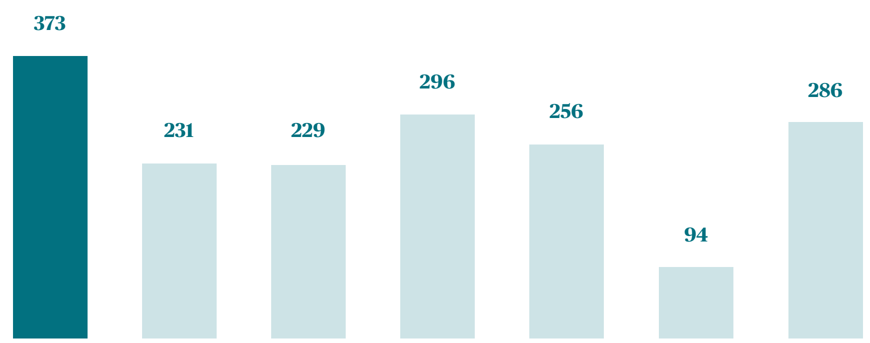
Explanations
The risk process comprises income from risk premiums, expenses in the form of death and disability benefits, the formation and / or reversal of technical provisions, partial financing of conversion losses and allocations to the surplus fund.

By law, AXA is entitled to retain a maximum of 10% of the risk premiums as its profit share for guaranteeing the risk benefits. 90% goes to the insured persons in the form of current and future benefits.

The difference between risk premiums, on the one hand, and benefits and changes to provisions on the other, was CHF 373 million in 2018 (CHF 142 million higher than in the previous year). Revenues from risk premiums rose by CHF 48 million, while direct benefit payments increased by CHF 42 million.

The good result in the risk process was utilized to strengthen the provision for retirement pensions, and thus to secure future benefits. The surplus fund was also strengthened, and this too will benefit our customers in the future.

This basic principle applies to business subject to MDR: higher benefit expenditure and the formation of provisions for future benefits to insured persons result in fewer allocations to the surplus fund, and vice-versa.



Risk process	2018	2017	2016	2015	2014	2013	2012
Risk premiums	557	509	533	572	568	577	601
Risk benefits	– 326	– 284	– 302	– 275	– 240	– 322	– 267
Provisions for expected disability (IV) cases	142	5	– 2	– 2	– 73	– 160	– 48
Result of risk process	373	231	229	296	256	94	286

Monetary amounts in CHF millions

Surplus fund

Explanations
Life insurers provide security at all times, which is why they calculate their premiums in such a way that all risks can be covered over the long term. As a consequence of this, they generate a surplus (which is allocated to the insured persons) when business performance is good – i.e. when their earnings are greater than their expenses.

By law, no more than two-thirds of the surplus fund may be withdrawn in any one year. Every allocation must be paid out to the insured persons within five years. This mechanism ensures that sufficient funds are available to offset poor results in difficult years and that the surplus fund is built up again in good years: an approach that complies with the principles of sustainability and stability in occupational benefits insurance.

In 2018, AXA was able to allocate CHF 968 million to the surplus fund; of this, CHF 904 million originated from business subject to MDR. The total allocation in the reporting year was CHF 824 million above the prior year's figure. The significantly higher allocation is due mainly to the reversal of provisions that are no longer required for gaps in coverage for future pension conversions.

In 2018, CHF 205 million was allocated from the surplus fund to persons insured with AXA; CHF 158 million of this came from business subject to MDR.

	2018	2017
As at end of previous year	251	237
Distribution to occupational benefits institutions (allocation of surpluses)	– 205	– 131
Surplus participation, current year (allocation of surpluses)	968	144
Withdrawal to cover the operating shortfall	0	0
Valuation adjustment	0	0
As at end of accounting year	1,013	251

Monetary amounts in CHF millions

Cost-of-living provision

Explanations
The cost-of-living provision is used to finance future inflation-related adjustments to current disability and survivors' pensions, as stipulated by law. The provision is fed using the cost-of-living premiums of active insured persons. Current pensions are generally adjusted for inflation every two years. A contribution to cost expenses is also taken from the cost-of-living provision.

Survivors' and disability pensions which are paid out for a period of more than three years must be adjusted for inflation in line with the Swiss Consumer Price Index until the recipients reach regular retirement age. The Federal Social Insurance Office publishes the relevant tables annually.

A review of the provision showed that the cost-of-living risk is less than the accrued amount of the provision. AXA Life was therefore able to reduce the cost-of-living provision by CHF 300 million, and to utilize the amount released in order to finance the longevity provision.

	2018	2017
As at end of previous year	651	650
Cost-of-living premiums, gross	4	4
Cost expenses	– 3	– 3
Expenditure for COL increases in risk pensions	0	0
Reversal in favor of strengthening measures as per Art. 149 para. 1 letter a	– 300	0
Reversal in favor of surplus fund	0	0
Formation of additional cost-of-living provisions	0	0
As at end of accounting year	352	651

Monetary amounts in CHF millions

Operating expense and asset management costs

The operating and management costs of CHF 238 million include all acquisition and administrative expenses and consulting costs incurred due to AXA's business activities in connection with occupational benefits insurance.

To make the cost process more transparent, acquisition costs are reported in detail, with information provided on acquisition commission for brokers as well as other general administration expenses, broken down by staff costs and material costs.

Operating costs rose by CHF 21 million year-on-year to reach CHF 238 million. This increase can be attributed to higher personnel costs on the one hand, and increased project investments on the other.

Asset management costs do not count toward operating expenses, but are included in the income statement directly as part of the net return on investments. In 2018, asset management costs amounted to CHF 319 million. The year-on-year increase of CHF 15 million is due to an increase in transaction costs for direct investments which were only compensated in part by lower costs for administration and management (also see the schedule of TER costs in the Investments section). Real estate maintenance costs have remained level year-on-year.

Breakdown of operating expense	2018		2017	
Commission paid to sales force	36		36	
Commission paid to brokers	38		29	
Other acquisition costs	12		12	
Acquisition costs	86	36.07%	77	35.26%
Benefit processing expenses	30	12.49%	30	13.99%
Marketing and advertising expenses	4	1.57%	3	1.37%
Staff costs	85		77	
Material expenses (including IT costs)	38		30	
Other expenses for general administration	122	51.30%	107	49.38%
Reinsurers' share in operating expense	– 3	1.42%	0	0.00%
Total net operating expense	238	100.00%	217	100.00%
Costs of asset management without real estate maintenance	– 236	– 0.36%	– 218	– 0.33%
Capitalized costs	– 2	– 0.14%	– 2	– 0.14%
Costs of maintenance and servicing of real estate*	– 80	– 0.14%	– 83	– 0.14%
Costs of asset management with real estate maintenance	– 319	– 0.49%	– 304	– 0.46%

Monetary amounts in CHF millions

* The costs of maintenance and servicing of real estate are offset in the income statement directly against real estate income (net view).

In contrast to full-value insurance, semi-autonomous solutions enable pension fund assets to be invested more flexibly and, therefore, more profitably.

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