Investor Day

Company Participants

- Andrew Wallace-Barnett, Head-Investor Relations
- George Stansfield, Group General Secretary
- Gordon Timmins Watson, Chief Executive Officer-AXA Asia
- Gérald Harlin, Group Chief Financial Officer
- Thomas Buberl, Group Chief Executive Officer & Director

Other Participants

- Andrew J. Crean, Analyst
- Andrew Sinclair, Analyst
- Blair Stewart, Analyst
- Colm Kelly, Analyst
- Farooq Hanif, Analyst
- James A. Shuck, Analyst
- Johnny Vo, Analyst
- Jon M. Hocking, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Oliver Steel, Analyst
- Ralph Hebgen, Analyst

MANAGEMENT DISCUSSION SECTION

Andrew Wallace-Barnett {BIO 18671460 <GO>}

So, good morning, everyone. Welcome to AXA's 2017 Investor Day. Welcome to those of you who are on the telephone. Welcome to those of you who are on the webcast, and, of course, welcome to all of you here in Paris with us in the room.

As you can see on page 3 of the presentation on and on the screen, we're going to cover a range of topics today, which we believe are of interest and importance to our shareholders. Thomas will introduce the day by sharing his vision for insurance and the ways in which we are simplifying and refocusing AXA to accelerate our transformation and faster growth. George will then lead us through the guiding principles and implications of the recent changes we have made in simplifying our organization. George and Gérald will then provide us with an update on our U.S. IPO outlining the implications of the IPO for the AXA Group and its shareholders.

We'll then take a coffee break probably around 10 AM. After the coffee break, Gérald will take some time to walk us through the links between operating free cash flow and Solvency II. And we know this is an important topic for the entire industry. Gérald's presentation will highlight the strong reliability and sustainability of AXA's cash and Solvency II generation capacity. Gérald will then lead us through an update of AXA's progress towards the Ambition 2020 targets we shared with you last year.

And then finally, Thomas, Gérald, and George will return to the stage for a Q&A session. And at the end of that, Thomas will wrap up the morning with his conclusion. Those of you here in the room would then be very welcome to join us for lunch. For the Q&A, we'll be happy to take questions from those of you on the phone or on the webcast. Please follow the instructions you've been given. And as always, we'll give preference to questions coming from those of you here in the room.

And now just before Thomas makes his introduction, we'd like to show you a brief film based around our brand positioning, which captures well the essence of the AXA story and is an important backdrop to many of the topics we'll discuss today.

[Video Presentation] (03:00-05:07)

Thomas Buberl {BIO 16182457 <GO>}

Good morning to all of you. I'm extremely happy to welcome you at AXA here to our Investor Day. And I would like to start the day with my vision for the future of insurance. Many of you have asked me a lot of questions. I have heard a lot of questions from employees, from clients, from distributors about what does insurance – what it will be in the future, when will it be disrupted? What is the role of the GAFAs in insurance? How can you change a company of €100 billion revenue? All these questions are very important, are very guiding for the future. But I think when we talk about the vision for insurance, we should not start at these questions, we should start at the fundamental needs of our customers.

You've seen some of them being expressed in the film. If you think about the drastic pictures we've seen from a changing climate in the U.S., in the Caribbean, when you think about the horrible effects of cyber crisis, when you think about health costs rising three times to four times the GDP, when you are thinking about new ways of work means also new risks, there's many areas where new answers are being needed from insurance. And I personally believe that there is a new golden age for insurance, many new risks, many new needs, that have not been met, and where we look where we are as an industry today, we are not at the level where we can say we have really seized that opportunity.

In the service rankings, we are often not in the first places. When you talk to customers and when you take your own experience as a client of an insurance company, trust is not always there the way it should be. We have, however, a great opportunity. 20% of our customers do claim with us today. For those customers, we need to make it easier. We need to make it more transparent, and we need to show more trust. This is probably the easier part of the equation. For the 80 other percent of customers where we only give peace of mind today, we really need to rethink our offering because those people want help, those people want us to help them to avoid the next claim.

And to my mind, service will be the biggest disrupter in our industry. Service is important because we can wrap it around the insurance coverage and we can really help people and be in contact with the people, and that is also why 18 months ago we have launched our Ambition 2020, which is very much under the guiding view of how can we become from a payer to a partner of the customer because at the end of the day, our business model is very different to the business model of the new digital giants. In their worlds, individualism is the new king. In our world, social cohesion and social growth is the new and the old king and will remain the king.

And I do believe that we have a very different model and a model that is really there for the future and for the long term. This model always has one thing in mind, how can we really empower our customers to lead a better life?

What does it mean for AXA? Because we are starting from a very impressive base. We are today the most diversified insurer worldwide. We are present in many countries across many lines of business. And when you look at all the countries, we are very often in the top one to top five positions. So a great base to start from with 107 million customers, and the number one brand worldwide. This is an excellent base to really develop our AXA further.

How can we really implement, focus, and transform? Today we also live in a very complex world, being in 64 countries, being in all lines of business, being large is also being complex and not having the agility to act fast, and therefore we are really taking decisions that you have seen yesterday under the motto, how can we simplify AXA to the maximum possible to accelerate focus and transform?

You have seen yesterday that we have announced some very profound changes. The first change is on geography. We want to focus on fewer countries. We want to focus on these countries where we have scale and potential. Re-centering our portfolio more towards classic insurance businesses and less financial market-driven businesses. Why? Because we do believe there is the opportunity to be far more in touch with our customer, and that also means we need to get the balance and improve the balance between financial and technical margin.

A third big and important decision of yesterday is the simplification of our organization. How can we significantly de-layer to be closer to the customer? And the fourth major decision of yesterday, how can we scale up our innovation system, and we have also communicated this morning that we want to attach 20% of our M&A budget to innovation. What does it mean concretely? Let's start with geographic focus. And the question is always, how do you move from a company that is in 64 markets to a very different view of the portfolio?

We have analyzed our portfolio and looked how are we positioned, and the good message first, we are today based in 10 countries that make 80% of the earnings. Those

10 countries are also the ones that have top one positions to top five positions. So that is the base for being extremely diversified, extremely global, and having scale on a global level.

When you take a step further, we have been looking at where the countries where we are today very small but where we still see a large potential in terms of growth of the population and growth of the wealth of the population. We have identified six countries. Those countries are Brazil, Mexico, China, Philippines, Thailand, and Indonesia. So going forward we want to focus ourselves on the 10 current engines. The focus there is really going back to growth. We haven't grown enough in these countries, and transforming the business model in particular, transforming the distribution model.

On the high potentials, the six countries I mentioned, there it is really increasing our positions through growth and reaching leadership positions. Going forward, our M&A strategy will focus only on those 10 plus 6 countries, and that is a profound change to what we have been operating so far.

Now, looking at the other entities, we obviously have a lot of smaller entities. Those smaller entities we need to, going forward, do two things. We need to reduce and rationalize the footprint so you will see less than 64 markets going forward, but we also need to manage them in a different way. We don't need to transform those businesses the way we transform France, the way we transform Switzerland. Those can be managed far more in a private equity type of style. This also shows you that we want to put an end to the flag policy that we have been operating for a long time. Apart from the fact that you would see a rationalization of footprint, you will also not see another new country being opened.

And fourthly, we have clarified some key strategic issues that we had around commercial line business and around investment management. Commercial line is and will remain a very core entity for us. We want to grow in commercial line, and we want to use AXA Corporate Solutions to really fuel the growth of commercial lines in the10 plus 6 countries. The same is true for AXA investment management. It is a core entity, and it will remain a core entity.

You have probably heard a lot of rumors about the future of our AXA investment management. It is very clear now; we have decided to keep it. We have decided it will remain a core asset, and it is an investment manager that is very well-positioned. It is large enough. It is very efficient on the fixed income side, and it is excellently positioned on the alternative side. We also want to use AXA IM to really source the assets necessary for AXA. So, fewer countries, simplification of the portfolio, first message.

Second message, shift of the portfolio. And this will be quite a radical shift of our portfolio. AXA will have a very different profile going forward. There will be less dependence on financial markets and a refocus on the core insurance business. We want to grow in three preferred segments. One is the health business. We do believe given the need I have told you about earlier that particularly due to the rising health cost, health insurance will become far more important.

We do want to grow in protection because disability and making sure that you can work as long as possible, and if not any more that you're being looked after, is certainly a market that grows a lot, and the commercial P&C side – and when I talk about commercial I'm talking about the smaller and medium entities, not about a large commercials – we see a lot of risks that are not being covered and we see a lot of new risks arising.

Take the example from earlier, cyber-security, only 10% of the companies are covered today. These lines of business are already a very large portion of our portfolio, and we have the very clear determination to grow in these preferred segments. Why do we believe this? Those other segments where by nature there is the most customer contact.

You go more than once in your life to your doctor. As an entrepreneur, you ask yourself every day, what can I do better to improve? So there is a natural point of contact, where also moving from a payer to a partner is a natural evolution. Due to the fact that you have the context, it is also the natural point of offering additional services and those additional services we have been testing for quite some time, we know now what works and what doesn't work.

For example, in France today, we are one of the biggest provider of teleconsultation. Every year we are helping 5 million people that call to really avoid going to the doctor to queue up, and those models work. When you look in risk consulting of large companies, we've been focusing ourselves on helping on earthquake exposure, developing models, helping companies. Those business models work extremely well. And what is also important, by shifting the portfolio towards preferred segments and towards more services, those services will have a very different PE to the classical insurance business since we talk about a much lower capital intensity. Those businesses are also the businesses that are the most profitable and the most growing ones.

And due to the fact that AXA has got a very large presence in those 10 countries, has also got a very large presence with distributor networks, it is the natural point of also accompanying our distribution transformation from an agent selling mainly motor business to the agent moving very much to the more complex business. And if you look today into AXA France, you will see that the classical agent has moved away from the motor business, has focused him or herself far more on commercial business, far more on the health business.

And I do believe that in these areas, we see the biggest potential for innovation, going back to what I said earlier, what can we do better for the 20% of customers that do have a claim? What can we do differently anew for the 80% of customers that don't have any claim at all?

And this is also the second piece of the M&A story. We want to focus the M&A on the 10 plus 6 countries and on those preferred segments. This also means to the country that we are going to decelerate on some of our businesses that we do believe are not that strategic anymore. And this is in particular the traditional GA savings business. In order to change the profile of AXA, we need to grow much more in the preferred segments than in the ones that we believe are not so strategic anymore, and that also means that we will probably decelerate our growth and have negative growth rates.

And one clear example which we will talk about today of our determination to change the portfolio is certainly the partial listing of our U.S. business where you've seen we have filed for this IPO, the initial S-1 yesterday evening. The U.S. is our second-biggest market, but in order to change and move the needle, we need to start there and really re-shift the means of investment from those focused on financial markets business to the core insurance businesses where we want to grow and where we have the customer contact.

In order to really move ahead, we need to scale up our innovation. We've been building a innovation ecosystem which is very large. We started with scouting in Silicon Valley, scouting in China, scouting in Tel Aviv to understand what is going on. We then went to invest, and AXA Strategic Ventures is our investment fund where we invested in new businesses always with the idea how can we bring two things together, great ideas of entrepreneurs, and scale of AXA. But it was not enough. We went a step further and said, what can we do to really incubate ourselves? Because it is better to really incubate here than having somebody else to cannibalize you.

And therefore, we founded KAMET. KAMET is our incubator where we have entrepreneurial teams working on new ideas and launching these new ideas. And that has been a big booster for us and also obviously a big point of friction because the traditionalists and the innovators don't always get on easily. We even went a step further and said, what can we do on a global level? Because it's not only about start-ups that are the new word, it is also about other industries moving closer to our own industries. And if you look, it is the reality, many pharma companies, many of the GAFAs are moving towards our business. The solution of tomorrow is not that they will cannibalize us and take over our business. The solution is that we find ourselves together at the boundary of those sectors, and therefore AXA Partners for us is extremely important to really leverage that potential of cooperating of partnering on a global level.

To give you a few very concrete examples, fizzy, you have seen that we have launched a flight delay insurance based on block chain. This is something radically new because it's an insurance coverage that attaches to another product. It's an insurance coverage that is parametric, there's only two answers, yes, no, zero, one, and it's something where no one hand is touching the process. Everything is done automatically and is done on block chain. Nobody else has launched that yet.

If you go a step further and look at Qare, Qare is another teleconsultation that we have launched in London. We have seen that there's many French experts in London, and we also have seen their desire to stay in London despite Brexit. However, they love to go to a French doctor for two reasons: they can speak their own language, and the French doctors are much cheaper than the English doctors. So we have developed a mechanism where the French expert through video consultation can get a very quick appointment via a video consultation in their own language and for a third of the price that pleases everybody, and this has really, really gone off.

If you take another example, on partnerships in AXA Partners, we are very, very concerned about the fact that there is new labors and labor and social risk arising. Today 130 million people in the U.S., in Europe are already working in non-traditional labor arrangements. Those people need new coverages, and it is our conviction that we can offer those type of partnerships and those type of insurances, and therefore UBA is one of the examples where we have really tested it out, and there's plenty more to follow. We know now what works in innovation and we also know what doesn't work.

The next step is now to scale it up, and scaling up also means to find a bridge into the traditional entities because the addressable market for us for these innovations is exactly one market, our 107 million customers. And therefore it's very important that we create that link and that in the next phase we really go topic by topic to decide what is being built and what is being bought and how can we roll this out now to really scale it up.

All of this can only work if we change the management of the group. Simplify to accelerate also means changing the way we work. And this is based on two fundamental convictions I've got. One is, yes, we are large, yes, we are in many countries, but we can be much simpler. What can we do to simplify ourselves and how can we leverage the talent, the potential that we have in the markets by empowering those people.

And therefore when you look at the history of AXA, we've been always extremely strong in the financial management of our balance sheet. The fact that we have such a strong and robust balance sheet is the fruit of that, where we can still catch up is on the operational performance. And therefore it is my conviction that we really need to put more action on this one that grows on the one hand with being closer to the entities, but it also goes with having the numbers that go with it. And we have made great efforts to develop a tool where today we have one single source of the tool of the numbers that are relevant for everybody and that are also transparent for all the involved managers in order to discuss one single tool.

The second important topic is the full accountability in the local markets. I do believe the further away you take a local decision from a local market, the worse the decision. Let's focus ourselves, local entities should be fully responsible and empowered on the transformation of the local entity. The group should really focus themselves on making sure that the reputation is guarded and on making sure that we act on behalf of the shareholders, which means essentially the group is there to allocate the capital and to really make their portfolio shift happening, it is not there to control the number of visits of an agent in (30:00). And this also changes fundamentally the way we will operate. I have asked all of the local CEOs now in those 10 plus 6 markets to develop their own equity story. They need to prove to us now why should we invest in the country, why should we even invest more. And I can tell you it's a very healthy process. We have done this process with AXA U.S., we have done this process with AXA Investment Management and we will be doing it now with those nine plus six entities that are still missing.

And one thing is clear, there is no compromise on customer service. One of our commitments has been and will be going forward that by 2020 100% of our markets will be at market average or above in terms of customer satisfaction. We are working very hard on this. And going back to what I said earlier, we need to address two pieces; how can we make the service for the 20% of customers that we do serve well today much better, but the biggest leverage is, how can we increase the service for the 80% of customers where we only offer peace of mind and their experience often is quite a frustrating one. They get a bill, they manage to do everything not to claim and as a benefit they get another bill next year which is most often higher than the one beforehand. And this is clearly what we want to attack, and therefore we also clearly want to increase in the performance grid of the managers, the notion of customer satisfaction to a higher notch than we have it today.

Focusing on ten plus six markets also will let us – will let me get closer to the entities again. And there is a fundamental change in how we really determine the priorities by country. There will be very few priorities, this is the benefit of simplification, clear message, few priorities and it will be focused on growth again. We have not been growing organically enough and we need to get back. And therefore when you look at the five large geographies, France and Europe is clearly about getting back to growth. AXA France has already shown that growth in a mature market with a leadership position is possible and gaining market share is possible. If the French can do it, everybody else in Europe can do it as well.

And therefore the big question is there, how can we transform the distribution sales force? How can we go away from a siloed sales force of agents direct telephone to a blended distribution where those access points interact together where they are there for the customer and not in competition to the customer. In Asia it's a different ballgame. We have today very good positions with the joint ventures on the bancassurance side. Our big focus there is to grow the agency sales force. How can we expand our footprint? How can we come to positions that are all at scale through moving the agency distribution? And I'm very happy that Gordon Watson is with us today, because he was the one recruitment for Asia, where we really have very high hopes that agency distribution will grow. Gordon, you have done it at the competition and we also wants to leverage your expertise here, but I would like to you to say a few words, what's your view on AXA in Asia?

Gordon Timmins Watson {BIO 21377545 <GO>}

Good morning. I am Scottish. So I will speak slowly. That was a special request. No, I think, it's been – really I think Asia, there's a massive, massive protection gap. The reason I joined AXA was the last 45 minutes you heard Thomas speaking about, it's very clear and coherent what we want to achieve. When I look at the outside in, when I look at AXA, I see innovation. And with the massive protection gap in Asia, there's no one else, I feel that can really maximize. If you listen to Thomas's presentation, he used the innovation word about, I think it was 14 times.

Innovation is part of the DNA. That is a huge differentiator. Also AXA is the only composite insurer in the region. AXA is the number one global brand for nine years in a row. So it's my job to take it to the next level, to polish that brand and to make everyone in Asia really, really feel proud. I want AXA in Asia to be company that everyone wants to work for. And two of my favorite words that you used were simplicity and empowerment. And I think empowering the people when the decision is made closest to the business is a very wise decision. So empowering people to be all they can be and AXA being all it can be in Asia. So I really don't want to say too much more. But I can't wait to start, so thank you for the opportunity.

Thomas Buberl {BIO 16182457 <GO>}

Thank you, Gordon. So you see we have high hopes and big plans for Asia. The same is true for the U.S. You will hear more later, but in the U.S., we really want to accelerate the growth, make sure that we improve the efficiency, and also make sure that we optimize our capital.

On the international side, that is very much around two things. How can we rationalize and reduce our footprint. We need to be in less than 64 markets going forward. But at the same time, how can we also develop in that areas, the growth boosters of tomorrow. On AXA IM and AXA Corporate Solutions, those are core assets to us, those are engines to really fuel the growth in the entities on the protection side, on the commercial line side. So very few priorities, very clear, very focused on growth.

This is only possible with a leadership team that is very much focused on growth and that shares that growth obsession. And I'm very happy to present to you today the new leadership team. They are all here. Make sure that you speak to them. I'm very glad that I've got my final team together and that is the team that is really consisting of many, many operators. Operators that have a great track record in growth. You take Gordon's track record, you take Jacques de Peretti, you take Antimo Perretta. All people – you take Mark Pearson, all people that have been operating in large markets, with a long term view on the business and have really shown that they can grow in these markets. And I'm very proud that we have this team together now and that we can really accelerate together.

Thank you very much. And I will now hand over to George Stansfield.

George Stansfield {BIO 16969899 <GO>}

Thanks, Thomas. Hi everyone. Thomas spoke to you just before about the portfolio segmentation exercise that we've run over the last month with a view to simplifying our corporate footprint and trying to focus our resources down on the 10 plus 6 markets. I wanted to spend a few minutes talking to you this morning about an exercise that we've run in parallel to that, which has been focused on simplifying our organization, simplifying our operating model and our governance and let me begin where I will end.

The net effect of that exercise is essentially twofold. It will result in a de-layered and simplified operating model for the group that's focused on five geographies and a single corporate center, which is quite different from the model we've been operating over the past years. And it will result in a 25% reduction in our central cost, our central functions costs, which equates to about €0.3 billion in annual cost savings and that will be phased in over the next two years.

So if you look at governance in this group across a long period, 30 years, we've known essentially three different models; a two-dimensional matrix, a three-dimensional matrix, and a four-dimensional matrix. During the build phase of the group in the 1990s, we operated in a two-dimensional matrix, you had AXA S.A. listed holding company in Paris, and a portfolio of operating companies underneath us. I think it's fair to say we were highly, highly decentralized at that time. We were doing lots of M&A deals. And after we acquired company UAP in January of 1997, we had more than a dozen listed subsidiaries beneath AXA S.A. And we were so decentralized at that time, I think from time-to-time we used to ask ourselves the question what makes AXA more than a mutual fund of insurance company values. We never thought of ourselves that way, because there was always an industrial logic to what we were trying to do and to build. But I think it was a fair question to ask.

That changed beginning around 2000; we entered into a new phase. And in the early 2000s, we launched a series of minority buyout transactions and we bought back all the minority interests in all of our operating subsidiaries around the world with the notable exception of AllianceBernstein, which remains listed to this date.

We also in the early 2000s built a lot of what I consider to be the backbone infrastructure that converted the group from sort of a sum of the parts to a global financial institution. And here I'm talking about things like group risk management, group investments, group compliance, group HR, a lot of the processes we run there today, those things did not really exist in the 1990s. They were built in the early 2000s. And that really converted us as I said from a sum of the parts into more of a institution, global institution. From a governance point of view, we introduced a third layer into our governance structure in 2006 after we acquired Winterthur when we introduced regions.

The third phase began in 2010 when we introduced global lines. So this added a fourth dimension to our matrix, and we introduced global lines coming out of the financial crisis. And between 2010 and 2017, we began to build a substantial, sort of, commercial and operational functionality in the layers above the operating companies. And here I'm talking about things like marketing, like distribution, like claims and we hired experts into the layers, at the global lines into the regions, in all cases above the operating company.

When we finished the portfolio segmentation exercise that Thomas referred to before, in the beginning of 2017, we took a step back and we looked at that four-dimensional matrix that I just described against the segmentation and our desire to focus down on the 10 plus six and what we saw was a substantial gap, a gap in terms of the complexity of that four-dimensional matrix against the simplicity that Thomas referred to and that will be one of our guiding principles going forward.

A gap in terms of the issues around clarity of accountability, which in a four-dimensional matrix can become a touch confusing. A gap in terms of our ability to take quick decisions and take them close to the client and a gap in terms of the cost of operating a four-dimensional matrix of that complexity against what we think is sustainable for the next phase of the group.

And we built a new model that we built it really on four basic principles. It's something – a model that's adapted to the strategic segmentation. And when we looked at the different segments, they have very different needs from a corporate center and support point of view, from a governance point of view. The current engines against the smaller entities, those are very different things, they need to be managed in different ways, they need to be supported in different ways.

It's built on the principle of de-layering and simplifying, trying to take decisions as close to the ground as we can. It's built on the principle of investing in the countries rather than in the layers above the countries for a very simple reason. If you do not have the right people with their hands on the wheel in the market, you do not cure that problem by hiring in people in layers above. And finally, it's built on the principle that the operating companies are the principal axis of the new system. They are the center of gravity in our system and the corporate center will have a more focused role.

The result is a system that's based on five geographies; it's France, it's Europe ex-France, it's Asia, it's the U.S. and International, and it's the corporate center that will have a refocused and more limited mission than we've had in the past. It will be focused around three essential missions; risk and control, which has been sort of our core mission from the beginning kind of forever; shareholder representation, which is about assessing the operating performance of our subsidiaries around the world and their strategic positioning; and corporate management, which is about capital allocation, which is about M&A, which is about managing our brand, managing our group senior executives around the world.

So we believe that this model will vastly simplify the interactions between our operating companies and the corporate center. It will help to clarify accountabilities. It will help us take decisions more quickly and closer to the ground. This slide is just a graphic representation of what I was mentioning.

The operating companies become the center of the new system. The corporate center is focused on risk and control, shareholder representation, allocation of capital. So that's a much simpler model than we've been operating and certainly much simpler than the four-dimensional matrix that is in place today.

In terms of timeline, we really began to focus on this at the end of 2016. We launched a formal initiative at the end of April. It took us six months to drill into the organization to ensure that we had our arms around all the numbers, all the cost, all the headcounts in the different layers of our structure. We announced in October internally, we began the social consultation. We announced the plan for the future, the new model that we want to implement. We're in the process of that social consultation right now here in Europe.

We expect to come out the other side of it in early 2018, hopefully before the end of January at which point, we will implement this model and operate it going forward. We do not stop there, we will keep in place a transition team that will be focused on how we're operating this model over the next 12 months after implementation, to ensure that we get the impact that we're looking for because there's always a tendency with something this complex to people to go back to what they knew. There is a tendency to rebuild out layers that we are going to take out of the organization in this restructuring.

So from a financial point of view, as I mentioned before, this will result in a 25% reduction in our central functions cost, which equates to about €0.3 billion in annual cost savings, that will be phased in over the next two years.

So that's what I wanted to say to you about governance. We can talk in Q&A at the end about any questions you've got around that. It's been a very, very substantial effort. It took us quite a number of months to design the new model. We see very clearly where we want to go now. When we're through the social consultation, we will implement and begin to operate the new model.

So we wanted to shift gears now, and with Gérald talk to you about the U.S. IPO. And let me begin. I will focus on IPO process and scope. Gérald will talk to you about some of the pre-IPO restructuring transactions that we're going to undertake and then some of the key implications for the AXA Group.

We discussed with many of you at dinner last night, and I think many of you have seen, that AXA Equitable Holdings, which is the U.S. holding company that we intend to IPO next year filed what's called an S-1 registration statement with the SEC last night. That document is about 600 pages, and I'll give you a little bit of color on what's in there. It's a comprehensive view of the business of the company. Despite the fact that that document is filed and despite the fact that it's public and you can all get it off the SEC website, we are still in an SEC mandated quiet period. And we remain in that quiet period until we come out the other side of the SEC process and the registration statement is declared effective, which we do not anticipate happening until Q2 of next year. So we are severely restricted in what we can say about AXA Equitable Holding and its business. There's a lot of information in the document, I would encourage you to take a look at the document. But today, we will focus very much on the impacts of the transaction on AXA Group and some of the restructuring transactions that we will undertake prior to the transaction.

On the right hand side of that slide, there is just a summary of the different sections in an S1. The S1 is the most comprehensive form of registration statement in the U.S. system, it's for an initial public offering, the document in total as I mentioned is close to 600 pages. There is a description of the business, the financial position of the company and the strategy and it's been a substantial amount of work to prepare the document over the past months.

In terms of the segmentation of the business that's presented in the document, we presented in four segments: Individual Retirement, which accounts for about 78% of the full year 2016 U.S. GAAP, operating earnings and this is the wealth accumulation and protection business, mostly annuities; Group Retirement, which is 11% of the operating U.S. GAAP operating earnings; Investment Management & Research, which is AllianceBernstein, representing 11%; and the Protection Solutions with, which is life insurance and employee benefits with a very negligible amount of the overall operating earnings. So that's the segmentation in the document.

The document is obviously prepared on U.S. GAAP. The document that was filed will be updated as we go through the process with the SEC. I would just mention another key fact that the company has 4,700 what they call Affiliated Advisers which are agents more or less tied agents which sell primarily for the company. There are 200 Bernstein Financial Advisors and access to another 150,000 distributors through third parties, banks, brokers and other parties with which we have distribution arrangements.

In terms of timeline, the overview is laid out on the slide. We announced the intention to undertake this transaction back in May. At that time, we told you that we would file the initial registration statement with the SEC before today and we did that last night at 10:30 Paris time. We now go into a process with the SEC which we expect to take four months to five months. That would be the normal time scale for a process like this. We will go through several rounds of comments with the SEC.

The SEC has teams which are rather well versed in this, given some other recent transactions in the U.S. market. We would expect to get several hundred comments on the document and we would hopefully come through that process some time in Q2 2018, when the S-1 would be declared effective which would be the point at which we could actually launch the process.

We've had extensive discussions with the New York Department of Financial Services (sic) [New York State Department of Financial Services]. It was somewhat fortuitous in terms of timing, because the New York Department (sic) [New York State Department] was just concluding what they call it a quinquennial examination in May of this year. The quinquennial is a regular examination they do on all insurance companies licensed in the State of New York. And that was very fortuitous, because we decided to – we announced the launch of this transaction in May.

We were able to get the clarity on a number of issues with the New York Department of Financial Services (sic) [New York State Department of Financial Services] at the time of the conclusion of the quinquennial. And that was – that went relatively smoothly and the discussions were quite constructive, but it was due in large part to the fact that the New York Department (sic) [New York State Department] was already deep into the company in the quinquennial and that was very favorable in terms of the overall timeline on this – for this transaction.

So, with that, maybe I would turn it to Gérald to talk to you about the pre-IPO restructuring transactions and impacts on group.

Gérald Harlin

Thank you, George. Good morning. So, after you just heard from George, I'll present now pre-IPO and IPO implications for the AXA Group. So, my objective in this slide is -in this section is to present the pre-IPO restructuring transactions. As you will see, the three steps will be first financing and internal loans repayment, second the recapture of the variable annuity business and capitalization, i.e. simplify the structure and strengthen the capital of AXA Equitable.

Next is a sale of AB units from the AXA Group. Part A corresponds to the financing and internal loans repayment, so first, as you can see we have the $1 billion, $1 billion capital enhancement to AXA Group, U.S. holding company. That's something that had been already announced, when we announced the IPO on May 10. The second operation is $4.4 billion of external financing, because we will – the U.S. will reimburse internal loans, as you will see in a second and this is something that will be done, implemented before the IPO. The third step is the loan repayments $1.8 billion internal loan repayments, meaning that all loans with the U.S. will be repaid.

Part B, as you can see on the left hand side of screen, part B deals with the recapitalization of U.S. operating entities and the recapture of the valuable annuity business. So meaning that the first step is a capital strengthening of AXA Group U.S. operating companies by $2.3 billion before year-end, and the second step is recapture of the AXA RE Arizona, VA business. So that's the second step. That means that it's the recapture of the valuable annuity business located presently in AXA RE Arizona by AXA Equitable.

Part C now deals with the sales from the AXA Group to AXA Equitable Holding of 18% of AB for a price of roughly $1.1 billion. That's what we can see in the middle part C. As a whole, we could say that, and that's what you can see on the right-hand side for the AXA Group ex-U.S. it's $2 billion cash positive that means that the addition of that part A, plus B, plus C means €2 billion of cash for the AXA Group ex-U.S. So as a whole, the pre-IPO transactions will first simplify the U.S. financial structure with all internal loans being unwound. Second, it will strengthen the capital structure for U.S. operating companies, and last roughly speaking, we could say that it should be neutral on AXA Group Solvency II capital.

Bringing out to the consequences for the AXA Group in the U.S. First of all, I mention it the recapture of the variable annuity business, which is currently reinsured by AXA RE Arizona. It's been discussed of course with the New York Department of Financial Services (sic) [New York State Department of Financial Services]. As you know, it will position AXA Equitable quite well for future NAIC framework, because this type of captive reinsurance for variable annuity business, most probably will be revised, and it will reduce the liquidity needs from the captive reinsurance.

So, I should say that AXA – that the AXA Life Re, so that means that the insurance company, AXA RE Arizona will be used only tomorrow (59:18) for the traditional protection business, but no more for the variable annuity business.

Let's have a look at the capital levels after the recapture and capitalization. So we could say that that is the Group's U.S. operating companies will benefit from a CTE98 VA capitalization, which is quite strong. For non-variable annuity business, we should have an RBC ratio, risk-based capital ratio of 350%, which means that as a whole, we should have 500% of combined RBC ratio.

Let's move now to the key implication for the group. And I would like to remind you that we see this IPO is a key step for us to accelerate our transformation toward a more balanced risk between financial risk and taking a risk, while keeping our Ambition 2020 financial targets.

So let's start with the hedging strategy. So the target hedging strategy will have two fundamental objectives. The first one, which is not new, is to protect the economic value of the valuable annuity business. That's something that we have been doing up to now so no change on that side. But on top of this, we'll add a new layer, I would say, of hedging that will means that we will protect the protect the statutory capital in order to have CTE98 levels that I mentioned before, and the most economic scenarios, and to maintain a CTE95 level even in extreme scenarios. Concretely, and that's what you can see just in the middle, it means that we will hedge more equities than we did before. And as far as interest rates are concerned, no specific change, meaning that we will keep upside when interest rates will go up.

Concretely, it means that the impact this – the additional hedging will be relatively marginal at the scale of our group, which means that there will be limited impact on AXA Group IFRS segments. So post-IPO, we'll have resilient VA cash flows. And here what we present correspond to the – we present the lifetime discounted inforce VA, variable annuity cash flows, so it's variable annuities and it's lifetime. So that means that it's a full actualization discounting of the future cash flows.

I should say that it's discounted at a rate of 4%. We do it under four different scenarios corresponding to the four backdrops that you can see on this slide. What are these four different scenarios. First is the base case. It's an expected equity return of 6.25% corresponding to our own management case. Interest rates correspond to today's forward curve, i.e. 2.8%. This corresponds to the 10 years T-bond, 2.8% at the end of 2017 and 4.9% at the end of 2027. So we have a positive scenario which we call market appreciation, which is corresponding to an equity return of 10%, rates moving up from 2.8% to 4.9%. Then we have two negative scenarios. First one with the market share corresponding to an immediate 25% share on the equity market and then a recovery at 6.25% per year, with rates being quite low, because rates would stop at 1.8% and finish 10 years later at 2.1%, so more or less flat.

And then the financial crisis which is even worse correspond to a drop of an immediate shock of equities of 40%, then a recovery at 6.25%. And the interest rate scenario is the same as the market showed, 1.8% in 2017 up to 2.1% only in 2027. So what we can say and what you can see here are the net present value, €12 billion for the management case, €18 billion for the market appreciation, €10 billion for market shock, €8 billion for financial crisis.

What does it show? It shows first that we have extremely resilient variable annuity cash flows. We have an effective downside protection even in a very strong financial crisis which is the extreme right scenario. You can notice that we have downside which is limited to €4 billion, i.e. €12 billion which is a base case minus €8 billion which is the financial crisis case. We keep upside and we keep upside sensitivity in case of positive scenarios., it's €18 billion minus €12 billion.

So as a conclusion, what's the impact for our group and for AXA? I could say that the post IPO implication for the AXA Group, its positive on cash, meaning that we should have €2 billion, as I explained. €2 billion from pre-IPO transactions before any potential proceeds from IPO. It should be resilient. We should have resilient VA cash flows, a different range of scenarios, that's what I just explained in my previous slides.

Next, 40% to 60% payout ratio. By payout ratio, I mean dividend plus eventual share buyback. Hence, that's targeted by AXA Equitable and it will be effective in 2018. So it will start in 2018. So as far as Solvency II is concerned, it's neutral on AXA Group Solvency ratio. And we should have, as I said, an improved balance between technical and financial margin for the group. As far as IFRS are concerned, limited earnings impact from change in VA hedging strategy. Second, Ambition 2020 target are reaffirmed in the context of the IPO.

So I propose you to have a coffee break and then we'll resume our IR Day session.

[Break] (01:06:33 – 01:53:10)

Andrew Wallace-Barnett {BIO 18671460 <GO>}

So welcome back after the coffee break, and we're going to do something now which I call a little bit an IR Day presentation for the geeks, which is all of us. A very important subject for not only exhibit for the industry. And what we hope to do with this next session with Gérald is to bring some clarity and some insights into the relationship between cash and Solvency II and how the two emerge. Following that, as I mentioned that Gérald will do an update on Ambition 2020, and then we have plenty of time for your Q&A, which will be Thomas, George and Gérald.

And I hand over to Gérald.

Gérald Harlin

Thank you, Andrew. You said that it's a presentation for geeks, but I don't have the age of a geek. So the objective of this session is, I would say, to clarify the links between cash flows and Solvency II operational returns.

Please take it like an educational session, but I believe that it will be key in order for you to better assess the quality and the predictability of our future cash flows. I've been discussing this topic different times with some of you, and I know that this is an industry quite important issue. I hope that it will be a way to move, really, the discussion forward.

So I have three objectives here. The first one is to give you a clear visibility on future cash flows and make the link with our Ambition 2020 target that we presented in May last year. The second objective is to connect free cash flows and Solvency II operating returns. It's an important point and we could say that with the almost disappearance of the embedded value, there was a kind of – there is a lack of clarity, and I hope that it will bring some more clarity. And the last objective is to link to dividend and capital management.

So let's start first with our future cash flows. Here what you can see on the screen corresponds to lifetime Life & Savings cash flows starting in 2016, i.e. the first year of our 2020 plan. You can see the different bar charts. What is in dark green corresponds to the inforce, and what is in light green corresponds to the new business cash flows assuming that the new business would remain flat at 2016 level, which is a quite conservative assumption.

The chart; the way it's built, it's built by blocks of five years, each bar chart corresponds to five years. And let's focus first on the first one covering 2016 to 2020. First point, and it's quite simple, is that the first bar chart corresponds to cumulative cash flows of between €16 billion and €20 billion for the five years. In other words, €16 billion for Life taking into account the fact that last year we posted cash flows from P&C, Asset Management and Banking, which is mostly the adjusted earnings, we saw small adjustment for the capital requirement of €3.2 billion makes us comfortable and confident to reassess the fact that free cash flows that we expect between €16 billion and €20 billion, cumulative group operating free cash flows of €28 billion to €32 billion. That the first – it's a fact.

Then I propose you to analyze a bit more in detail the Life & Savings profits of the last years. And let me go to this page, so to this slide. You have the cash flows in-line with what I presented before. What is interesting is to say, okay, the total of these future profits amount to €90 billion for Life. This €90 billion first element quite interesting is to look at the breakdown between Protection & Health, unit-linked and G/A savings. You can notice but it's not fundamentally different from our earnings breakdown, but 65% of Protection & Health of these €90 billion of future cash flows which are undiscounted, calculated under our management case, 65% corresponds to Protection & Health, and 20% on top on unit-linked. G/A savings represents only 15%.

And taking into account, you should take also into account just for you to keep it in mind that in protection and health, we benefit of course from the future technical profit, whereas in G/A savings it's only interest rate margin. And the technical profit if you refer to what we posted one year ago, in 2016 it was €1.6 billion pre-tax, just to give you an idea. So I repeat that this €90 billion, they are calculated on inforce undiscounted future profits and our management case, the management case being more or less the base case where you are expecting equity return of roughly 6% and interest rates more or less on the forward curve.

So next is to move from Life & Savings inforce undiscounted future profit to Life & Savings inforce risk neutral discounted future profits. The difference is €35 billion. So the difference between the €90 billion and the €35 billion mostly corresponds to a risk neutral scenario, the fact that you are projecting your future return at rates which are quite low, and the discount effect at a level which is this risk neutral scenario, risk neutral framework, €35 billion.

And next, and that's quite interesting, I believe, is the move from €35 billion to €13 billion. I remind you that the €13 billion corresponds to the Life & Savings inforce future profits, including in the Solvency II AFR. What's the difference between this €35 billion and €13 billion, which is quite sizeable, it's €22 billion?

This corresponds to three elements mostly. First, the time value of options. Second, it's two other elements which corresponds to the prudence of Solvency II. So first one corresponds to the boundaries of contracts, and you know that we have a lot of boundaries of contracts applying, for example, to our Swiss protection business. And the second is Solvency II market value margin. Keep in mind that the facts, we have roughly €7 billion of market value margin in Life, the fact that we have a significant part of our business, which is Protection & Health, means by definition more market value margin. So that's it.

So I could say that the first element that we can draw – lesson that we can now draw from this chart is €13 billion of Life inforce future profits in total AFR out of €58 billion of AFR. So that means that the future profits in AFR are extremely small, €13 billion.

So second is what about the €77 billion that you see here just in the middle, the difference between the €90 billion and the €13 billion. I would say that this corresponds to future profits which are not reflected in AFR, but which will emerge over time. And with two components, the first component corresponding to €22 billion that would correspond to the release of the prudential buffers. Look at what I said and you can read it between €35 billion and the €13 billion, that's Solvency II boundaries of contracts and the Solvency II market value margin. And the second element, €55 billion out of the €77 billion correspond to the release of risk premium and discount effect.

So let's focus now, if you don't mind, about – let's focus on 2016. Zoom on 2016. So we start again with this €90 billion. It's the same €90 billion corresponding to the inforce and discounted future profits. So hence, indeed, you remember that I said that the €90 billion is two components. The first component, €13 billion, which correspond to the profit included in AFR. And we can say that the €13 billion part of this €90 billion, €13 billion corresponding to the profit in AFR will flow into cash €4.9 billion. So you have €13 billion, €0.9 billion correspond to the operating free cash flows. No impact on change in Life & Savings AFR. Why? Because it's already in the end of 2015 AFR because the AFR takes into account the future profit.

So the second component, which is quite important, correspond to the release for one year of the €77 billion that I presented before. So this correspond to the release of prudential buffers and risk premium and unwind of discount effect. So you can see that both for cash but also for Solvency II, it's a significant element and it's something which were not in the opening AFR.

Next is a new business strain minus €1.3 billion, which both affects the Life & Savings operating free cash flows, as well as the change in Life & Savings AFR. And then you have the value of the new business that means that during 2016, we brought new business, which will have future profit that will flow through AFR, and this correspond to €2.8 billion. And so meaning that this €2.8 billion will indeed feed the €90 billion of what this €90 billion will be at the end of 2016 because it will progressively, in the future, increase the operating free cash flows, taking into account the fact that most of these €2.8 billion correspond to Protection & Health. So in total you have cash for Life of €2.19. I remind you that it's 2016 and the change in Life & Savings so far amounts to €5.1 billion.

With a few remarks, which is that this is highly predictable, that means that – and this is important for the future cash flows so the implication of this for the future cash flows is that it will be highly predictable because a significant part is coming from Protection. We have market leading proportion of Protection & Health, and there will be also some future prudence, margins that will be released.

So second, remarks that they wanted to make is this new business contributes to the future cash emergence over the next years, and this explains most of the difference between €2.9 billion and €5.1 billion, because doing Protection mostly means that we have a lot of future profit even in a risk neutral framework which doesn't appear yet in the free cash flows but will appear tomorrow in the future, in the next years, in the future cash flows. So that's mostly the difference between the €5.1 billion and the €2.9 billion.

Let's move now to – on top of the Life, we have the P&C. And the objective, as I told you, is to have a full reconciliation between total operating free cash flow and 2016 change in AFR. So you can see here that you have – you recognize the figures that I just presented before, the €2.9 billion and the €5.1 billion. Then you have the P&C Asset Management and banking operating free cash flow, €3.4 billion, €2.8 billion on the change in AFR. There are some differences, and for those who are interested, I'll be quite happy to share it with you.

We could say that most of the difference is coming from capital gains. Why? Because as you know, AFR is calculated on the mark-to-market basis, was operating free cash flow. It's at the time you sell the securities, you realize your capital gains that you get the cash flow. So it's in the open AFR position for AFR, and it's not for free cash flow. That's mostly the difference.

Next is the change in P&C required capital, which affects the operating free cash flow. And next is the holding cost. I remind you that the way we report on operating free cash flow, but you are used to it, is before holding costs, whereas for change in AFR, by definition it's net of holding cost. So in the end, €6.2 billion for cash flows, €6.9 billion for change in AFR, and these €6.9 billion correspond to 19 points, that's what we published at the end of 2016, plus 19 points of Solvency II operating return in full year 2016. So you can see that the figures are not very different.

We could say that by definition it doesn't compare fully because one is a pre-holding cost, the other is post-holding cost. But nevertheless, I could say that the biggest difference is really what I showed before, i.e. that we benefit from the future profits in the Life business, which makes that – and this is again highly predictable and it mostly explains the plus 19 points of Solvency II operating return.

So let me – to make – all of this makes us very confident in the delivery of our targets. That means that the group operating free cash flow €28 billion to €32 billion, I explained to you that of which we have €16 billion in Life, which makes us quite confident. For the rest of the business, it depends on technical factors, mostly the combined ratio and you will see later on, I'll tell you more and update you on where we are. But extremely confident in the €28 billion to €32 billion cumulative 2016 to 2020 cash flows.

Second remark is the cash remitted to the group. We committed on 75% to 85% of operating free cash flow, we confirm it. I should say that it's before potential U.S. IPO proceeds. So what does it mean to make and to draw some conclusions. That means that we are confident that we will achieve these two targets. It means that it will translate into reliable and attractive dividends, that we have sufficient resources to fund growth and innovation.

And last is the U.S. IPO that will be reinvested in a previous segment or return to shareholders. So U.S. IPO proceeds, as I said, on top of these €24 billion to €27 billion. So they will be, as we said, you remember that when we announced it in May this year, when we announced the U.S. IPO we said that the proceeds would be reinvested by preference in previous segments, but it could be also return to shareholders through share buyback.

So that's mostly for this educational session. And of course, I expect that you will have many questions. And I propose you to move to Ambition 2020 update, and then we will have with Thomas and George our Q&A session.

So Ambition 2020 update. I'm sure that you remember this is a slide that we showed and we presented on June 21, 2016. And I'm sure that you remember the five drivers. Let's start on the left hand side. So this is environment driven that correspond to the interest rate headwinds. I remind you that 16 months ago when we presented it, rates were a negative territory and we had, I would say, two different assumptions and we said that the fact that in the end, underlying earnings per share could be between – could show a compounded annual growth of 3% to 7% dependent on the interest rate assumptions because in the most negative case it could represent a drag on our earnings of 5% per year.

Here we have been the center of the four drivers and our own control, which are efficiency growth, technical margin and M&A. So I propose you to come back on each driver and to see where we are18 months after we started this Ambition 2020 journey.

Let's start again on a few elements on interest rates. So here you can notice that yesterday we had 10 years bond toward that 41 basis points, which is a quite sizable increase because it's an increase of 36 basis points compared with June 21. So I was not right, I told you just before that we were in negative territory. Some part of the curve was in negative territory but the 10 years were slightly, slightly positive 5 basis points. As you can see on the top left graph, we are not yet on our best scenario, but we are clearly above the unfavorable scenario. And I remember at that time that some of you asked us, guys, don't you believe that your unfavorable scenario is still too favorable. So I believe that seems to have changed since then, that people are a bit more optimistic on the interest rate. By optimistic, I mean that people believe that the probability to go back negative territory is quite remote today, especially with the improved growth in Europe.

Nevertheless, we are more positive and we believe that we should progressively remain and go back to the base scenario. It doesn't mean that we consider that the rates will go up much more than the base scenario, so let's keep the base scenario as our best assumption for the time being. As far as the U.S., which are in the lower half of this slide, we are clearly in line with our best scenario, and we have today 2.4% which is a sizable improvement compared to 16 months ago because it's plus 69 basis points.

I should add two elements. I'm sure that some of you remember that we said that we built this plan assuming that the equity market would stay flat. Indeed, it's not been the case because the equity markets went up sharply, I could say, which is good for the unit-linked business. And the equity (02:17:13) improved by 20% roughly. So it's a good news. It's a good news. But at the same time, I should say that this is compensated by a bad news which correspond to the FX rate, because as you know, the euro improved a lot compared to the situation 16 months ago. So I could say that all these two factors, equity, ethics, more or less they compensate each other today. We will see, but we assume that going forward it will be the same.

So as far as efficiency is concerned, let's move to the other drivers. As far as efficiency – so on efficiency, we achieved €0.5 billion in 2016 and in the first half of 2017. So it means €0.5 billion over the first 18 months of our plan. Its €0.5 billion, out of €2.1 billion. I remind you that since we started our plan a bit later, that it was quite normal to have a €0.3 billion only for the first year, but we posted €0.2 billion for the first half of the year. At the same time, the savings that were mentioned by Thomas, presented by George, the savings from leaner central functions will allow us to accelerate the delivery. For the time being, we could say it will accelerate the delivery. That means that savings will come sooner than what we thought 1.5 years ago. That means that we're quite comfortable in order to confirm our 3% underlying earnings per share, combined with earning growth coming from efficiency.

Let's move to growth now. So on growth, as we explained about two weeks ago when we presented our nine-month indicators, we could say that the contribution from operating segments is good. Let's start first with health and revenues. In line with our strategy, health and commercial lines are privileged segments, as well as Protection & Health revenues are plus 5%, where the ambition is between 3% and 5%, which means that more or less we are in the high end of this Ambition 2020 target.

For commercial lines, revenues plus fee. So it's in line and we have always a strong focus on commercial lines as mentioned by Thomas in the introduction. For production and revenues plus 1, we had a low start. We must confess that it was a low start, but we had some headwinds. I won't go back on these headwinds. We shared it with you over the previous presentations, year-end 2016 and half year 2017 presentation. We keep our ambition at 2% to 3% globally.

And for Asia, underlying earnings are plus 6%, and our ambition remains plus 10% to plus 12%. As a whole, we will – the plus 2% that we expected to derive from global growth will be achieved. That means that we are absolutely confident today. We have plus, we have minus, but as a whole we'll achieve it. We'll do this plus 2% UEPS growth coming from growth.

So let's move to technical excellence. On technical excellence, we have Property & Casualty, we have Protection & Health, and you remember that we made some commitment in term of combined ratio and loss ratios. Let's start with the loss ratios, and in P&C we had a commitment at 70%. In the first half 2017, we were at 70.1%. So we are there yet, so that means that we are already on track as soon as in H1 2017. As far as Protection & Health are concerned, in line with my previous remarks, I would say we had some impacts from exceptionals in France and the U.S. We are at 83.1% in the first half. We have an ambition at 80%, but we are confident that we'll do it and we will improve to 80%, the Protection & Health combined ratio by 2020.

In the end, it means that we confirm the plus 2% coming from the technical improvement – from this technical improvement coming both from Property & Casualty and Protection & Health. In term of a combined ratio, I remind you that we gave two commitments, 94% to 95% for P&C, 93% to 94% for Protection & Health. I remind you that the 94% and 95% correspond to 2 to 1 points of prior year reserve release. I remind you that in the first half, we had only 0.7% reserve release, last year 1.2%, so that's it and we could say that we have been quite conservative.

Conclusions now. So I would say that we are well positioned for our Ambition 2020 target. First, the macro-environment is in line with our central case, I should say, is back in line with our central case and there is much more comfort on that side than 16 months ago. Second on efficiency, the leaner central function will help accelerate delivery on our efficiency target. Next, we are confident that we will reach our growth and technical targets. And last, a clear capital allocation strategy, meaning that we confirm our M&A budget of €1 billion before any IPO proceed, meaning that we confirm the 3% to 7% expected underlying earnings growth per share over the plan period. And just to remind you that in the first half of 2017, we posted plus 5%.

I thank you, and now I propose you to move to Q&A.

Q&A

Operator

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you very much, Gérald. We now come to the Q&A session. And before we get into it, I wanted to talk again about the IPO in order to prevent any frustration that you will have in any minute. As George said it, we are not allowed to talk about the IPO other than what we have shown you today. And so, we really would like to stick to that because we need to stick to it from a legal perspective. The IPO is very important to us, we do not want to jeopardize under any circumstances the IPO or a delay in the IPO, so please respect that. We'll try our utmost to answer your questions, but we would never go beyond this legal boundary.

Who would like to start with his or her question. Let's go to this table, let's start, Nick. Sorry, I can hardly see, I think it's Nick Holmes.

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you. Thank you very much. Nick Holmes of SocGén. Two questions. So first is on payer to partner, wondered how far you want to go with this. I mean, do you, for example, want to acquire hospitals, garages for PMC major products? What's the scope? And then a question on the recapitalization of the U.S., not on the IPO, I stress. But with the recapitalization, will you consider changing the 300% equivalence ratio that you have, which is now looking conspicuously high compared to some peers? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you Nick. I suggest that Gérald treats the second question and maybe we do the second question first. And I would do the payer to partner question. Gérald?

A - Gérald Harlin

Yes, about the recapitalization of the U.S., I could say that from an economic point of view, it doesn't change. So that means that we reinforce the capital of the U.S. company. And your question about the 300%, maybe we will see. I cannot tell you yet. There could be a logic behind it, but we will see and we'll update you. But in the end what this means is that we have a capital position in the U.S. which is quite strong which is stronger than before. And I insist on the fact that the recapture is a good news because most probably – as we said, most probably (02:27:26) will put an end to or penalize, I would say, this type of in internal insurance.

A - Thomas Buberl {BIO 16182457 <GO>}

On payer to partner, I mean, obviously as you say the space is very large and we have taken the last one and a half years to understand that space and to understand what works and what doesn't work. And going forward, we would like to focus ourselves in three areas. One is clearly the area of health, the other one is the area of the SME, and the third one is most likely the area of, I would say, personal assistance. This would mean our efforts of either buying or building services will be only focused in these three areas. And we have gone through the analysts and are still continuing it, where do we need to build and where do we need to buy. And so this is where we want to focus ourselves.

To your concrete questions to hospitals, we always have to be very careful what is the hospital. And Benoit Claveranne and myself have just come back from Colombia where we have a large operation that does have a hospital but also medical centers. And if you ask me going forward, no I don't want to invest into hospitals, but medical centers where you can do the triage both in a digital way with tele-consultation, but also in a physical way, is certainly something we need to look at. But then the question always comes, do you need to do it yourself or can you also partner with somebody and do it together.

Let's stay at the same table and just move next to Nick. I can't see, unfortunately, who it is. Maybe you quickly say your name and the company you're serving now.

Q - Colm Kelly {BIO 19140684 <GO>}

Yeah. It's Colm Kelly from UBS. Thanks for taking my question. So we appreciate the restrictions vis-à-vis the U.S. IPO in terms of the €2 billion cash release pre-proceeds, when we think about the cash remittance targets at group, is that included in that number or is the €2 billion also incremental, and also what are the plans for the use of that €2 billion, the proceeds obviously earmarked for M&A reinvestment as the additional €2 billion cash release also earmarked for the same use. And also, in the U.S. in terms of the deferred tax asset and the potential for that to change in terms of U.S. tax reform, would that have any implication in terms of the RBC ratio for that business.

Secondly on Asia, given the China as a core part of the Asia strategy and growth and the change in the foreign ownership limits in China, can you just maybe articulate plans vis-à-vis increasing the ownership stake of that business, what we can expect to the extent you can?

And finally, a question clearly leveraging technology and innovation is core to achieving Ambition 2020 targets. I suppose the key challenge is articulating metrics that investors can track in terms of inputs. And also, what kind of – so what kind of metrics are you looking to put forward that investors can track to show progress, and also what are the key milestones again that we can track in terms of the progress of that business? Because obviously, earnings revenue growth are outputs rather than input, so it's more input metrics than outputs. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you. So I suggest we do the first question for Gérald on the U.S. pieces, second question for George on China and I'll take the third one on the metrics.

A - Gérald Harlin

So, your first question was about the €2 billion cash release. Yes, there is a cash release, but at the same time, it doesn't means that it will be on top of the cash, because it will – you know that we have existing debts, internal debts and so on. So, you are familiar with this. The second question is about the U.S. and the tax rate. So, we have been assuming that the tax rate would stay more or less where it is today on the net basis, it's roughly 25% net of GRD (02:31:36) and – and we – it's better and I – we believe that it was more cautious to assume that it would stay where it is today.

A - George Stansfield {BIO 16969899 <GO>}

On the China question, I think we're still going through the regulations that have come out earlier this week. I think we have a joint venture with ICBC on the Life side, with Tianping, on the non-Life side. We have an Asset Management venture in China, we've got ongoing discussions in those joint ventures right now, in particular with ICBC about governance and this change may factor into those discussions. It's a little too early to tell. At the moment, we hold 27.5% of that – the venture with ICBC. We have a call on another 12.5%, and but it's still short of majority. So, I think we're still discussing what the change could mean. In China, there's always a bit of ambiguity about how it will actually be implemented and when, so, it's still early days there.

A - Thomas Buberl {BIO 16182457 <GO>}

On the third question around the KPI. So, let us remind again, what is the transformation about. The transformation is about being more in touch with the end customer, being able to increase the share of wallet with the customer and also being able to serve the customer in a non-siloed way, not agents, direct, and telephone, but across the channels. And then fourthly, increasing the service revenue for the customer, and I think there you've got your four KPIs. How often am I in touch with the customer? What is my cross-selling ratio or share of wallet ratio and I would focus that very much on the new customers, because there you can see much of a bigger change. How many digital agencies do you have that are really integrating this? And then what is your service revenue per customer? And if you want to know how this works to the majority exactly, you should ask Jacques de Peretti who sits here. He has implemented most of this already in France and in the yearly targets that I have fixed with Jacques, those three KPIs are already a reality. Stay at the same table.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. Michael Huttner from JPMorgan. I had three questions. The first one and I'm kind of stealing from somebody else some questions so I apologize for that. You still have a system of awarding employee shares, which you then neutralize via buybacks. This seems a bit cumbersome, this kind of to and fro. Why wouldn't you just abolish the award of employee shares out for new shares so that we don't have to kind of worry about it every year or every other year? That would be my first question.

The second question is on your slide 3, sorry slide 6. If I look at the pie and I see France, Europe, U.S., Asia and Other, we discussed that a lot of Other is due to shrink. So, that's the sum of the 26 countries. The U.S. will shrink effectively you've announced the -- an IPO and who knows what happens after that. So, how confident can we be that out of this reduced pie you can still achieve your target EPS growth, underlying EPS growth of 3% to 7%? And the last one, I will get very excited about disposals. So, I wondered if there's already anything happening, anything that you can announce tomorrow to keep us happy? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So, Gérald do you want to take the first two question? I'll take the third one.

A - Gérald Harlin

So, I just would like to remind you that despite the free shares are concerned they are hedged on systematic basis, which means that and we announced it and we took the commitment, it was exactly two years ago, when we presented Solvency II, it was in December 2015. We said that we would neutralize the dilution coming from these free shares. Same for the stock options and presently, all the free shares are hedged. As far as the stock options are concerned, a significant part of the stock options, including those who are not vested yet are hedged. So, that means that most of the dilution is completely managed.

The second question? The second question is about the other countries. You know that these other countries, they represent a small part. First of all, it doesn't mean that all these 26 countries will be sold, not at all. But what we said is that we will rationalize it. There will be some that will be sold, there will be others that indeed will be managed for more profit, like a PE company. Just to give you an idea what is at stake. What's at stake is in term of AFR, I believe it's quite interesting to see what the amount. It's roughly €4 billion of AFR out of €58 billion. I believe it gives you a good idea. And you got the contribution to earnings, that gives you a good idea. But the objective is really to improve the profitability of those and others could be sold.

A - Thomas Buberl {BIO 16182457 <GO>}

And then let's quickly complement. On the second question, yes, the IPO is clearly, let's say, a step of a partial withdrawal. We have clearly announced on the 10th of May that we want to quote a minority. These proceeds have clearly been identified to redeploy in those 10 plus six markets in commercial line P&C, in Health, and in Protection.

Next, let's move to the middle table there.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Hi. It's Andrew Sinclair from BofA Merrill Lynch. Three questions for me. Firstly was on the Ambition 2020 targets, you've given updates on most of them but not really where you are versus your M&A target. Just wanted you to give us an update on where you are on the deployment of that so far and how much underlying EPS growth has been generated over the period so far from M&A.

Secondly, sticking on those targets and performance. Asian growth is behind targets by a distance. How much of that is just to FX versus how much is underlying?

And thirdly, just once if you can help me reconcile the width of the capital range – capital ratio range going forwards. 170%, 230%, one of the wider ranges and a dividend payout below 50%. As you reduce the stake in the U.S., how do you think about that going forwards? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald, do you want to take all three?

A - Gérald Harlin

So, on the first – on the M&A target, I would say, that we did, obviously, quite a few with very small operations at the same time and in line with Michael's previous question, what we did is that we – you notice that this year, we had roughly €1 billion of share buyback corresponding to the cancellation, I would say, of the dilutive effect of these free shares and stock options, but for the time being, that's where we are. But that means that we still consider that we'll do 1%. 1% was quite modest of the planned period. So, over the next 3.5 years, I'm quite confident that we'd do it. Your second question was about FX?

Q - Andrew Sinclair {BIO 17749036 <GO>}

(02:39:53)

A - Gérald Harlin

Asia.

Q - Andrew Sinclair {BIO 17749036 <GO>}

(02:39:57)

A - Gérald Harlin

Yeah. I believe that as far as Asia is concerned, we have a significant part coming from Hong Kong and we have been penalized by the drop – the recent drop. So don't consider that a significant part is coming from the FX out of the actual achievement in Asia, because they've been positive in 2016 followed by negative in the first half. So let's be extremely cautious. So we have maybe a small impact, but clearly small.

The capital ratio, no, we'll stick to it. That means that – I said and maybe it's an opportunity for me to clarify one point. I said in the presentation on the IPO, that it would be Solvency II neutral. It assumes of course – of course, the IPO in itself will increase the Solvency II ratio. But at the same time, we assume that we will reinvest it and that we will reinvest the proceed just because we don't want to have idle cash and just because we want to stick to and we – I confirmed and we confirmed the fact that we'll be between 3% and 7%. Meaning that more or less, after this reinvestment, it will be more or less neutral. And this being said, it confirms that the 170 basis points to 230 basis points is still relevant.

A - Thomas Buberl {BIO 16182457 <GO>}

Next question, we move to the table in front.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much. Farooq Hanif from Credit Suisse. Going back to the management layers, it always looks great on paper when you take out a lot of costs and a lot of people. Well, great from a sort of financial point of view. But, working in big organizations as I have, when you take out a lot of cost, sometimes you lose the person that does something that you didn't think he or she were doing that. You can create a lot of risk management problems, product pricing. If you're getting rid of so much of a structure you've had for a decade, I mean, how do you manage that risk? It must be a big risk. That's question one.

Question two, in terms of the Life & Savings new business element to the AFR, I remember you used to talk about payback periods and when do you want to sort of get that value. Do you have any sort of update on what your thinking is about, how quickly you want to get that? And yeah, those are my two questions. Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Farooq, thanks for your questions. I would say the first one is answered by George and the second one by Gérald.

A - George Stansfield {BIO 16969899 <GO>}

So on your first question, that was one of the reasons it took us six months to go through this process, because we were quite focused in particular and the regulators as well, the ACPR and the other regulators around the world on what happens to the control functions. Certainly, the Solvency II, the four key control functions including risk management, compliance, actuarial. And here we had a pretty clear visibility over the key people in the different layers. Most of them, we had talent lists that we developed long before we got into announcing this and we are quite comfortable on the whole, that the sort of core control functions are stable or will slightly increase.

So in the Solvency II key functions, we've been looking hard at that. The areas that reduce are largely commercial functions, marketing, distribution, a lot of the expert capacities that we built at the global lines or the region. So this was and is one of the key risks in doing something like this. We're pretty comfortable with where we are today. Of course, you never keep 100% of the people you want to keep.

But we've been quite successful in retaining the people that we want to retain. I mentioned before we'll have a team that will continue after we come out of the social consultation for the 12 months that follow, that we'll be monitoring those things in particular. But overall, we're pretty comfortable on the risk and control side of the equation that we won't drop any balls.

A - Gérald Harlin

As you know, the – presently, I would say is that the – our Life business is at a good level of profitability. As you know and (02:44:56) roughly at 40%, CIR is, let's say, around 14%, between 13% and 15% which is great. So that means that we are creating value, obviously, without discussing a long time about the cost of capital, without any doubt, it's above. But at the same time, I would say that it's obviously we are working and we will work with Alban (02:45:20) on ways in order to act, to reduce the payback and we have – so we, it's in our plan to find ways in the design of the products to slightly improve the payback. It's an important point.

A - Thomas Buberl {BIO 16182457 <GO>}

Stay at the same table, it's...

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Perhaps cut the microphone, sorry. It's Johnny Vo from Goldman Sachs. Just a couple of quick questions. Just a philosophical question. You're sort of moving from a centralized model to a decentralized model. And I guess you're allowing more autonomy in the individual units, but what are the sort of three or four KPIs that you're using to measure these units now? Is it cash, is it market consistency, so what is it?

The second question, just regarding the debt of $4.4 billion in the U.S., is this kind of the all new issued external debt or is there some hypothecation of debt from the group to the unit, and therefore, what does that mean from a debt to equity perspective and what are the implications from a ratings perspective? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you for your two questions. Let me take the first one and then Gérald takes the second one. As you've seen in the presentation that George has given, there were three key words that symbolize that new model, freedom in boundaries. Freedom meaning you have local accountability for implementing your transformation plan and we should only do one task in one place once.

In boundaries, means that there are very clear boundaries around it and that not everybody can do what he or she wants. And those boundaries are clearly about what George said beforehand the regulatory, risk and audit aspects, but also around the question of capital allocation and investment allocation. We will look going forward, to much closer where are we allocating our capital, and also where are we allocating our investments. And that also goes in-line with what I said earlier, this is decentralization without being blind, because we, today, have a large database of all the local numbers. We have one source of the tools where we can jointly see where a country is and where we'll also increase those performance discussion.

So I introduced a year ago, the so-called CEO dialogue that we have a couple of times in the year, where we let the entity come and where we discuss all the numbers. And this also in-line with the task that I've given to all the CEOs to write their own equity story to pitch to us why should we continue to invest and in which projects should we invest. So freedom in boundaries is the logic of that new model and not uncontrolled decentralization. Gérald?

A - Gérald Harlin

Yes. Johnny, answering your question about the $4.4 billion, this will be a real external financing. Why an external financing? Because you know that the U.S. should be standalone. Keep in mind that it will be rated, so an internal financing would have less value. So it will be an external financing.

To answer your question about the debt to equity ratio, yes, it will increase. We are at an extremely low level, roughly 25%, 26% today. It will move to 29%, 28% to 29% and keep in mind, at the same time, that we have €2 billion. Previously, you remember that we posted and we reported on a net basis. We move to a gross basis. Why? Because it was in-line with our competitors, but in term of quality, I believe that, no doubt, that the €2 billion will be there.

A - Thomas Buberl {BIO 16182457 <GO>}

Stay at the same, I think it's John in the middle there.

Q - Oliver Steel {BIO 6068696 <GO>}

Actually, it's Oliver. John will... (02:49:19)

A - Thomas Buberl {BIO 16182457 <GO>}

John is next. But John is next, Oliver. It is very difficult to see. I'm sorry.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Three questions. The first is on Protection revenues. Protection revenue growth 1%. So far, you're targeting 2% to 3%. So I'm wondering what the sort of – what the driver is to get you up to the 2% to 3% growth over that five-year period.

Secondly, I'm just sticking to Protection is on the Protection combined ratio, or more specifically the loss ratio. Because I think if you strip out the exceptionals in the U.S. and France in the first half, your Protection combined ratio hadn't actually changed from the start of the period but you're still very confident, it seems, about achieving the target. So I'm wondering what it is that's held back the underlying improvement so far and what drives that improvement coming through going forwards?

And then the final question is, as you say only a small proportion of your new business profits actually goes into the owned funds. What are you doing to improve that proportion going forward? And sort of what are the – what are some of the policy design changes you're looking at, plus any guidance you can give on that front would be useful.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald?

A - Gérald Harlin

So, about the 1%, what should we do in order to move to 2% to 3% – plus 2% to plus 3%. I believe that we are progressing quite well in countries. You remember that we had some headwinds on the top line. These headwinds being, for example in Switzerland, you remember this because we had in 2017 – in 2016, a very large contract, so we have this capacity, normally we should grow. We had also some headwinds of – coming from Germany because in Germany we had some surrenders of contracts. So, I don't consider, and it is important, I don't consider that it's a global trend. So, being at 1%, it's not a trend that we should keep, and we are doing everything in order to be at – between 2% and 3% in term of top line growth, Oliver.

The next point is the cost – no, the combined ratio. That means that we are, globally speaking, improving it. We had again some headwinds. We still have, in order to achieve it, don't miss that, if we expect the 83% that I just showed from these headwinds knowing that we want to go to 80% in 2020, it's not a big improvement. On top of this, keep in mind that we'll reduce our cost. So, that means that the expense ratio would improve as well. So, that's why I'm – I strongly believe we'll do it.

A - Thomas Buberl {BIO 16182457 <GO>}

That was it. Yeah. Now, it's Jon, next to Oliver.

Q - Oliver Steel {BIO 6068696 <GO>}

You never answered my third question about the contract boundaries on new business.

A - Gérald Harlin

Okay. So, contract boundaries of new business. We are penalized by these contract boundaries of our new business. That means that all the premium, periodic premium, regular premium that we get in Switzerland on our group pension business, they don't benefit from the – it's not in – it's in our reported NBV for sure, but it's not in the AFR. So, that means that it will flow through the regular contract, so that's it. And – but that's also quite one good point. And it's quite – it's good news because it will feed the AFR and it's the confirmation that the AFR will grow more than the normal new business value (02:53:49). But, of course, we would prefer to have AFR including boundaries but as you know, we didn't achieve it. Who knows, in 2021 when we will revise Solvency II and the directive, but it's long time.

A - Thomas Buberl {BIO 16182457 <GO>}

Jon?

Q - Jon M. Hocking {BIO 2163183 <GO>}

It's Jon Hocking from Morgan Stanley. I've got three questions, please. Starting with Asia and the footprint. I know that you got four out of the six high potential units are Asia and the only one different engine is Hong Kong. And then there's two smaller entities, including Singapore, Malaysia. I just wondered, given you've got two large regional competitors on the Life side in Asia. I just wondered how you felt about the balance between sort of country focus and getting deeper in individual countries and having its the regional footprints, particularly with Singapore which is at – emerging as a wealth management hub, being it's a smaller entity. Is that one of the smaller entities that we might expect you to invest in and try and grow? So, it's a sort of broad question on the Asia footprint.

Second question. Given what's happening with the U.S. IPO in AB. In time, will the geographic footprint (02:55:07) mandate of AXA IM expand in any way? The second question.

And then just finally, just in terms of getting rid of the two functional business lines, how do you actually drive some of the things you've innovated at scale into the business unit? So, you've got the transversal entities. Is everything which is innovative in the service line, does that actually fit into the transversal entities? Or how do you actually share the successes from, say, France and get them embedded in other business units? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So, let me try and give an answer to these three questions. On the first one, in Asia, and let's get the classification right again. We've got on the current engine, Hong Kong and Japan. We've got certainly on the higher potentials, and Jon, you are right. China, Philippines, Thailand and Indonesia. And we've got three in the international, Singapore, Malaysia and India. When you look in Hong Kong and Japan, we are very strong today. In Japan, we are smaller. We are strong in our segments of Life and Health. So, there is clearly a question of growing the footprint and focusing again ourselves on the health business and on the commercial lines business in Hong Kong.

On the second, which is the high potential, as I said earlier, we have today an excellent footprint when it comes to bancassurance relationship, and it's very different to bancassurance agreements that other companies have. We, in fact, have joint ventures, which means we are together for the long term. Based on those joint ventures, we have always, in all countries, started an agency business, started a non-life business, and in some countries also started direct business. Going back to what Gordon said earlier, this makes us different in terms of being the only composite insurer in that region, and you see also a lot of cross-fertilization potential.

Our biggest challenge in those four countries is how do we grow the agency sales force and how do we grow the activation of the agency sales force. Because on the joint venture in China, if we take that as an example with ICBC, we are today very strong on the bancassurance channel. But the agency sales force needs to grow more and the activation needs to grow more, and that is true for most other countries. In Thailand, we are very strong on the agency sales force, but certainly in Indonesia and in the Philippines, we want to progress on this one, and that is the primary mandate of Gordon and his team, to really get us growing on this one.

Second question was on...

A - Gérald Harlin

Mandate for AXA IM.

A - Thomas Buberl {BIO 16182457 <GO>}

Yes. Sorry. The mandate for AXA IM. Sorry. True. So, I mean the U.S. IPO and – the U.S. and AXA IM have actually very little relationships today. It's very much a relationship between AB and U.S. And so that's what we also want to strengthen. AXA IM's mandate will not change due to the IPO. AXA IM's mandate today is three-fold.

First one, we want to serve the AXA balance sheet. Serving the AXA balance sheet in being – having an efficient machine to deliver good solutions on the fixed income side, to be in some active equity areas, and to be very strong on the alternatives because we need to generate yield. This mandate will not change. And also going forward in the strategy of AXA IM, we want to considerably increase the development in the alternatives.

The second mandate that AXA IM has is how can we copy this model to smaller players in the market who don't have the scale and the expertise to deliver those solutions? So, smaller institutions.

And the third mandate AXA IM has, how do we market the alternative asset expertise in particular to wholesale/retail, because there is today in the market the biggest shortage. So, the mandate doesn't change and it's a very clear focus for AXA IM going forward, certainly since we have declared it is a core business.

On the third topic, which is around the innovation. I fully agree that you could have the impression that by not having the global business lines any more, we would lose momentum. And I would say to you, this is not true, because what did the global business lines do? A) They were steering the businesses. I said to you earlier that we are not giving up on this, on the country. In Gérald's team, there will be a new team that is called performance management that will pick up the pieces of the global lines when it comes to operational performance based on a very new database called Power BI, where we also see the business in very different cuts in one source of the tools.

The technical excellence piece, which is around the question what are the underwriting standards, what is the right model. Gérald was elaborating beforehand on the Life model, volume versus profitability, pay back cash. This part will go to Alban (03:00:35) and will be combined with the Chief Risk Officer.

And then you have the third part on innovation, which will go into the innovation ecosystem. So if you take a parametric insurance, parametric insurance has been developed within the global line P&C. This will move through the innovation ecosystem, because we now know how it works, and we will accelerate the development and scale it up. It is important that for the innovations in particular, you have a global balance sheet, and the global balance sheet on the corporate side is now in AXA Corporate Solutions, reporting directly to me, and the service hub is in AXA Assistance, which will be part of the innovation ecosystem. So long answer to a simple question, we will not lose anything.

Let's move over to Andrew, I think it is. Andrew Crean. The tall British gentleman in the back.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Thank you. I'm Irish, actually.

A - Thomas Buberl {BIO 16182457 <GO>}

I'm sorry about it. From a French perspective, it's mostly the same though.

Q - Andrew J. Crean {BIO 16513202 <GO>}

I had three questions. Firstly, I think a year or so ago, when you were thinking about the M&A, I think you were thinking about PEs roughly 15 times on your reinvestment. As we moved forward and markets have changed and a good amount of your reinvestment you want to do in innovation, could you talk about what the prospective PEs are likely to be on what you want to reinvest in?

Secondly, when you talk about market conditions for the 3% to 7%, you observed that risk-free rates had improved a bit from the worst case scenario. But corporate bonds spreads have narrowed further, and you do investment mainly in corporate bonds. So could you say what your expectation a year and a half ago was for corporate bonds spreads within the context of when you set up Ambition 2020?

And then thirdly, I think in the S-1, it says that the operating earnings for 2016 were $1.325 billion. And then you gave a figure of $1.315 billion, i.e. just $10 million less on a pro forma basis. I assume that pro forma is to allow for the $4.4 billion of debt and the $2.3 billion of additional cash. Looks like a tiny adjustment for those two things. I wonder what you're allowed to say anything on that? I perfectly understand if you can't.

A - Thomas Buberl {BIO 16182457 <GO>}

So thanks, Andrew, for your three questions. I guess on the third one, we will have difficulties to answer given what I said earlier. Let me take the first question. Gérald will do the second question.

I fully agree with you. The M&A markets is at the moment not an easy one. You see very little movements. And what we have done ourselves, we, as I said earlier, want to focus our M&A activities into those 10 plus six countries on the traditional insurance side and then into the innovation ecosystem.

We have analyzed all the potential interesting companies that we would go after and what is important in those 10 plus six countries, certainly in the 10, we already have large operations where we have a very high potential for synergies, so it will help us when it comes to the valuation.

In the innovation ecosystem, you will find very different PE multiples depending on where you look at. One thing you should be assured about is that we'll be very cautious about the reinvestment and we will not overpay. And this should also give you comfort because in the announcement of May 10, we have clearly said we want to reinvest the proceeds of the IPO of the U.S. into our preferred segments, Health, Commercial and Protection, in the preferred countries, 10 plus six, but not at any cost. If we don't find the right targets at the right price, we are extremely happy to do share buybacks on AXA because we do believe this is an interesting alternative.

Gérald.

A - Gérald Harlin

Yes. On your second question, Andrew, about the market conditions of (03:05:27) loans, I would say that over the last 16 or 18 months, the net is nevertheless positive, meaning that – why? Because you are absolutely right that while interest rates were improving, we had a decline in the spreads, which is quite sizable. But at the same time, and – we have been investing and, again, thanks to AXA IM, we have been investing in high-quality illiquid assets. We can afford it.

We have more than €200 billion invested in high-liquid sovereign bonds. And we are investing in CLOs; and by CLOs, I mean AAA, AA CLOs. We are investing in loans, in commercial loans and so on, and in mortgage. So all these kind of investments, which makes that. In the end, we can keep a level of – I would say I can expect this year to be at around 2%, so it's not marvelous. But nevertheless, we didn't – we burnt out (03:06:33) so much heat by this.

A - Thomas Buberl {BIO 16182457 <GO>}

I think at the same table. Again, I can't, unfortunately, see. Next to Rob.

Q - James A. Shuck {BIO 3680082 <GO>}

It's James Shuck from Citi.

A - Thomas Buberl {BIO 16182457 <GO>}

Hi, James.

Q - James A. Shuck {BIO 3680082 <GO>}

Hi. So my first question was around the cost savings. So the €2.1 billion that you're targeting, I think at the time you said that you were looking to invest €3 billion in order to achieve the €2.1 billion. Can you give us an indication of how successful or how much you've spent of that €3 billion? What kind of – what's your hit rate in terms of projects you're investing in? How many are failing, how many have been successful? Any stories behind that would be helpful.

Secondly, it's another U.S. question, I'm afraid. The RBC ratio that you show is 500%. Do we interpret that as a target level that you want to remain at? I'm particularly thinking about things like potential DTA write-down through admitted assets, which could come through, and if so, would you defend the 500% and also the NAIC proposals which are still outstanding even looking beyond the recapture of the entity?

And then finally, third question. I just wanted to drill down a bit on the 2 points of growth within the 8% target that you have, because what we heard a lot about today is new structure, new plans, (03:07:59) partner, all of those sorts of things. It all sounds incremental, but when I come back to the 2 points of growth, that's kind of unchanged. Are you able to give any flavor behind the earnings growth? So what are the moving parts behind that? How much of drag are you seeing from the run-off of a traditional GA book? What are the new areas of growth that are coming through? Are we kind of – are you suggesting that as the model shifts, that that 2 points should be higher?

A - Thomas Buberl {BIO 16182457 <GO>}

Thanks, James. Unfortunately, your question two is a no-go area for us. Let's focus on one and three. I'll do one and Gérald will do three. On the investments, and absolutely true what you said, we did announce those €3 billion investments, and those investments are also necessary investments because when you think about the transformation, you are talking about automation of the processes, you are talking about selectively replacing systems, you're also talking about completely redesigning your IT, and you have seen that we were one of the very few and first ones to move to the cloud, and obviously you are also talking about investing into this new area of services. We have a very tight process when it comes to project management.

So, smaller projects will be done in the entity under the supervision of the local management team. Larger projects will have an international process called AR Gate where we have a (03:09:35) AR Gate process where we look at the investment, look at the investment case at each point of the project. So with this, most of the time, we arrive at driving the projects in a productive and efficient manner. But it is also clear, as it always happens in life, that there are mistakes, that there are failures of project. The important thing is to realize it's early on and to make a postmortem and share this to make sure that others can learn from what they should not repeat again.

Q - James A. Shuck {BIO 3680082 <GO>}

Got it.

A - Gérald Harlin

As far as the GA books are concerned, I would say that we never said that we will put all these GA books into run-off. And honestly, it would be a mistake. And one good example is France. Look, in France, we are the best-in-class in term of percentage of Unit-Linked. We should be at 45% where the rest of the market is at 30%. But at the same time, we have net outflows in term of GA book of business, which means that we have the capacity to give and to grown to our clients some GA products which are attractive and which helps them to do more in term of Unit-Linked business.

And to broaden your question, I would say if you take the first nine months of the year, we have been – we posted AP at 1%, which is not satisfactory. At the same time, it means that we had obviously some countries where we bundled there, so we are strong at 7%. Good example of the success combining and not putting absolutely into run-off GA business, but doing a lot of Unit-Linked, but also a lot of protection. We are extremely successful in health, as you know, and other countries like – take as example of Italy. In Italy, (03:11:35) we had more than slow start and just starting now, so it's recovering now.

So, we have good hope that in the end we'll have the capacity to recover. But at no time we will put into run-off our GA business. It could be the case. Look, that's what we did quite successfully in Belgium because we believe that it was the right choice and the right decision in order to go out of this guaranteed rate. But in other country, it will help us in improving our profit. Just one figure, today, the GA business is 15% of our gross return premium, which is quite small. But in some countries, it can help us to do more. Last but not least, look at Asia. In Asia, (03:12:32) that we can achieve some more protection.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's move in the middle there.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much. It's Blair Stewart from BofA Merrill. If you can understand Andrew Crean's very strong Irish accent, hopefully you can understand mine.

A - Thomas Buberl {BIO 16182457 <GO>}

We're getting used to the Scottish accent now (03:12:51).

Q - Blair Stewart {BIO 4191309 <GO>}

So, quite right. So, quite right too. I've been telling you for years, you didn't have enough Scottish people in the business.

A - Thomas Buberl {BIO 16182457 <GO>}

Okay.

Q - Blair Stewart {BIO 4191309 <GO>}

First question is on the cash remittance to group, the €24 billion to €27 billion target. Gérald, can you remind me how the U.S. was treated within that originally? Because the U.S., I think, was just paying bad debt rather than a cash remittance as such. So, was the U.S. included within that? And if not, then the U.S. will remit cash in future. So, how does that affect that target?

And second question is really around capital allocation priorities and really just thinking about there's a lot of statements from yourself in terms of, trust me we're not going to do anything silly. There's a lot of liquidity to be invested, a lot of retained earnings to be invested. So, Thomas, can you maybe share your thoughts around the hurdle rates for M&A and the hurdle rates that your regional CEOs will have to impress you with, particularly with regards to – or in comparison to buying your own shares back which must give you a very high hurdle rate probably in the teens?

And the final question is just on the capital range. I don't know, Gérald, can you maybe share some of the science behind the 170 to 230 range? And why that signs would not change post U.S.? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thanks, Blair. I suggest that, Gérald, you answer all three questions because on the M&A and reinvestment, I've been very clear with Andrew on the high level, but I think on the hurdle rates, maybe you, Gérald, you can go a bit more into detail.

A - Gérald Harlin

Yes. As far as – your first question, Blair, was about the U.S. So, you remember that back two years ago, I got the question, I said you can expect €12.6 billion, €12.8 billion. It was true. Last year, it was more. Why? Because you remember that we sold two buildings and it was €1.5 billion, something around this. And for the future, we'll see. But I could say that taking into account the relative size of the U.S., it was relatively small. That's what I can say, and then you judge – you make your own judgment.

About the capital allocation priorities, what's the hurdle rates for M&A? Hurdle rates for M&A, it means that you create value. So, I won't give you exactly what I will use in term of discount rate in order to make our own estimate, but if your question behind it is, today with very high multiples from time to time, it doesn't make any sense? Yes, from time to time, it doesn't make any sense, but we have been up to now extremely disciplined and we'll stay disciplined.

In other words it means that you should not miss also 1 point that – and look at what Thomas said, he said, from now on we expect to invest in current engine and high potential. In these countries, we have synergies. So, that means that starting from high multiples, we could imagine to be at quite reasonable levels; I mean, levels that would be accretive, so long as we would have significant synergies, which is the case in these countries, which is not the case with – in case we would like, which is not the case – but in case we would like to expand our expand our footprint, not at all. So, that's what I can tell you. But we are extremely vigilant on that site because prices are extremely high these days and that's also the reason why we have been quite clear, saying for the reinvestment of the IPO we might use that leaseback (03:17:04) share buyback.

About the capital range. What's the science behind it? I would say that there is not so much science, but that it create – it could create some volatility, and we believe that we want a certain stability in the way we manage, in the way we manage our capital. Remember you – also that we have some flexibility on the dividend. Normally, the dividend should benefit from an increase in the and/or adjusted earnings, underlying plus capital gains. And second, we could expect that we were at 48%, whereas our payout ratio is at between 45% and 55%. So, we have room for improvement on that side. So, that's it, and beyond – if there would be any update, but in the foreseeable future we don't have any intention to update it.

A - Thomas Buberl {BIO 16182457 <GO>}

One more question there.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Thank you very much. It's Ralph Hebgen from KBW. Actually, before I say anything, can I not comment on my accent, please?

A - Thomas Buberl {BIO 16182457 <GO>}

You have a beautiful German accent.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Beautiful. Thank you very much. Okay, that encourages me to actually ask my question after all. Thomas, you were speaking earlier about the fact that you have been asking the 10 core markets to develop an equity story. And I'm just intrigued to hear this, and I would like to have perhaps some additional color of what constitutes a good equity story. What are the metrics you might be looking at? Is it potential growth, is it ROE? I don't know.

And, of course, there is an important second part to this question. What would constitute the poor equity story and what would you do in such a case? Are there more IPOs potentially on the cards?

A - Thomas Buberl {BIO 16182457 <GO>}

So, that's a very good question. So, to make a long question simple, a poor equity story would be to change nothing. I consider a good equity story an equity story where you basically go through the same process that we have gone through as a group, that you ask yourself how are you positioned in your market, where are you different, and where can you not make a difference, what does it mean for your portfolio of lines of business, where are you strong, where are you weak, and are you taking the same logic of having current engines, having potentials, but also having the international segment on a local level where you have areas that you want to divest, where you have areas that you want to run off?

And then, based on that decision, to really give us some good clarity on how can you create a growth story based on this portfolio approach, and also what are the investments required to fund the growth story in the traditional insurance space, but also in the innovation space. Because again, remember what I said earlier, innovation is not something equity on the site, it is something that we develop on the site, but the addressable market is the 107 million customers that we have got. So, this will constitute a good equity story. I know that it's very difficult to get it right in the first place, and Mark Pearson has done the excess with us. It is also an exercise, I think, internally where you can really make the internal people responsible and take them on a very exciting journey. And I know it will take some time to develop it with a couple of iterations. Do I need to make more IPOs? I hope not, and I'm not intending to.

Any more questions in the room? So, one here. I think it's Michael again.

Q - Michael Huttner {BIO 1556863 <GO>}

I was very excited this morning and last night. I thought the cost cuts would be extra. I thought there would be extra growth. And what I hear is that the cost cuts of €0.3 billion is part of the €2.1 billion. So, it's acceleration is nice, but it's not extra. And what I hear is there's actually no extra growth, we're just sticking to the target. Am I right in thinking that, yeah, it's great you – we have more certainty on your targets, but there's actually nothing for us to get excited and to revise our numbers?

A - Thomas Buberl {BIO 16182457 <GO>}

Look, this is the glass half-full, half-empty. I would give you the version of the glass half-full. We have started very concrete ambition, focus and transform last year. This is a long-term plan of five years. We wanted to use this event today to give you comfort that we are well on the journey and that we are also accelerating. Remember, the title was simplify to accelerate, so taking some effects that we would have thought come a little bit later, come a little bit earlier. Today, it's not after one and a half years the time to increase the targets. Today, after one and a half years, is the clear message, we have thought about this well, we have started well, we are now in the acceleration phase, and I hope it will not be the last time until we see you till 2020. There'll be many more interactions until 2020, and due to the fact that I come from a German culture with a very, let's say, prudent approach, I would really like to keep it there to leave some room for later till 2020.

Farooq. And then after Farooq's question, if you'll get the mic. We should also have a look if there's questions on the telephone. There are none? None. Okay. Fantastic. Good. Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Just going back to your ambitions in traditional insurance in your key market in terms of M&A. I'm just thinking, health insurance is very concentrated, you're big in some key markets but not in others. Commercial P&C, kind of everywhere-ish, and protection is also – some of that's just growing in market. So, would it be right in thinking that there's going to be a real focus here on health in terms going into new markets (03:24:05) existing markets in terms of your M&A focus or you are just looking at everything?

A - Thomas Buberl {BIO 16182457 <GO>}

No. Look, I mean we are focused on 10 plus 6 countries. In those 10 plus 6, on health, commercial and P&C and protection. And obviously when we are thinking about health in a new market where we are not present yet, which is part of the 16, it is clear that we need to either start something or buy something. But we can leverage certainly the big global footprint that we've got. Because in 6 markets of the 16, we are very, very strong in health. And yes, you might say, well, health system is very different across countries, that's true, and the private part is always the correspondent to the public part. But the law of the health business when it comes to waste and abuse, when it comes to fraud, when it comes to procurement, is always the same.

So, yes, we will be looking at organic and at buying. And in some countries, the organic is the only route because this segment doesn't really exist on a large scale. If you take, for example, Italy and Spain; in Spain, you've got a very large self-pay market in health. It's slowly developing, and there is very, very few payers. So, we have to look at it market-by-market.

Any more questions from the room? Andrew. And Andrew, it's the last question because I'm looking at the time and we also would like to have a nice lunch with you. Andrew.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Gérald, thank you very much for some of that detailed stuff on inforce. And I was just wondering, in the journey from €35 billion discounted inforce down to €13 billion, I think you guided three things. One was the time value of options, one was contract bound reason, the other part was risk margin, which I think was €7 billion. Can you divide the other two?

And then the second question, we're all waiting for buybacks. How should we judge when you are likely to initiate those other than the neutralization ones you've done so far?

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald?

A - Gérald Harlin

Yeah. The time value of option I should check, but I told you that out of the €20 billion, €22 billion, we had €7 billion of market value margin. I remind you that we have €10 billion of market value margin, but the three others are in P&C. And the time value of option and guarantees eats a few billions, but I'll come back to you with a precise figure. You will get it in the report. I don't have with me, but we can check it just after offline.

A - Thomas Buberl {BIO 16182457 <GO>}

On the share buybacks?

So, on the – maybe I'll answer it. On the share buybacks, look – and on the question of when are we making the decision. It's early days, but we are also in no rush. We are not committing ourselves now to say, look, if we get amount X at day Y, we are going to reinvest by a day Z. We are now going through the phase of the IPO, you've seen that this is well on track.

At the same time, we are going through the phase of really understanding where do we want to concentrate our M&A efforts, what are the potential targets, we're in the process of understanding net, and when we come to the conclusion of the two streams, how much capital will we have, what are the opportunities at reasonable prices? We will then make a decision, are we going to reinvest this in M&A or are we going to reinvest it in our own stock?

A - Gérald Harlin

It's €7 billion of TVOG. Okay?

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. Thank you very much for your question. And I would now like to come to the conclusion. First of all, I would really like to thank you for coming here yesterday evening and this morning as a dialog with you is always very important for us and certainly the questions for me is extremely important and for the whole team, because it really helps us thinking further and developing.

When you look at it, what have we touched this morning? We have touched three main things. The first one is, I fundamentally believe there is significant growth potential in insurance going forward. We are entering into a new golden age because we have many new risks, we have many new situations that are uncovered and we can still make a big difference in customer service, focusing on making the 20% of customers that we already serve, serving them better and inventing a proposition of services for the 80% that we – only received peace of mind from us today.

This is very much in line with the fact that service will be the big disrupter in the insurance industry and we want to be at the forefront, this as the means to move from a payer to partner in line with our ambition, what can we do, how can we empower our people to live a better life. This is our obsession, and growth will be coming from there and growth will be coming from the 107 million customers.

In order to do that, we are sticking to focus and transform. But in order to get focus and transform implemented, we need to simplify AXA to accelerate. We have communicated yesterday and illustrated today four key changes. The first one is, we will focus on fewer countries, 10 plus 6, and not 64 anymore, and we'll focus our transformation and M&A efforts on these countries.

Second thing, we will shift our portfolio away from financial market dependency to core insurance risk focusing on health, protection, commercial and P&C in those 10 to [sic] plus six markets, which means we want to get closer to our end customer and really get into a proper end customer relationship, and that will also mean by finding a better balance between financial and technical margin that we will decelerate the growth on the segments that we don't consider as absolutely core and strategic.

Thirdly, we are significantly simplifying the organization away from a three-layer concept to a one-layer concept, closer to the entities, closer to the customer, with very much a focus on operational management and local accountability.

And fourthly, scaling up the innovation. We have tested a lot. We know what works, what doesn't work. It is now about scaling up buying and building, and leveraging the 107 million customers to really grow the fee income on our customers.

Given with these, we confirm the strong progress on Ambition 2020 that we have shown this morning. Again, I would like to remind you, the ambition has been set for five years. We have set it last year. We have started very well. We are in the middle of the range, half year this year, with 5% underlying earnings per share growth. We are sticking to our strong operating cash flow step, and you've seen today that there is lots of more fantasy and potentially beyond 2020 on these cash flows that is not recognized in Solvency II.

On the return on equity, we are even above the range of 12% to 14%, with 14.7%. Having a very strong balance sheet, that is the absolute sacred cow for AXA. We confirm those targets. We wanted to also give you today a very clear indication, yes, we are one and a half years into the ambition, we feel very confident, and we have made now the big decisions to really accelerate on this transformation with a new leadership team. And I'm extremely confident that we will deliver this ambition and that AXA can really make a difference and be one of the most focused, simple and innovative insurers going forward.

Thank you very much for coming. And I would like now to enjoy the lunch with you and continue the discussion that we have had during that session. Thank you very much.
