Investor Day

Company Participants

- Alban de Mailly Nesle, Group CRO & Head-Group Insurance Office
- Andrew Wallace-Barnett, Senior Vice President & Head-Investor Relations
- Antimo Perretta, Chief Executive Officer-Europe
- Gordon Timmins Watson, Chief Executive Officer-Asia
- Greg Hendrick, Chief Exectuive Officer - AXA XL
- Gérald Harlin, Group Deputy Chief Executive Officer & Group Chief Financial Officer
- Jacques de Peretti, Chairman & Chief Executive Officer-AXA France
- Thomas Buberl, Chief Executive Officer & Director

Other Participants

- Andrew J. Crean, Analyst
- Andrew Sinclair, Analyst
- Farooq Hanif, Analyst
- James A. Shuck, Analyst
- Johnny Vo, Analyst
- Jon M. Hocking, Analyst
- Mauro Carli, Analyst
- Michael Huttner, Analyst
- Niccolo C. Dalla Palma, Analyst
- Nicholas Holmes, Analyst
- Oliver Steel, Analyst
- Peter D. Eliot, Analyst
- Ralph Hebgen, Analyst

MANAGEMENT DISCUSSION SECTION

Andrew Wallace-Barnett {BIO 18671460 <GO>}

So, that was a – are we on for the webcast?

Good morning, everybody, and welcome to AXA's 2018 Investor Day. A warm welcome to those of you here in the room in London and welcome to AXA XL's offices here and a very warm welcome also to those of you on the telephone or on the webcast. Very pleased to have you here with us as well. Thomas Buberl, our Group CEO, will introduce the agenda for the day in a few moments. Later in the morning, we will have a Q&A session and 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. As always, we'll give preference to the questions coming from those of you here in the room. For your information, we'll be taking a coffee break around 10:30, 10:45.

And it's now my pleasure to welcome Thomas on stage.

Thomas Buberl {BIO 16182457 <GO>}

Thank you, Andrew. Good morning to all of you. I'm very pleased to be here with you at the end of a year that has certainly been a very intense year with a lot of changes. I'm here today with my entire management team of AXA but also the teams of XL and the teams of AXA in Asia. This event today is certainly an event to exchange ideas, to answer your question, but also to show you where we are in the process of achieving Ambition 2020. As I said, this year was very intense. Many changes – many transformational changes. But all of these changes have happened with a very clear guidance and with one mission of a long-term vision of the insurance industry. We are dedicated to move from a Payer to a Partner which means that we want to go beyond the payment of claims with our customers.

We believe that there is a very big opportunity of growth both in terms of new risks but also in terms of services around the insurance coverage. In order to get there, an alignment of interest, a further alignment of interest with our customers is important and the second thing that is important is more touch points with the customers.

In June 2016, we have launched our Ambition 2020 with two pillars: Focus and transform. Focus is very much around how can we improve the operational delivery of AXA. Transform is about shifting the portfolio and moving from Payer-to-Partner. You have seen a lot this year on the shift of the portfolio. The next phase will clearly focus on the shift from Payer-to-Partner.

Payer-to-Partner means how can we help avoiding claims for our customers. How can we make the claims event the exception of the interaction that we have and how can we really help our customers to live a better life.

This does require a significant cultural change as well at AXA. And as you can imagine, this is a journey that is long. It's a journey that is not easy and certainly when I think back about the year 2018 many things have happened but it was also a year full of learnings.

Where are we on this journey of focus and transform in the middle of the period between 2016 and 2020? We can clearly say that we have made very significant progress and I'm very happy with where we are. And thanks to the management committee of AXA, thanks to the 130,000 employees that AXA has, we are today at a stage where we can look back on a good development over those two years.

On the question around focus, which means how can we enhance the operational delivery. Our goal has always been how can we do that in a balanced way? How can we, on the one hand enhance the growth and at the same time also improve the profits? If you look where we are, we can clearly see, one, that we have made a significant move to the growing preferred segments, health, protection, and commercial lines. These are segments that grow more but also segments that bring us closer to the customers. If you look at the performance on the health side, plus 7%, on the protection side in the APE, plus 10%, on the commercial lines plus 2%.

Second big topic was the question how can we improve the operational performance? And I'm very happy to tell you that this improvement of the operational performance is not just one country or one line of business. It's across all geographies. It's across all lines of business. And it is very much a result of the new organization that we have implemented which is an organization of higher decentralization, a simpler organization where we count on far more people than we did beforehand. All of this has happened on a very strong and solid and robust balance sheet with a very high solvency of 195% and a strong credit rating of AA-.

And, which is not on the slide, but makes me very proud, we are this year for the 10th time in a row the number one insurance brand in the world. On the transform side which is very much about shifting the portfolio and moving from Payer-to-Partner, we've certainly worked very hard on the shift element, shifting very much from financial risks towards technical risks. If you look the from financial risks, what clearly comes to your mind is the IPO of AXA Equitable Holdings is the secondary sale a couple of weeks ago but it's also the transformation of the Swiss Group Life business and the disposal of AXA Life Europe that we announced at the end of half-year this year. Towards technical risk, the highlight is clearly the announcement of the XL transaction on the 5th of March and its closing on the 12th of December which gets us closer to the customer more in the area of growing risks of sophisticated risks.

But we should also not forget, two days ago, we announced a very important transaction, the 50% additional sale of the AXA Tianping that we all know is the largest insurer in China, 100% of AXA Tianping which will set a very new base for a good future. Bringing us closer to the customer, this was very much around new and digital partnerships. You've seen the partnership with ING, you've seen the partnership with Uber and many more, but also the launch of new services. Teleconsultation in quite a few countries, the purchase of Maestro Health in the U.S. which will set a good base for the next phase. The next phase is very much around how can we scale up the innovation we build, how can we make this Payer-to-Partner a true reality for our customers.

All of these moves have significantly changed AXA. You have known AXA for a long time as a predominantly life and saving company. With all these changes, we will move elsewhere. We will move to a more balanced portfolio. We will move to a higher growth portfolio. But we'll foremost move to a business mix which is composed of technical risks, 50% P&C and 30% protection and health which is very different to what you've seen in the past. This also makes the fundamentals of AXA very different ones. And the big question that you had for quite a few months, what does it mean? How will you change your capital management? Today is the day to talk about it.

We would like to announce three major changes. The first one is an increased dividend payout ratio to 50% to 60%, a new Solvency II target range, 170% to 220%, and an updated share buyback guidance. All of this will be effective from the full year of 2018.

Going forward, we have clear priorities and I would like to thank you again for the very good dialogue we had in the last six months because it was good to hear where you would see the priorities and they are very aligned with the priorities we have chosen going forward.

The number one priority is clear, the deleveraging due to the fact that we have acquired XL. The leverage has temporarily increased. We want to get back to 25% to 28%.

Second big priority is around the XL integration. By combining XL with AXA into AXA XL, we will be the number one commercial line insurer in the world. It is now about bringing those two companies together and leveraging one – each other's strengths.

Third priority is clearly to continue the sell-down of AXA Equitable Holdings in the U.S. We are roughly around 50% now. The journey will continue. Fourthly, and we'll talk about it today as well, is the acceleration in Asia. We've got a very good footprint but we can make more out of this footprint. And fifthly, as I said to you earlier, we're now in the next phase focused very much on how can we make Payer-to-Partner a reality, which is about scaling up of the services of the innovation we have built around the insurance coverage. All of this is part of Ambition 2020, and we are fully-committed to deliver Ambition 2020 and as you'll see later in some of the areas even go beyond the initial targets that we have set ourselves.

Today's agenda is very much centered around three topics. The first topic is Asia. We have happily hired a very experienced leader, Gordon Watson, who will be on stage for the first time today for AXA, and he will talk about his vision of how is AXA positioned and where is the potential, and the move of Tianping a couple of days ago is a very significant first move.

The second topic will be around the topic that you have been dying to know more about which is AXA XL. I'm very pleased that Greg Hendrick is for the first time today on stage to talk about AXA XL and answer later on all the questions that you might have.

And Gérald will come with a third topic, which is around capital management, since I indicated that the character of AXA and its business mix has changed. We obviously now are in the position of also evolving further our way we look at capital management, and I'm very pleased that Gérald will be on stage later.

Let's start with Asia and certainly with a lovely picture that is very much linked to Gordon Watson. Because Gordon you know very well is a very experienced guy in Asia and he has been working for AIA for a long time. And so, when he came over to AXA, he said look, AXA has got an excellent franchise. We need to make more out of it. And one topic was very much around how can we increase the brand awareness and the fantastic sponsoring with Liverpool F.C. is the first step (12:23).

Gordon, welcome on stage.

Gordon Timmins Watson {BIO 21377545 <GO>}

Thank you, Thomas. Good morning, everyone. Great to be here in London at the AXA XL office. My name is Gordon Watson. I've been with AXA for 11 months now and I'm really more excited now than I was when I started. When I started with AXA, the reason I joined, great assets in Asia and of course, as Thomas referenced, an amazing global brand.

But to be frank, AXA in Asia has underperformed over the past few years. So, for me that was the opportunity to take it to the next level. And I hope today I can share with you what we've done and what we're doing. So, I'd like to talk about Asia itself and the massive protection gap that is in Asia.

In Asia, the mortality not even including morbidity the mortality protection gap is €50 trillion and that's a real protection gap because in Asia there really isn't social security. So, our job is to go out, see one customer one at a time and identify their own personal protection gap and fill that with insurance.

Asia is growing. The last couple of years, 50% of the global growth in the world has come from Asia. And that will continue to grow through 2025, 8% growth is what is predicted. And by 2025, the gross written premium in Asia will be €2 trillion, and to put that in context, that's two-thirds more than Europe.

So there is room for AXA to really be among the elite insurers in Asia and that is what we are going to do. A lot of this will be fueled by the growth of the middle class. 90% of the next 1 billion people who will enter the middle class will be based in Asia. That will create 700 million families that will need more insurance.

What I would like to do in this slide is show you, as Thomas mentioned, the footprint that we already have in Asia and it's made up of companies of different sizes. First of all, we have two very large growth engines, Japan and Hong Kong.

And then we have the high potentials, China, which you saw the news on Monday night and Thomas referred to, we will take 100% control of AXA Tianping subject to regulatory approval, although as soon as the deal was signed, we do take control and we have the interim CEO, Xavier, (15:31) is his Chinese name. He will take control and already has done.

So that's China. High potentials Southeast Asia. We have very strong positions in these three countries. We have top five positions in all three of them and we also have amazing partners. If you look at the partners that we have, they are top three – all three of them are top three banks in their country. Take AXA Mandiri is number one and also last month in Forbes Magazine was voted the 11th most popular company in the world to work for.

So that's our spread in Asia and our footprint. And what I'd like to do today is the story is very simple and clear, focus on the key priorities. Number one would be doubling down in China particularly obviously with the purchase of AXA Tianping. So that's the largest market, that's half of Asia, and it's also the fastest growing at 11% through 2025.

Agency, agency I believe is an area at AXA we have not invested in the way we should have. We need to grow quality agency distribution and we need to have an MDRT culture. MDRT is Million Dollar Round Table and that is the gold standard for agents around the world. And we will promote that culture.

Health, health is the fastest growing segment in Asia. It is the top of mind for most consumers and we can do a lot there as we pivot towards health. We can sell through riders to our existing client base and of course wellness propositions is something in our payer-to-partner mode is what we're doing.

The last thing is brand. Brand in Asia is extremely, extremely important. AXA 10 years in a row number one global brand but it's still not felt the way it should be in Asia. In Asia, some people call us AXA instead of AXA. I don't know if that's good or bad but they call us AXA. We need to really be felt as part of the local fabric in Asia. So we've done a lot. I'm really proud of what we've done locally in combining that globally with Jordan Henderson and team who probably will win tonight. I'm not sure if that's a popular statement but I do believe that's the case.

So these are the key priorities. And I'd like to just go through one by one in a bit more depth. China, the largest, the fastest growing. I'm very excited, full control of AXA Tianping. And this is the first time that AXA really has full control, so really becoming a business shaper rather than just a strategic investor. So with this, we'll be able to develop a hub of talent and attract the best people.

But what we have here is something special. We are the largest foreign P&C insurer. We have 3.5 million customers in China. We can reach the licenses that we already have, almost 80% of the Chinese population and that 80% accounts for 87.3% of the GDP of China. So basically, we can sell to almost everyone in China. And as we know, the middle class is growing and it's not just in Shanghai and Beijing, it's the second tier and third tier cities where we're very well represented.

Now for me, China, we're doing very well in the volume. We're number one. It's about value creation in addition to volume. And by having control – the auto or the motor insurance market is something where we can really start to segment in a more sophisticated way. We can upgrade our technical expertise. We can do more in claims management. We can do more in operational efficiencies, improve our loss ratios.

Health, we can sell health and we already do so health through AXA Tianping, but this is something we really want to pivot to. So it's not just China, it's about the move towards health. And if we look at the health market in China, China health market is growing 39% CAGR over the last five years. So that's where the puck is going to and that's where we're going to. We want to create an innovation hub. We already have one in Shanghai. Just as an example, last year, 100 million Chinese people did a DNA test on themselves to better improve their health management. So they have a propensity towards health. So those are the kind of things we're doing in AXA Tianping.

You know we have, on the life side, we have a relationship with the largest bank in the world, ICBC. We have 27.5%. And the relationship with ICBC is going well. Xavier and myself and Etienne, we put a lot of effort into this. We have new leadership in that organization. We have Chairman Ma, who is the obviously the chairman, Chairman Ma. And we have the CEO, (21:31), who's an excellent woman. And what we did is we sat down with them and said, listen, where do you want to take this company? We want to align our strategy and so we've aligned our strategy towards more value creation, by more regular premium and less single premium. Of course, we're still going to sell single premium, but value creation is more of what we want to do.

Agency within that organization, we have agents, we need to develop agents in a more qualified way. We've started a distribution hub, which I'll talk about in the next slide to really share best practices. The other area is high net worth in China and we're fortunate that Chairman Ma actually used to run the private bank for ICBC. So, he has a lot of experience in high net worth. And of course, we have the SPDB. We have a great relationship with them and we'll continue to strengthen and deepen the relationship with them. So, in China, you can see we're doubling down and very excited about what we can do moving forward.

Agency is a second thing. Agency, we haven't invested the way that I would like to and this is what we have to change and this is what we are changing. We need to focus, really attack that middle class with a quality agency force. This will be differentiated with sales tools and technology, of course. But rather than go through all three countries and give you lots of facts, I want to take Philippines as a case study. In the Philippines, we have an excellent CEO there called Rahul Hora. And Rahul Hora from day one he gets it, he knows what we have to do. So, in the Philippines, the first half of this year, APE is up 27%, and we are ahead of the market, and we're ahead of our peers by quite a distance. So, we're getting it right in the Philippines, and we want to take that model and transfer it.

The agency really is about two things. Agency is about the quality of the people that you hire and the quality of the training that you give them. So, by doing that, I spoke of the MDRT culture, Million Dollar Round Table. In the Philippines, we've increased year-to-date, the number of MDRT-qualified agents by 73%. We've also increased the number of active agents by 30%. But I always caution Rahul, we can't grow too fast because we can't sacrifice the quality. The quality and value creation is of paramount importance. But we do need to make them active. And if you look at this ratio here, 50%, 50% of agents sell at least one policy a month. That is world class. That in an emerging market, to have over 50% of your agents producing, is the highest and – or one of the highest in the market.

But quality and one of the proof points for me is the number of financial plans that we have issued this year compared to last year, threefold. We've issued the number – three times the number of financial plans. For me, that shows quality. We're selling the right way. And that really gets into the digital transformation and the quality of the sales tools that we have. So we want to take what we're doing in the Philippines and Rahul was executive sponsor of the Distribution Hub and we've hired Stephen Appleyard who used to be a CEO for some major companies in Thailand and Indonesia to run that Distribution Hub and exchange best practices. So on MDRT, first of all, with all the potential MDRT qualifiers, 1,200, we took them to Macau. We invited some of my MC (25:58) colleagues who are here to join that experience and really motivate them.

The president of MDRT attended that and they are – we're on course in those countries to really dramatically increase the number of MDRTs. So we will take this model and we will take it to Thailand which is already large with 15,000 agents and we will deploy that there.

Indonesia is more nascent so we can start and really develop in that mode MDRT culture. We also have new CEOs in Indonesia and Thailand. I have Sally O'Hara who is here at the moment. Sally, if you could stand up. Sally, although she doesn't look Thai, is fluent in Thai and has a very strong, strong distribution experience and formerly was the CEO of Chubb before moving across just starting a couple of weeks ago. So agency and distribution transformation is important for us.

The third and this is what people are talking about. It's the pivot towards health and wellbeing. And what I'd like to talk about here is not just about what we're going to do but what we're actually doing today. So if we take Hong Kong. In Hong Kong, we'll set up a new signature network, VIP access to the best doctors, to the best hospitals. The signature network for the very first time for those of you who know Hong Kong includes the Sanatorium Hospital which has never been in an insurance network before and we hired Dr. Yi-mien Koh who I think single-handedly did a great job in making that happen.

We have also done other things like the pledge. The pain point in health claims is the length of time to get your money back. We do cashless transactions of course but we also – for when we do reimbursement. We will pledge to pay claims within five days as long as you submit through our app so that will help drive efficiency, more technology and appealing to the younger family class.

In Japan, 11.4% of the GDP is spent on health. That's a serious issue in Japan and we're doing well in health. And what I'd like to say about Japan, you saw that we're 29% up on APE in Japan but I'd like to unpack that. We do have a (28:43) product which could stop any time because that's tax incentivized. But when you do unpack it, health has grown by 9% and protection I think has grown by 15%.

So, when we talk about health and we talk about Japan, I really see we're doing well in propriety distribution but not on the brokers. We don't have a natural market share so that's an area we're really focusing, looking strategically in what we will do there. We also have a relationship with Nestlé. Nestlé, we want to promote the brand, wellness, health. Nestlé have 90,000 wellness ambassadors in the country and linking them with AXA and having nutritional education et cetera, et cetera will increase the brand in Japan.

Then I mentioned China. We already have an innovation hub. We will hire starting tomorrow actually. Dr. Shaden Marzouk, she's a neurosurgeon. She's from Cardinal Health. She's worked in China. She's an MBA and she will head up health for Asia. So we're starting to really invest and walk the talk.

And the last point I'd like make in Health is the great partners that we already have. If we take Mandiri, Mandiri, we've already penetrated 17% of their addressable client base, but most of that is savings products. If we can start selling riders, selling health standalone, et cetera, in addition to increasing that penetration rate, cross-sell, upsell, we'll also do that. In Thailand, we have 11% penetration. So that will be a major focus to maximize the partners that we have. So this is what we're doing in Health.

The next area and last area I said I was going to focus on was the brand. Brand in Asia is extremely, extremely important. I'm very proud of what we've achieved in the last year. If we look at where we were last year, we just get the results in a couple of weeks ago of the share of voice and the Net Promoter Score that we did. So, this time last year, we were number five in Hong Kong in share of voice. Two weeks ago, we've now gone up to number two, and I think that's due to things like the player, the signature network. Also Typhoon Mangkhut, we sent out 600,000 SMS's to clients who'd be potentially affected by this on what to do for the typhoon; and, of course, set up a task force to address their claims to be paid quickly, et cetera, et cetera. So I'm very happy that we've now moved up to number two. Net Promoter Score, we've moved up 15 points in the last year. Bain do this. And if you ask Bain, 15 points is hugely significant in terms of the move.

So, in terms of customer, I think we're moving in the right direction, but a lot to do. We want our brand to be alive, high energy, wellness, health related to that. So you see a couple of pictures here of the NBA. I mentioned Rahul in the Philippines. Rahul signed a three-year exclusive deal with the NBA. So when NBA players visit Philippines, then we have exclusive use. We can talk with them. They can represent. We send lots of tweets with AXA logos, et cetera, et cetera. Steph Curry, who some of you may know is very famous, he was there recently and we got a lot of publicity. But for some reason that I don't understand, the Philippines actually prefer basketball to football or soccer. And as Thomas alluded to, my friend here, Jordan Firmino (sic) [Jordan Henderson], Liverpool are one of two teams in Asia that are way above any others. The other is not Glasgow Rangers, unfortunately, but it should be. So even though I'm not a Liverpool fan, and I do love Liverpool, and Liverpool have 402 million active followers in Asia. And even the first game that we sponsored, when we had the signs around the perimeter, it said AXA number one brand 10 years in a row. It said it in Thai, only Sally could read that maybe. It said it in Bahasa. It said it in Chinese. So it really felt closer to Asia, and 700 million people around the world viewed that Man City game. And the last point in Liverpool is we sponsor the men and women's teams.

In China, China I don't think have ever qualified for the World Cup yet. However, the women's team in China actually were runners up in the World Cup. So it's not just diversity. It's real. This is very important in China. So we sponsor both teams, and we're very happy to do that. And Liverpool have been fantastic so far in our dealings with them.

But none of this, and this is probably the most important slide, can happen without the people. And for me, I think that's the biggest progress or the largest step forward that we've made, blending new people with the talent of AXA guys like Xavi (34:48), Rahul Hora who I have mentioned. But bringing in new people, people with Asian long-term experience, people with a proven track record of delivery. We've brought these people in.

I've already mentioned Sally. We have a couple of others here today. If I could ask Howard, if Howard could stand up. Howard is a bit of an icon in Asia for distribution. Howard ran AIA's agency in Hong Kong. He has worked for Ping An. He's worked for Manulife in China. He's done many things. We're very happy that Howard is now with AXA, and he's just started doing a great job and has a lot of buzz about the place. Thank you, Howard.

We also – I should introduce Xavi (35:38). I don't think you stood up. [Foreign Language] (35:41) [ph] Xavi (35:47) as I said, is one of the most dynamic leaders I have worked with. And Lyndon was the – he ran MetLife particularly in the finance and strategy side throughout Asia. He's worked with AIG before. And Lyndon will be working very close with me in the strategy and finance side.

So these are the three people – the four people we have here today. But these people and their skill sets are matched up to what I spoke about, distribution. Sally has a strong distribution background; obviously, Howard. I mentioned Stephen Appleyard. We have Handojo. Handojo will be the new CEO of AXA Mandiri. Handojo was a Regional Distribution Head for Allianz. We have Dave Ng, who was a Group Chief Digital Officer for one of the top companies in Asia.

I mentioned on the Health side, Shaden Marzouk. Dr. Shaden Marzouk, Dr. Yi Mien Koh, bringing those people in. And also Rodney. Rodney is an actuary with a lot of marketing experience. He's lived in Indonesia for five years, so he has real, proven track record in the field. We have Sally Wan who's just joined for strategy in Hong Kong, helping Etienne a lot. And the Hong Kong results, I think you saw at the beginning, last year we were down 13%, we had some issues. We've done a lot particularly in the Life side and then supplemented that with the Health side as we go forward; and, of course, agency distribution. And last, the person I would mention is Peck-Yeow Gan. Peck will be the HR Head for Asia, and Peck has worked for both Prudential and AIA.

So I think this team that we've assembled, there's a great buzz about this kind of – I would call signature hires coming to work for AXA. Because traditionally, AXA in Asia was not the best at recruiting local talent and talent with that strong Asian expertise, and that has changed. So I'm very proud of the people that came over and the way that they blend in with the existing excellent talent we have at AXA.

Now, for me, we have a multi-year journey ahead of us and the focus is clearly to increase the way of earnings growth, but first of all we need to bring in quality new business on a sustainable platform. So, phase one, I think as Thomas referred to, is kind of a changing engines while flying. We need to hire the right people and start doing all those things, pivot towards how the agency transformation as we start to grow the business to top line.

So, APE, you can see the range 6% to 8% in terms of APE growth, and then because the focus is quality, the new business value growth will be higher, 8% to 12%. So that would be until 2020, and then we start to get the results where the earnings rates starts to increase.

So, as my old mentor used to say, doing the right thing the right way with the right people, and you get the right results. So that's where we're going. So, to conclude, we – while we need to be patient, we have a sense of urgency. We have a bias for action to get things done. We have one of the best, if not the best, team we're assembling in Asia with a proven track record to maximize our partners, to really focus in China both in AXA Tianping where we have control for the first time and, of course, a great partner, ICBC, develop agency – quality agency with an MDRT culture that we haven't done as well as we could have in the past, and that will be a key focus, pivot towards Health which is top of people's mind and the fastest growing segment in Asia. And, of course, brand is also important.

So, for us, our vision is to be the next insurer of choice to all our stakeholders, to our customers, to distributors, to employees and, of course, to investors. So thank you very much for listening today. My time is up. I would like to show you a little video as we move forward to the rest of day. So, thank you. [Video Presentation] (40:52-00:42:27)

Thomas Buberl {BIO 16182457 <GO>}

Thank you very much, Gordon. Clear strategy, a lot of energy and dedication, and certainly a great team of local talent.

We now come to the next topic, a topic you've been waiting for for a long time, XL. And I would really like to welcome Greg Hendrick, the new kid on the block. You've only been with us for a couple of months. It seems like years already. And the more we've had the chance to work together, the more I am 100% convinced this was a marriage meant to be a great combination where we can make both sides better and yield a stronger growth. Thank you very much for being here, Greg, with your team. The floor is yours.

Greg Hendrick {BIO 1649843 <GO>}

Thank you, Thomas. Good morning, everyone. Welcome to AXA XL's London Headquarters. I'm really thrilled to have you all here. We have roughly 10 floors of this building, hundreds of colleagues. And in fact, on floors one and two and six, predominantly is the insurance and reinsurance underwriting leadership of much of the operation here at AXA XL. So it's really great to have you here.

I want to start – before getting to the main – by the presentation, sharing with you the vision that we have for AXA XL. And this is technically what we did at XL and blending it with what we have experienced with our AXA colleagues over the last few months of integration and then after the close, a much more rapid pace of work of bringing these two firms together.

At XL, we used to say, we wanted to be the most admired insurer, right? As I met Thomas and the rest of the management committee and other colleagues at AXA, the phrase, Payer-to-Partner really resonated with me. And when you look into it, particularly on the insurance side of AXA XL, we quite often provide services that help our clients manage their risk better. On our property policy, we provide engineering either through GAPS, the legacy XL firm, or Matrix, the legacy AXA firm. On our cyber, on our product recall, on our crisis management, on a number of other products, we embed within the policy, service that is pre-lost to help prevent risks and post-lost to help them address the adversity that comes with those unfortunate events.

So we feel very strongly that being the most admired partner resonates well with the AXA XL team and with our clients and our brokers. And we want to do it with superior customer service. We've talked about the AXA brand, AXA's dedication to customer service. At XL, we have the same thing. We've won a number of awards, some of which I'll touch on in a little while. We are recognized globally for great service. And it fits well with that first AXA value of customer first.

So we want to be the most admired partner, we want to do a superior client service, and we want to have the most innovative solutions for the most complex risks that our clients face. To me, the whole hallmark of why people came to XL and why they will come to AXA XL is what I call the halo effect. When you work with your client and your broker, and you address their most difficult risks, there's a halo effect around the rest of the firm. You get more of the business from that client and broker. The client thinks of you more often whether they have a complex risk or more simple risk, and we have been focused on this relentlessly.

Innovation, we've been leading the Adviser (sic) [Advisen] Pacesetter Index in North America, which is loosely an innovation index as it measures the number of new products you release. Three years in a row, we've been the leading insurance carrier with the most new products as a symbol of the dedication that we have to innovation. And the most complex risks, we've done that over and over again whether its entering the cyber market, whether its new energy, we do this on a regular basis. So that's our vision, the most admired partner known for great client service and the innovative solutions to the most complex risks that our clients face.

What are we focused on as a team? First, we're going to finish this integration work and really unify and bring to life AXA XL. That's one of the core goals over the next few months. The work is well on hand, and I'll touch on some of the – an update on some of the synergies near the end.

We want to continue to relentlessly improve our portfolio, how do we perform better, how do we do that in what has been a difficult market. Although what I think now, we'll transition into a more favorable market. And we want to grow profitably. It's a profitable growth. It's not growth for growth's sake, it's to grow our profitable segments of our book. We want to continue to manage the volatility particularly around natural catastrophes. And we believe when we pull those things together and execute on all of them, we'll deliver the returns that our shareholders deserve.

So let me start with creating the global leader. Thomas touched on it, the number one global P&C insurance company in the world. I think it's always good to ground everybody in what that is exactly within AXA Group. It's made of two key components, roughly 50% each. The first is the existing strong franchise that AXA has with local entities, AXA France, AXA Germany, AXA Asia, as Gordon has pointed out, mainly focused on small commercial business. And now, added to that is AXA XL. And just for a refresher to make sure we're all saying the same thing, AXA XL is the combination of the old XL Group, insurance and reinsurance focused on property and casualty, with AXA Corporate Solutions, AXA's existing large corporate insurer; with AXA Art & Lifestyle, which combined with our Fine Art & Specie offering at XL to form AXA XL Art, will be the leading art and high net worth underwriter in the world; and AXA Matrix, AXA's engineering capabilities combined with GAPS, which is our engineering capabilities at XL. Those four things come together to form AXA XL, largely focused on large corporate specialty insurance and reinsurance.

We have a great brand with – Thomas reminded, on the 10th year in a row at AXA. We've gotten great recognition as XL. And now, as AXA XL, we intend to put that forward. Risk management has been strong at XL and will be even stronger and better as part of AXA XL as we leverage the best of both worlds. And a very strong balance sheet, which I'm proud to say just a couple of weeks ago was reinforced by S&P, giving AXA XL a AA- rating as a core strategic part of the AXA Group.

Being large isn't the end all and be all. (48:53) There's a lot of benefit in diversification from bringing these two pieces together. You can start with geographic. XL brings to the AXA Group the U.S. and London presence that you're seeing in today. And that's combined with AXA's strong presence in Europe, particularly. So we have great geographic diversification. We have size of customer diversification as well. AXA mainly focused on small commercial; XL, as I've said, more focused on the large corporate; so we can now entertain any client from small of the smallest commercial to large of the largest global clients, including global insurance companies in our reinsurance segment.

And we have a full product suite. XL brings particularly strength in specialty and professional products that AXA has not in the (49:44) not written very much of. Likewise, AXA has capabilities that XL has never had, employee benefits, motor fleet, and others. So we can now sit down with that large range of customers anywhere in the world and talk about any kind of P&C risks they have and do it from strength and credibility.

And in terms of the brand, I'm pleased to say XL and – going forward will be AXA XL, but XL has won the J.D. Power in North America, the highest customer satisfaction for large corporate insurers, the last two years. The third year is coming out, and I'm only led to believe that so far the early indications from the survey look good on our prospects for leading that table again for a third year in a row.

Let me go a little deeper now. What is AXA XL? We operate in three core segments: Specialty, which I divide roughly in half, between specialty industries, so marine, aviation, energy, and specialty niche, more of the fine art, I touched on it a few moments ago, political risk, crisis management, and other specialty products that are much more focused on particular risks. There, we have a leading presence. We're leading underwriter at Lloyd's. We're a leading underwriter in many of those businesses. And that's just under 30% of our overall book.

The second segment is Property & Casualty insurance globally. So your traditional large property, large casualty, and large professional insurance offerings. Quite often, many of our competitors take our professional business, so our 12% of our book overall is professional, and combine that with a specialty book. So, if you did that, you would call us in that context almost a 40% specialty insurance division. We align them together with the P&C because we believe strongly that operating them together gives us the best chance at cross-sell and how we can best achieve the most number of products per customer.

And then reinsurance, one of our core franchise. I'll touch on it more in a little bit. But it is very global, covering P&C products around the world and able to achieve very fast, nimble and agile results. I think the most important part as you look at these product groupings is that no single product is more than 10%, and property catastrophe which always gets a lot of attention is about 6% of our overall top line. It's a meaningful important line to us, but this is a very well diversified, very well balanced portfolio.

Let me stop here and say a little bit about Lloyd's. I get a lot of questions, both internally and externally, about Lloyd's and what's the plan for Lloyd's, what's the business plan for Lloyd's. Lloyd's, for us, is a marketplace. It is an important one. It is how our brokers and clients choose to access us at times. It is not a standalone business. We have a CEO. We are compliant. It is – but it is very much run as part of each of these three segments. What do I mean by that?

If you use Marine as an example, our hauling cargo underwriters at Lloyd's report into the leader of Marine globally, Rob McAdams. But he also has oversight over what we do in Europe, what we do in North America, what we do in Asia. Clients and brokers choose to access us in different ways, and in fact all three segments access us through the Lloyd's platform. As the largest managing agent, as the second largest syndicate, we're very committed to Lloyd's. It continues to be a very strong platform for us. We're working closely with Lloyd's to try and improve the efficiency of the market overall to continue to be part of the performance directive that's been much in the headlines lately, but it is not a standalone business. It is a platform that we use to allow brokers and clients to access us.

Of course, that's all great to have great distribution, diversification, you have a broad set of products, but you need talent, right, and we'll talk a little bit about the leadership and a little bit about the talent more broadly.

I'm fortunate today to have in the room with us, I'll ask him to stand up, Neil Robertson. Neil's got over 30 years of experience. I've known Neil since XL acquired the Brock Bates syndicate in the late 1990s, and Neil leads our specialty insurance business, a long veteran of the Lloyd's and specialty market. Jason Harris, who leads our Global P&C Insurance, over 20 years of experience. We recruited Jason to join us in 2012, has been leading our International P&C business and now the Global P&C business. Charles Cooper, again over 20 years of experience. I've worked with Charles for over a decade. He leads our Global P&C Reinsurance business. And Steve Robb, who is our CFO of the division. Steve has over 20 years of experience, and I've been fortunate to work with Steve as well over the last decade.

It's a very strong and experienced leadership team. In fact, the people, they're probably always reluctant when I added it all up, but the people on that page have over 250 years of experience in the industry. I mean, make no mistake, this is a very, very strong team. And it's not just about, yes, there are a few former XL faces there, we also have AXA members as well. We're looking forward to building on a strong risk management from XL into AXA XL by Noel Richardson, who is our Chief Risk Officer. And we believe that when we blend the best of both worlds, we'll get an even stronger risk management profile. And Matthieu Caillat, who is leaving a business-facing role to start – is now our Chief Operating Officer, will bring a great business customer-broker focus to how we'll get more efficient in our operations.

But it isn't just about – as important as these leaders are, we believe strongly in the servant leadership model, that we are here not to lead from a top-down command and control, but we are here to empower our underwriters, our claims professionals, our actuaries. And there's over 9,800 colleagues and over 1,700 underwriters in the AXA XL division.

So I know occasionally from time to time, you'll see a headline, so-and-so has decided to move on. I want you to rest assured that this is a very, very broad base of underwriting talent that we have and it's very, very deep and rich at AXA XL. And in fact, just as a data point to share before we move on, our attrition rate, so the percentage of people leaving, for the year-to-date 2018 is lower than what it was year-to-date 2017. Our colleagues are very much invested and eager and excited about the success that we'll be able to achieve as AXA XL.

So, what are we going to do with all that talent and that great leadership with all those gray hairs? We're going to do what we've always been doing, which is optimizing our portfolio and continually improving our performance. We do it with underwriting actions, we do it with pricing, we do it with analytics, and we do it with portfolio mix. We call this the grind. The grind may not be sometimes, in English, the most exciting word, but we are very passionate about it. The grind means you have dedication, you have plans, you execute them, and you're determined to grind your way through an ever and better and improving performing portfolio.

What do we do specifically? Underwriting actions. Every year, through our planning process, hundreds of actions identified, tracked, and only giving credit for in our loss ratios once they've been executed. It could be tiering around industry, around geography, could be around distribution in geography, could be around distribution source from broker, it could be client side, any of the normal things you would expect an insurance management team to do.

Over the last three years, we have identified and executed on $125 million of underwriting profit improvement that I believe passionately has helped us fight what has been a soft market in many of our lines of business.

Pricing. 2018 has been a good year for pricing on the insurance side. We've gone from 3.5% in the first quarter to 4% in second quarter, to 4.5% rate increase across our entire portfolio in the third quarter, balancing out to roughly a 4% for the year, which happens coincidentally to match the 4% that we're also getting in reinsurance. That rating, that rate of increase when measured against industry benchmarks like Willis Towers Watson CLIPS or CIAB is 2 points better than what the industry is getting on the same size large commercial risk, we think validating the competitive advantage that we have as AXA XL. I'll come on to it a little bit, and we think this is only going to improve particularly in short tail lines as we come out of 2018 and into 2019.

Analytics. You've read a lot about predictive modeling, a lot of different players in the market attempting to make it work. We believe we struck upon the right model, which is about a $10 million a year investment in our strategic analytics team, combined with our day-to-day actuaries and our pricing analytics, combined with our underwriting teams. That model of belief and a buy-in from those combined groups makes that very effective. We've gotten to over $2 billion of our premium, has some kind of predictive pricing or predictive risk selection model applied to it.

And then the last, and usually the most important, is optimizing our mix. We need to grow profitably. There is always opportunity in the insurance and reinsurance market to find pockets of opportunity to grow. We also then – if we aren't making our return, we need to find sources of capital that will take that return that may be lower than our threshold, particularly lately alternative capital around our catastrophe exposures, but it could be other reinsurers as well. And if we can't make either those two work, if we can't find enough to grow profitably, if we can't find enough partners to move the risk to, then we need to shrink the book. And over the last three years in our insurance segment, we've reduced over $300 million of gross written premium that has not been meeting our return hurdle, and if we couldn't find a partner with, to try and move that risk onto.

I want to spend a little more time on growing profitably because I think it helps to share some of the successes we've had embedded within our business that sometimes get lost in the overall noise of the industry results, three for the insurance side and then a comment on the reinsurance segment.

In insurance, construction in North America, when we started in 2011, we had about $40 million of premium, not really a factor at all. We hired Gary Kaplan and he's built a team over the last few years. He has taken that $40 million book and it's now a $650 million annual gross written premium portfolio, producing a combined ratio of 85% or better. It has been a very, very outstanding story. They had been focused on the large -- of the largest construction contractors in North America. Generally speaking, the underlying theme of why that works well is they are very, very risk management conscious. They are very conscious of their brand, of their reputation, and they spend more money than any of the mid-sized or smaller contractors on reducing the risk that they bring to their employees and to their workplace.

Second example is International Casualty. We acquired the (01:00:42) international large corporate casualty book back in 2000. And in that, the focus had been mainly on the very large global corporates. Jenny Mauer (01:00:52) and a few other people have, over the years, built a very profitable book of middle market business so clients that are now just starting to go multinational that maybe don't need the full global program capabilities that AXA XL can offer but want to have some more risk management and more ability to go global over time. We've grown that book about 11% per year at less than a 90% combined ratio.

And the third and final example in the Insurance segment is around that news that I touched upon earlier, the importance of predictive modeling. In our Design Professional book, which is our architects and engineer book, a book we've had a long time, bought the Design Professional (sic) [Design Professionals] Insurance Company back in the late 90s. It's been one that, for a while, from 2008 to 2013, was shrinking about 4% a year and was struggling on profitability.

Alex Blanco and his team, as the leader on the underwriting side, partnered with Kim Holmes and her team, Strategic Analytics and partnered with our pricing actuaries and our claims professionals to build a predictive model, not just to have it be built and stored in a room somewhere that corporate runs once in a while but to be built and used actively to manage the portfolio. And we've turned – Alex and his team has turned a minus 4% or a 4% shrinkage rate, if you like, minus 4% growth rate into a 6% growth rate with a four-point improvement in the loss ratio. It's gone from being one of the books that we were struggling with to one of the leading portfolios that we underwrite in terms of profitability and return.

And then if I shift to Reinsurance, we believe Reinsurance for us is in the sweet spot. And what do I mean by the sweet spot? We believe that we don't need to be the largest player but in fact, if you are the largest player in reinsurance, because of the limited number of transactions relative to an insurance portfolio, you're very, very difficult to outperform the market index. But you need to be large enough to be credible, to be able to be viewed as a market leader. Can you entertain any risk around the world? Can you entertain any line of property and casualty?

And we can and so we believe we positioned ourselves in a growth story when we brought XL and Catlin together in 2015. The Reinsurance portfolio was under $4 billion. It's now $4.7 billion in 2017 and we have demonstrated on the right here with the performance from the last five years of combined ratio. As reported, so Cats are in there, (01:03:19), and this is just pure reported results. We've delivered results that are better at an 87% combined ratio than most of the large competitors and only underperformed a handful of the smaller niche players. We like that sweet spot. We like where we are in Reinsurance.

Now that the acquisition is done, we have a lot of momentum and we want to focus on growing in three core areas: things that were already started at XL that we'll continue at AXA XL, things that will leverage the scale that AXA XL gets together, and then cross-sell across the AXA Group.

In growth, in Insurance in the United States, we're about 3% of the large corporate in Specialty marketplace whereas globally, we're about a 4% market share. We have been growing North America faster than anywhere else in the operation, and we will continue that and accelerate that as part of the AXA Group.

And in Reinsurance, we want to continue to find those areas either geographies or products where we can diversify ourselves better. The team has built books around things like exposure to U.S. homeowners, not necessarily Cat-driven all the time, which gets us great diversification because at AXA Group, we don't have that exposure anywhere else in the institution. And one of the ones that I think will yield great returns as part of AXA Group going forward is working deeply on closing the gap between insured loss and economic loss.

We just had Hurricane Michael in the U.S. as you all know. Again, we'll see in one of the most insured marketplaces in the world, only 50% of the loss in round numbers will probably end up being insured of the total economic impact. And as you go away and move into areas like in Gordon's role in Asia, that can drop to single digits and sometimes even less than 1%. We are very passionate about closing that gap and we think when we leverage the capabilities that AXA has around AXA pair of metrics or AXA microinsurance combined with our reinsurance team, we can really do some great work here.

We want to focus and enhance the skill that we have. Both the AXA and XL have had leading capabilities and global programs but we also have a large book of follow-up business where we're not the lead market. Together now, we have much greater scale and much more emphasis to be able to bring to the marketplace and convert from follow to lead lines, allowing you to dictate the engineering, allowing you to control the premium flows and be paid better as a leader than you are as a follower.

We want to develop underpenetrated areas. We're very much looking forward to working with Gordon's team in Asia, particularly around building off of our strength of the hub in Singapore and Hong Kong, and using Gordon and the team's footprint in areas like Indonesia and Thailand where we've not been present as XL. So we believe there's a lot of lift, likewise, in Mexico with I&M and Benoit's team. We see now the opportunity to move from a single office in Mexico City to having access to hundreds of branches around the country.

And we want to build new products that leverage the best of what AXA XL and the AXA Group have to offer. We can do that particularly if you look at in the U.S. and the small commercial where AXA XL brings a great footprint in risk analysis, great leadership in that space, combined with AXA's strong digital distribution capabilities in the small commercial space we believe will yield great fruit over time.

And we've just recently announced a product in the U.S. around cyber where at AXA XL, we're going to blend a full digital offering with our cyber expertise and with access to some of the preventative services that I mentioned at the top and just launched that in the last month is the first step of what will be a great journey, I believe, together.

And then to me, the third one and the heart of it and the real opportunity in front of us most immediately is to cross-sell. AXA XL Specialty and Professional products in the Insurance side now can have access to – access tied agents and access brokers -- small brokers via each of the local entities and that gives us a whole new distribution source that we haven't had access to before. Historically, we've been very dependent on kind of the top five to 10 brokers in each country. We now have a whole new source of risk to be able to cross-sell into.

Likewise, at AXA XL, we didn't have employee benefits. We didn't have motor fleet. We didn't have a number of other products. We can now help our colleagues around AXA Group cross-sell those products into our clients. We believe this will be one of the biggest and most immediate lifts in terms of the revenue synergies that we see going forward.

Let's shift a little bit to managing volatility. Volatility comes in two forms to me: Nat Cat or Natural Catastrophe, which I'll come to in a second and then attritional large loss ratio. So, what we're sharing here is the legacy XL Catlin only from 2010 to 2017, accident year ex-Cat results. So, it removes the impact of catastrophes and removes the impact of prior year losses and it is the legacy XL Catlin, so from 2010 to 2015, it's XL standalone, and then from 2015 to 2017, it reflects XL Catlin after we closed the transaction in May.

When Neil and myself and another of our other colleagues and Jason, as he came along kind of in 2012, when we inherited that leadership of the insurance business, we were definitely out of performance levels that was not acceptable in the upper 60% loss ratio. We got to work on that grind that I talked about earlier and we were able to improve the results. It doesn't happen overnight. It takes a couple of years. We're able to improve that results and then we were able to buy Catlin, bring that portfolio together, and maintain that steady loss ratio across. This is across our group as Insurance and Reinsurance.

And so we've shown that we can grow profitably in pieces and this, to me, demonstrates that we can grow profitably as well in the non-Cat space. But let's talk about Cat because that is the other part of the volatility and the one that's gotten the most attention recently. This is the chart of the total worldwide insured catastrophe losses from 1992. I started with 1992, which was Hurricane Andrew as many of you remember, in the U.S. It had been a very quiet period before that and it really transformed the marketplace overall.

All the way to 2017, this is sourced from Munich Re. You could go to Swiss Re. You can go to Aon. There's a number other industry sources that will have slightly different numbers as you go along, but the picture is the same. And then for 2018, we're estimating at least $70 billion as we see it for 2018 of net Cat losses. That makes 2017 and 2018 together the single largest two-year period in that history base. We'll be over $200 billion of insured catastrophe losses. And if you think about it, it's really only in the last 14 months because the meat of the activity started kind of in August of 2017. It has been a very active period, all right?

And so we would point out, though, that as you look back over time, there are period -- it doesn't always happen like 2017 and 2018. There are periods that you see, 2013, 2014, 2015, 2006, 2007, 2008 that we have very low activity for a period of time. We believe that this has not changed, that variability of the result will continue.

And I'm sure you're very interested about 2018. In particular, we would know that Michael, as you've talked about already, the wildfires that I've shared with you, the industry loss here from RMS, it's $9 billion to $13 billion from them. It's just too early for us to be able to give you any kind of precise estimate yet for what the loss maybe the impact AXA XL. I will share with you, though, that at XL in 2017, we had roughly a 2% market share of the California wildfires last year.

Regardless of what the losses end up being, in total, there has been enough activity when combined with the man-made loss activity as well experienced in the industry that we clearly see an increasing of price increases in our short tail lines of business: Property Insurance, Marine, aerospace and a number of our lines are seeing an acceleration and I believe there will be a little bit more to come as we kind of sort out who wants to play forward as alternative capital which I believe in passionately for the long haul in the near term. Do they want to reset the price a little bit and do they want to try and make a little more return after two difficult years that they have experienced as well? But I do believe regardless of the outcome of that conversation that we will continue to get rate going forward.

And we've been not just planning to go back to the better years. That's not a strategy. Hope is not a strategy. We've been reducing our exposures over time. We started this as XL at the end of 2017 when we realized the reaction in 2018 wasn't going to be a stronger rate that that should generate rate and more profit. We started reducing our exposures and then we accelerated that activity as part of AXA Group.

So for the AXA – for the XL portfolio, our 200-year tail loss is down about 25% to 40%. Our 20-year loss down about 15% to 20% and we'll continue to do that in 2019. I don't have a precise prediction for you because to me and to the team – to my colleagues at AXA Group, we're very much driven by the fact what will a profit opportunity be which will dictate exactly precisely how much risk we decide to take in 2019.

Wherever we decide, though, we continue to remain very committed to using alternative capital. We have $1.5 billion of cap bonds, we have nearly $1 billion of collateralized reinsurance and as you will have seen just a few weeks ago, we bought in the remainder of New Ocean, our ILS manager, which will now be aligned with us and be focused solely on how do we distribute AXA XL risk today and over time, AXA Group risk as well to the ILS community directly from us to the investors.

Synergies. I'm very happy to report that we have increased our synergies from $400 million to $500 million. We've been hard at work since we announced this transaction even in more rapid pace since we closed. We've been able to identify more cost savings up from the $200 million to $300 million. We've been working closely with the AXA Global REIT team. We believe we now have line of sight to that $100 million of savings in ceded reinsurance. And then as I've talked about already on the growth side, we're very excited to confirm that we can deliver on the $100 million of revenue synergies as well and are already starting to practice in small areas, for instance, cyber in Italy with some of the AXA tied agents there to show that we can execute across this cross-sell strategy.

So when I pull it together, improvement on the synergies, keeping that grind, going to improve the profitability of our portfolio, a better rate environment, continued use to try and match risk to the right source of capital, and what I haven't touched on, which is a shift in our investment portfolio where at AXA, we had been a very conservative, well below the risk level of our peers and just moving that a bit to be more in line with the overall AXA Group investment philosophy, we can achieve a 95% combined ratio by 2020, assuming about a 4% Natural Catastrophe load and produce about $1.4 billion of underlying earnings in 2020 again, with normalized Cat.

We're well on the way to integration being completed and thrilled that we may be able identify more synergies and more savings. We continue to grind that portfolio and make it a more profitable one for the levers I identified. We're going to continue to grow profitably in areas that we have been already and identify new ones together. We will continue to manage our Cat volatility. In the end, when we execute on all of those, we believe we will deliver a return that AXA shareholders should expect.

I want to thank you all very much for listening today. I had the pleasure of saying there is now a half hour coffee break behind you. Please enjoy the coffee. We'll be back in here in half an hour. Thank you.

Thomas Buberl {BIO 16182457 <GO>}

So, welcome back after the break. I hope you had enough time for exchange and I heard many questions already for the Q&A session. Thank you, Greg, for this wonderful and passionate speech about XL; clear strategy, good team, and a very disciplined approach to get to a very attractive number.

We are now coming to an old-timer of AXA, Gérald Harlin, who has the now ability and power to put everything together. What will it be? The new capital management approach. Gérald, the floor is yours.

Gérald Harlin

Thank you. Thank you, Thomas. So, I'm very happy to be with you and to update you and our capital management policy. And going back to the profile of our group on a pro forma basis, that's a strong transformation, so assuming that we would exceed totally AXA Equitable Holdings, including AXA XL. We are a majority P&C, health and protection company. P&C will represent 50% of our earnings and the savings part is 14% only, which is collectively small.

So, today, I want to highlight and to focus on six topics. The first one is the earnings volatility and the fact that it is controlled. There is earnings volatility but it is under control. The second is the cash generation and the flexibility that it will bring to us. Next is the path to deleveraging. That's -- we updated you on our deleveraging plan already in August, but we have a clear update to share with you. Next, is the robust balance sheet and with strong Solvency II rates. Next is globally the new capital management policy and the new guidelines, and last, the update on Ambition 2020.

Let's start with volatility. So you remember that in August, we highlighted the reduced Cat cost deviation coming from and following our new reinsurance program. And it's interesting to analyze. At that time, we analyzed the negative side, but it's interesting to analyze both sides. The positive and the negative deviation and starting first with the left-hand side, which correspond to the severe years – more severe years. In one in 20 years, we would add €0.5 billion of negative deviation from the average €0.5 billion corresponding to one in 20 years. That's exactly same figures as one we shared with you at the beginning of August.

This highlights all these framework, highlights the fact that we have strong benefits from our geographical diversification. To make it simple, it means that the probability to have a severe Cat in Europe and in the U.S. is quite low. So that's the beauty of this extremely diversified model.

Next is the earnings volatility. As I said, there is earnings volatility coming from Cat events. You can see here that in one in 10 years, it's plus 8% on the less severe years and under more severe years, it's equivalent of minus 7% of underlying earnings per share; plus 8%, minus 7%. Last is the profitable asymmetry. That means that we have 54% probability to be above the mean, and by definition, 46% probability to be below.

Let's have a look now at the recent transactions. First of all, the P-GAAP. We will consolidate at the end of the year AXA XL and I wanted just to update you on the P-GAAP that many times we discussed. The first point is that there is no change to best estimate claims reserves. We told you in March that we were satisfied with the level of reserves. It's exactly the same and we didn't change our mind and we will have best estimate claims reserves of €20 billion.

The P-GAAP accounting adjustment, I would say that in line with the practice, in line with the IFRS practice, we will book what we call a risk margin net of DAC and Value of Business Acquired and it will amount to €1 billion. As a matter of principle, it's exactly same as in Solvency II. We call it in Solvency II market value margin but it's exactly same concept. And you cannot expect any release in the short-term of this €1 billion. And next, goodwill, that will amount to €7 billion. That's for the P-GAAP.

Now, moving to AXA Tianping. As explained by Gordon and as presented by Gordon, we published it on Monday evening this week and it's important because we are very proud to say that AXA will be the only foreign insurer to have a 100% control of top 20 P&C insurance company in China. So, we will be as well the first foreign P&C insuring in China. So, the cash consideration is €580 million and subject to regulatory approval, we will – we should finance part of it with capital reduction from AXA Tianping of €190 million.

Let's update you on the present AXA Equitable Holdings sell-downs. As explained by Thomas, it was two weeks ago on November 20. We sold 11% – participation of 11% in AXA Equitable Holdings. It was sold for €1 billion. It was 60 -- corresponding to 60 million shares at $20.25. We – normally, we should benefit from €0.2 billion corresponding to the exercise of the greenshoe and we had – we benefited from €0.5 billion i.e. 30 million shares from AXA Equitable Holdings, 30 million shares buyback. In the end, from an economic perspective, we will own 50% of AXA Equitable Holdings after all this transaction in May; first the IPO, and in November, these additional disposals. We have 50% left.

For the future, we confirm, as we said already and we announced it as you know in March, that we will – it's our intention to fully dispose AXA Equitable Holdings over time, so to sell the 50% that we still own in AXA Equitable Holdings. But for sure, the pace will depend on many factors among which the share price, the environment and the market liquidity. Today, and taking today's price -- today's stock price, the remaining 50% correspond to €5 billion. Let's move to 2019, 2020 cash flows.

So AXA before, and this is before, it's important, before AXA Equitable Holdings further sell-downs, will accumulate €12 billion of cash in 2019 and 2020 mainly to fund dividend and deleveraging. So starting first with cash remittance, roughly speaking, we could say around €5 billion per year. So on two years, 2019 and 2020, it's €10 billion, then plus €3 billion cash coming from the Swiss Group Life's transformation that we presented, it was in August, plus the disposal of AXA Life Europe as a whole, €3 billion; €2 billion from the Swiss transformation, €1 billion from AXA Life Europe.

Holding cost minus €2 billion, then we have the sell-down that we achieved, that we did two weeks ago, it's plus €2 billion. As a whole, it's €12 billion. So, again, this €12 billion it's cash available -- accumulated cash available to fund dividend and deleveraging but it's before AXA Equitable Holdings further sell-down.

So let's move now to our gearing ratio. And starting first with 2018 and you can see that – as you can see in line blue, at the end of June 2018, we had a debt gearing of 29%, and we expect for full year 2018, at the end of 2018, to be at 32%. Let me go through the different blocks and elements because it's not quite obvious.

As far as the debt is concerned, the numerator. It means that we will benefit from the – we will increase the debt level by €4 billion corresponding to the debt consolidated from XL because we consolidate in XL for the first time in 2018. And -- but we will have a minus €2 billion corresponding to the debt that we will have repaid in the second half of 2018. And I mentioned already, I could say already notified to bondholders as a whole, minus €2 billion and maybe you notice that we announced yesterday, €0.8 billion more coming from XL.

Then on the shareholder of equity, there will be minus €1 billion that would be the impact of the AXA Equitable sell-downs that we did in November, minus €1 billion. Then we had minus €3 billion which is a goodwill impairment Group share and we decided that it was better to impair the totality of the goodwill of corresponding to AXA Equitable Holdings so long and as a consequence, it will flow-through the net income for 2018. And as a consequence, the value of the shares of AXA Equitable Holdings, the book value, will be between $21 and $22.

Next, minus €1 billion which will be the net impact on minorities, plus €2 billion coming from the increase of the minorities following the disposal that we did. And again, we will impair the goodwill of the minorities for €3 billion in the same amount. It's quite logical because we are 50%.

So, as a whole, again, we move from 29% to 32%. I should mention as well that, two points. First, it confirms that there was no need to issue €1 billion more of sub debt. We limited ourselves, if you remember, to €2 billion. And second, we should take into consideration the fact that I'm expecting at the end of 2018 to have €1.5 billion of cash corresponding roughly speaking to 1.5 percentage point of gearing ratio. So, assuming that we would have used this available cash mostly coming from the disposal in November, just in order to reduce our debt, we would – we wouldn't have been close to 30%.

Let's focus now on our deleveraging plan. So, here, what you can see is the illustration which is based on a full AXA Equitable Holdings disposal by 2020. So, the debt gearing should come starting from 32% at the end of 2018, the figures that I just commented. We would move to 28% in 2019, 25% in 2020. We could – you have on the right, the moving part starting again with the debt, meaning that the debt, the numerator, will drop by €7 billion, €3 billion corresponding to the net debt that will be repaid and minus €4 billion coming from the removal of AXA Equitable Holdings so long as we will – we would sell in this scenario 100% of AXA Equitable Holdings. We will deconsolidate AXA Equitable Holdings, meaning that the debt would disappear.

Under shareholders equity, the denominator, we would lose €5 billion of minorities, that's exactly for the same reason. It's coming from the fact that we will then consolidate, in such a case, AXA Equitable Holdings and we would have €6 billion of retained earnings, roughly €3 billion per year of retained earnings during 2019 and 2020.

As a whole, we will have €14 billion of generated cash. Let me go through a bit more detail. The €14 billion correspond to what? It correspond to the €12 billion that I just commented on the previous slide plus €5 billion of sell-down because we assume here that we would do a full sell-down minus €3 billion of debt. As a whole, €14 billion. And it means that we would have – we will have €14 billion of generated cash that will remain after deleveraging, assuming in such a case we would be at 25% to finance what? It would be available for dividends, for cash buffer, M&A and share buyback.

Cash buffer, why? You remember, I'm sure, that in March when we presented our financing plan for AXA XL, we said at that time that we would use €3.5 billion of cash buffer so we can assume that this cash buffer will be reconstituted. But it will, as you can imagine and as you can make your own math, it will mean some cash available for M&A and eventually share buyback.

Let's move now to Solvency II and update you on the expected impact. Even with deleveraging of Solvency would improve between 10 points to 30 points. Why do I say even with deleveraging? Because you have all in mind that we have a lot of sub-debt, which means that deleveraging will naturally reduce the restricted part of Solvency II.

So we will increase from plus 10 points, which will be the low end, to 30 points, which will be the high end. And let's look through on the left on the various elements that make that will be between 10 points and 30 points. Starting first with something you are familiar with, which is the operating return, net of dividend, from 5 points to 10 points per year, so for two years, between 10 points and 20 points. Then, we have the diversification benefits. You remember that the point that we already shared with you, we expect by 2020 to get XL integrated in our internal model and the diversification benefits should amount to 5 points to 10 points accretion in our Solvency II ratio. Then, we have the further sell-down between 0 points and 15 points between selling 0% to 50% of AXA Equitable Holdings. Then, minus 5 points to minus 10 points from deleveraging. That's what I just explained, Tier 2 debts mostly, Tier 1 and Tier 2. And M&A between 0 points and minus 5 points. Just for you, 5 point corresponding roughly to €1.5 billion.

So, it means that the quality of our capital should improve on the next two years, as you can see in the following slide, and in the following slide (01:32:55) and we can expect unrestricted Tier 1 to be above 75%, which means that we'll be among the best ones, and for two reasons. The first reason is the debt repayments, and the second is the organic sub-debt repayment, by definition, and the second is the organic capital generations.

Sensitivity to our Solvency II ratio now. This is an important slide because it explains why we moved and why we decided to transform our group. Let's start on the left-hand side, meaning that becoming more a P&C company, as I explained or as I presented it to you at the beginning of my presentation, we will have plus 13 points that the pro forma required capital, so that the denominator of the Solvency II ratio, plus 13 points on the P&C ratio – from the P&C risk, minus 4 points on the life side and minus 10 points on the market and credit risk. So again, it highlights the fact that we are much more diversified because the P&C rate is diversifying a lot compared with the other type of rates.

And let's move now to the right part on this slide. We will have 20% to 30% reduction in economic sensitivities from financial shocks. It means that we will reduce of tail risks, and this is important from a valuation point of view. Let's start with the 1 in 20 years financial shock, from a minus 30 percentage point sensitivity to a minus 31 percentage point. On financial crisis, that's 2008-2009, I'm sure you remember, from minus 61 points to minus 46 points. Then, the financial crisis, 2011 financial crisis, from minus 20 points to minus 14 points. And dotcom bust at the beginning of the century, minus 34 points to minus 24 points.

And in the meantime – and this is really what is extremely interesting – in the meantime, in 1 in 20 years, the natural events are the same. That means the downside from 1 in 20 years natural events stays at minus 2 percentage points. Whereas, in 1 in 200 years natural events, it moved from minus 5 points to minus 8 points. So, only a worsening of 3 percentage points. Whereas, we gain 20% to 30% from the financial shocks. So that's quite important, and again, it may be the most important slide that can highlight that to explain our strategy.

Going forward, it means that our cash capacity will increase and this cash capacity allows us to increase our payout ratio, from 45% to 55%, to 50% to 60%. So, you have all in mind the fact that our historical cash remittance is at €5 billion. And we can say that on the medium term, we can expect to have XL integration increasing our cash remit – with a cash remittance of circa €1 billion per year. And you remember that AXA Equitable Holdings, over the last four years, was limited to €0.5 billion. Maybe you remember the $600 million that many times we mentioned.

As a whole, it means that the normalized new cash remittance will be €5.5 billion. It means more cash capacity, which allow us to increase the new payout tranche, from 45%, 55%, to 50% to 60%. And as a consequence, and you can see just in the middle, that the €1 billion to €2 billion cash available at holding, we will have €1 billion to €2 billion. Depending on the scenario, it will be €2 billion in a 50% payout, €1 billion in a 60% payout. And this compare with the €1 billion of cash capacity that we previously announced, I'm sure that you remember this, for our 2016 to 2020 plan. And at that time, we assumed the 50% payout ratio. So as a conclusion, it means more cash capacity even increasing our payout ratio.

Let's move to our target capital range now. The new payout ratio and, as well, combined with the reduced Solvency II sensitivity, leads us to revise our target capital range, from 170% to 230%, to 170% to 220%. You can see just in the middle that we announced that the share buyback will at least neutralize by at least – we mean that we could do share buyback beyond the neutralization of dilution.

Let's move to the ROE now. And we increase our new ROE guidance, from 12% to 14%, to 14% to 16%, so for two reasons. First of all, because we did well, I could say, because we have a consistent track record of improvement. Remember at the end of 2017, we were at 14.5%, above the threshold of 14%. For the first half, we're at 15.6%. So, that's a good reason, first reason. The second is the mechanical positive impact from the decrease in shareholders' equity, following the AXA Equitable Holdings sell-down and the goodwill impairment. That's why we are now at between 14% and 16%.

Let me present our new update targets for our plans. That's the famous quadrant. And we confirm underlying earnings per share between 3% and 7% on a CAGR between 2015 and 2020. Adjusted return on equity have been updated, from 12% to 14%, to 14% to 16%. Our free cash is €28 billion to €32 billion, and we can expect to be at the high end of this range, and Solvency II ratio is revised to 70% (sic) [170%] to 220%.

As a conclusion now, I would say that, for sure, Nat Cat, natural catastrophe, brings earnings volatility but it is under control, and we'll benefit from the profitable asymmetry, with plus 8%/minus 7% underlying earnings per share in 1 in 10 years. Second, we have a very strong generation – strong cash generation with flexibility, €12 billion are expected in 2020, and as I explained, with upside coming from AXA Equitable Holdings sell-down.

We are deleveraging. We promised you that it was our priority. That's what we will do. And we can expect a clear path for deleveraging. We'll be between 25% and 28% at the end of 2020, and I would say, irrespective of AXA Equitable Holdings, since we mentioned that we would be at 28% in case we wouldn't sell any further AXA Equitable share. If we sell the totality, we'll be at 25%.

Robust balance sheet, we can expect to increase our Solvency II ratio by 2020 between plus 10 points and plus 30 points. Next, our new capital management policy, that will be between 50% and 60% for the payout ratio and 170% to 220% for the Solvency II ratio target range. And last, update on 2020, we revised adjusted ROE, return on equity, guidance from 14% to 16%.

I thank you very much.

Thomas Buberl {BIO 16182457 <GO>}

Thank you very much, Gérald, for this passionate finance speech, very clear on the capital management. I'm sure you have accumulate many, many questions during this couple hours of presentation. And I would now like to welcome Gordon, Greg and Gérald, the three G's, to stage. So, who would like to start? Let's start in the front here. And the microphone is coming.

Q&A

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. Peter Eliot from Kepler Cheuvreux. The first one was – and we've seen the distribution of 1 in 20-year events, et cetera. Just wondering if you can tell us where you expect to end up in this year, in particular, and if I sort of think back to our – the Q3 conversation, my understanding was we have maybe sort of €200 million headroom for the protection to kick in, we since have the Californian wildfires. I guess, based on last year, maybe €300 million. I'm just wondering whether you can sort of give us any guidance on whether we should expect the protection to be kicking in now, but more generally, where we see ourselves on that spectrum grade.

Second question was I'm wondering if we could just have a bit more detail on the €1.4 billion from XL in terms of how that breaks down. I mean, first of all, how much of that is from old AXA businesses that are now going to be in the scope? Exactly what the driver of the €0.1 billion cost synergies increases? I'll leave it there. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you very much, Peter. So I suggest, Gérald, you take the first question. What does the distribution, 1 in 20 years, mean for 2018? And Greg, you take the second, to shed some light on the €1.4 billion and the additional synergy. Gérald?

A - Gérald Harlin

Yes. To be precise, your question on the 1 in 200 years (01:43:49), what is it? It sounds that – the global – (01:43:52)...

A - Thomas Buberl {BIO 16182457 <GO>}

What it means for Q4 for this year.

Q - Andrew Wallace-Barnett {BIO 18671460 <GO>}

(01:43:53-01:43:58).

A - Gérald Harlin

Okay. I could say that it's – for the time being, that the year is not finished, but we should be cautious. And as explained by Greg, we cannot yet say what will be the final cost of all these events. But let me go through the global protection scheme that we have at the group level. I would like to say that it's – first of all, XL has experienced losses that were less half than in 2017. Second, AXA XL has its own program and we have already some protection we started to trigger.

Next is that, as we mentioned already, we have our own aggregate and AXA XL has its own aggregate. And from what we believe today, we shouldn't be far from figuring this (01:44:54) this aggregate. Next, we could say that as far as AXA is concerned, because now, we are in a single group, as far as AXA, we have a relatively benign cat environment this year. And last but not least, but quite important, as I presented, again, in my second slide, we have a global protection, which means that whatever happens, we can consider that between 1 in 10 years and 1 in 20 years, we will be roughly within these. We won't reach, we will be above, we won't be in the most remote probability. We will have – we should have a cat deviation of 0.4 to 0.5. So, that means that that's what I can tell you for the time being, and that's – but let's wait for the rest and let's wait to see what will be the final impact.

A - Thomas Buberl {BIO 16182457 <GO>}

Greg, on the €1.4 billion, what part is old AXA and what is the €0.1 billion additional synergy?

A - Greg Hendrick {BIO 1649843 <GO>}

Let me start with the second part first. The €0.1 billion is really when you sit down and make an estimate, to begin with, you're working at a very high level information. You're still a competitor. So, you're not really able to share a lot of deep analysis back and forth. And so, the extra €100 million is really around over the last two to three months since the close of transaction. We'll be able to get more granular about what's there to be saved. Some of it is around what we've talked about historically, which is the absence of the need for a publicly-traded company infrastructure at XL and identifying more pieces of that, which we can pull on.

The other parts, I'm afraid I can't go into just – we're in the middle of a consultation process in Europe, which is part of the – main part of the overlap and that'd be – we're following that process to its conclusion, and it's inappropriate for me to say anything more at this point.

On the €1.4 billion, I don't think about old XL or old AXA in that regard. This is AXA XL. There's a lot of reasons for that. One is, as you – as we look at the levers that I think we're going to be pulling on, particularly around the gross revenue synergies I talked to, they may show up in AXA XL, they may show in local entities. It'll just depend on where we go.

So, I don't think about things in the old world of XL and AXA. That is a combined plan across the AXA XL family, which is those four pieces I talked about coming together.

It's roughly speaking, if you look at the 95% combined ratio, it's going to be roughly 60% underwriting, 40% investment income. But I just don't – we're putting the teams together. There's no longer separate – there won't be, as we finish consultations, separate Fine Art teams. Everything moves together and forms AXA XL.

A - Thomas Buberl {BIO 16182457 <GO>}

Yes?

Q - Peter D. Eliot {BIO 7556214 <GO>}

(01:47:41-01:48:00)

A - Greg Hendrick {BIO 1649843 <GO>}

Yeah, I would say the uplift on the revenue synergies is about €100 million. Our cost is about €300 million, so that's €400 million uplift from the combined scale, would be the way I would think about it.

A - Gérald Harlin

And you have also – if I may, we have also the asset side, that has been mentioned before, because we – you know that as a single company, AXA XL was extremely cautious because they were mostly invested in AA. And as you know, the group is mostly invested in single A, meaning that in the end, where some uplift just for you to – we could say that where, in the past, they were at 2.1% in term of – you could say it's 60% – more than 60% of the asset in U.S. dollars. We can expect an uplift of 30 basis points, 40 basis points, which is quite sizable.

A - Thomas Buberl {BIO 16182457 <GO>}

Jon?

A - Gérald Harlin

And ACS, as far as just to complement, as far as AXA Corporate Solutions, AXA Corporate Solutions is a company which, last year, has a contribution to earnings that was €50 million on top of my head, but it was a poor year. So normally speaking, AXA Corporate Solutions and all the other entities like AXA XL was €20 million. So, let's say that it's between €100 million and €200 million.

A - Thomas Buberl {BIO 16182457 <GO>}

Jon Hocking (01:49:31)?

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

Thank you. Jon Hocking, Morgan Stanley. I've got three questions, please. Firstly, on the buyback. I think it's fair to say that some buybacks haven't really been the AXA way historically. Are you signaling here that you're happy with the sort of business transformations in the footprint? And is there something mechanical about the buybacks? If you sort of ahead above that 220% range, should we expect to see a recurrent buyback? That's the first question.

Second question for Gordon, on the Asian business, with your sort of agency comments, you didn't mentioned Hong Kong with MDRT. Does that imply you're going to do some recruitment of external agents?

And then, on the XL business, just looking at the sort of three buckets you categorized the business in terms of specialty, P&C and reinsurance, how do you envisage that mix changing over time? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thanks, Jon. So I suggest, Gérald, the first question for you on share buyback, then, Gordon on Asia and Hong Kong, and Greg on the three buckets and the changes.

A - Gérald Harlin

Let's be clear. What we said is that after these two years, I'm assuming that in the end, we will sell 100% or the remaining 50% of AXA Equitable Holdings. So we will have €14 billion of cash and €14 billion of cash in order to finance swap, to finance two years of dividend, you can make your own math. And then, we have the residual part corresponding mostly to the cash buffer. I mentioned to you €3.5 billion as a reference, but it's not a very precise figure. And the rest will be used just in order to do some external growth – organic growth of share buyback.

We cannot tell you yet what we will do. It will highly depend on the condition, the opportunity. But what we want to mention is the fact that if, at that time, we can see those that's in the best interest of our shareholders to do share buyback, we will do share buyback. That's it. And we cannot announce first what it will be, but it will be, without any doubt, in order to optimize the value for our shareholders.

A - Thomas Buberl {BIO 16182457 <GO>}

And that if I may add to that, it's a relatively fundamental change, and you pointed out in your question to previous looks on the share buyback. Gordon?

A - Gordon Timmins Watson {BIO 21377545 <GO>}

Actually, thanks for the question in Hong Kong. I'm actually very happy with the turnaround in Hong Kong. I think it was in the third slide, you could see that last year, our APE was down 13%, and that has turned around, and year-to-date, it's 5%. So in the first quarter, we were flat. The second quarter, we grew faster. In the third quarter, we grew faster. So we have looked at our product portfolio to make sure we position the life product correctly with added innovative health, et cetera. And we have a whole new proposition to attract agents to AXA.

We want to be the next insurer of choice. We want to be modern. We want to use that global brand, et cetera. We brought my friend, Howard, in to do that because he's done that before, and that is exactly what we're trying to do, is to attract new agents. But to be honest, I don't like to attract from the industry. I prefer to go outside the industry or get new people and grow organically in our culture, which would be that MDRT culture. So, that's the plan for Hong Kong. And I think you can see, Etienne and the team have made great progress from flat in the first quarter and slowly growing. So, Hong Kong is very much on track in that regard.

A - Thomas Buberl {BIO 16182457 <GO>}

Greg, on the buckets.

A - Greg Hendrick {BIO 1649843 <GO>}

Sure. I'll start by echoing what Gérald said. I don't know what the mix will be. I'm very driven by the fact that the mix will chase where the profit potential is the greatest. However, if I answer your question, kind of what do I see today as the mix, I touched on that differentiation between specialty industry and specialty niche. I would see specialty niche growing if the profit potential there is greater. I would see specialty industry, depending upon where pricing goes, staying flat or perhaps even shrinking.

In the P&C world, clearly, property, we are seeking to achieve more rate there. In the absence of that, we would see that staying the same and growing in the professional and casualty lines a bit. And within reinsurance, you would see the same kind of thing, kind of a flat view of short tail lines and a growing view of longer tail lines. Although there, in reinsurance, the longer tail lines are still coming around and are still fairly more challenged. So, you'd almost think of reinsurance as kind of a bucket that would move along in a steady state. But if things change, if rates better, if we're able to find some niches that we think are profitable and growing, too, that mix will change. I don't wake up in the morning saying I have to have a third, a third, a third or anything like that. It really move to where the opportunities are.

A - Thomas Buberl {BIO 16182457 <GO>}

Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thanks very much. Farooq Hanif from Credit Suisse. Gordon, I'd like to go back to your three-stage program. What's the message on underlying earnings? So, should we just think of a bit of investments to create a better value business or we should just be cautious about the growth? That's question one.

Question two is to go back to – on XL, just to go back on your comment on pricing versus CLIPs and the market, it has been, as you say, 1% to 2% ahead. So, is that mix? It can't be because your property casualty weight – your property weight is lower, isn't it? So, what's driving that? Question two.

And then, question three is on the dividend payout ratio, just a trajectory. Because obviously, you own AEH for a certain amount of time. So, how do we think about that 50% to 60% range? Is that sort of lower to higher overtime? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's go in that order, Gordon, Greg and Gérald.

A - Gordon Timmins Watson {BIO 21377545 <GO>}

Yeah. Farooq, Asia is clearly a growth market. So, the initial focus is to grow quality new business, focus on increasing the value of new business, not the margin or the volume but the absolute NBV. That's what we wanted to do initially because that is how we will create an increase in the rate of growth of the underlying earning s.

We're not a cash cow (01:56:05), countries like Thailand that's investing for growth. Of course, there are more material countries like Japan, but that's what our focus will be, to add quality new business which will lead to a higher growth in terms of earnings, and that kind of growth rates that some of the other top companies in Asia get.

A - Thomas Buberl {BIO 16182457 <GO>}

Greg.

A - Greg Hendrick {BIO 1649843 <GO>}

So just for – I think there's – not 100, but there's at least 10 different reasons of why we could be outperforming. I believe very strongly that it's the power of the competitive position that we have. Those awards that we win, whether it's J.D. Power, which I touched on, or Gracechurch here in London as one of the best underwriters, or in European capital awards as well, they are representation of the strong support that we get from brokers and clients and I believe we are able to leverage that to a slightly better outcome.

If you dig a little bit deeper, we do – that is a comparative not to the entirety of those benchmarks, but the large risk side. So, I don't think it's a mix of business in terms of risk size. And then, we do compare it in the broad lines of property, casualty, workers' comp, and not always are we staying 1 point or 2 points ahead, but by and large, that margin is the same. So, I don't think it's the overall mix of business. I do believe it comes back to a very strong competitive position.

Q - Farooq Hanif {BIO 4780978 <GO>}

But you don't think you're underpricing before having you're catching up?

A - Greg Hendrick {BIO 1649843 <GO>}

No, no. That one I feel very strongly about. I didn't share it. It gets a little bit technical. But since you asked, it gives me the opportunity to give you my favorite set of statistics. We look very closely month over month over month, how is our submission count going. And I'm pleased to say that we are getting more business.

The next thing you look at is the quote ratio. Of those submissions you get, how many do our underwriters want to quote it, and that's been steadily increasing to a point now where we quote about half our submissions.

And then the piece that it would demonstrate where, for a richer (01:57:49) point, would be accurately, is if all of a sudden, my hit ratio is going up or if I had seen the hit ratio going up, but we find a decreasing hit ratio. So, we're getting more submissions to the right submission but we're not winning – in fact, we're winning a lower share of our business. So that, to me, is at a high level of pretty good proof point that we're not chasing business and underpricing it. Otherwise, you see that hit ratio move up over time.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald, the ratio.

A - Gérald Harlin

To answer your question about the 50%, 60% (01:58:15), I would say that different points. First of all, we have an underlying earnings growth potential, the 3% to 7% that we have reiterated. And what we said about the XL confirms all of this.

Second, I would say that the XL business is, at 95%, is a very profitable business. It creates volatility. I insist of this. Yes, it creates some volatility, and I commented a lot on this, but the global trend is quite good. When I – I'll give you an example. When you take the property cat business in the U.S., it's well remunerate, I would say, the capital, including using the 200 – 2 times, for example, the normal capital and our Solvency II framework.

Last but not least, the 50%, 60% on top will be a way for you to safeguard the fact that if there is a bit more volatility, then we could have a more stable evolution of the dividend.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's move to the left or your right (01:59:22).

Q - Mauro Carli {BIO 3700253 <GO>}

Mauro Carli, Bank Lombard Odier Geneva. I have two questions for Greg. The first question is regarding what is an expected run rate for prior year reserve releases for 2019 onwards?

And the second question is how do you intend to leverage the specialty insurance platform to cross-sell product to AXA clients? And if your internal metrics for the cross-selling ratio, if (01:59:49) to reach those metrics, those targets, are in your agenda.

A - Greg Hendrick {BIO 1649843 <GO>}

Okay. Thank you. Well, I guess you don't need to. Sorry, on the first one.

(02:00:03)

A - Thomas Buberl {BIO 16182457 <GO>}

PYD and then...

A - Greg Hendrick {BIO 1649843 <GO>}

On PYD, sorry. The numbers I share with you don't include any PYD release or strength (02:0:12). They're what I would call AXA (02:00:14). So they're neutral. So that is a thorough process that we've gone through for years at XL Group, including our own internal actuaries, our external actuaries, our external auditors. We are now building ourselves into the AXA Group methodology. And so for purposes of that discussion, there's no way PYD embedded in there.

On the second piece on cross-sell, we're in the process and on the integration team is building detailed plans country by country to figure out which specialty and professional products will sell best in the country – in each country and how do we go about selling those.

So we're going to be looking closely at how many submissions can we generate on each of those lines of business, so you'll watch for flow as I talked just a few moments ago and you'll watch on the conversion rate of how many you can hit.

Those focus is very high on our agenda. Kelly Lyles is not here. She's – leads our Client and Country Management. She's working closely with each of the senior management teams in each of the geographies within the existing AXA Group. And it's not minutes, not hours, it's days and days of work that we're going through to make sure we line that up and it's very high on my agenda as well as my colleagues on the management committee.

A - Thomas Buberl {BIO 16182457 <GO>}

Ralph?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Thank you very much. Ralph Hebgen from KBW. Three things. One is on the dividends. On slide 48, you indicate that the new dividend potential would be between £3 billion and £4 billion. So if I sort of remember the Ambition 2020 plan, where you indicated £16 billion over five years, would it be naïve for me to do an illustrative calculation and say, if you had said at the time, then this would be about £15 billion to £20 billion range and highlight the incremental dividend payment capacity, which you hope to harvest from the deal. So that would be question number one.

Number two is I believe for Greg on XL. Greg, you mentioned that your syndicate presence at Lloyd's is basically incremental and enables you to access customers and brokers in a different way, is actually what you're saying is it basically incremental to the legacy XL businesses, or is there a synergetic potential as well as to be present at Lloyd's leading to the deliberation where your presence at Lloyd's is crucial to you or not?

And I think the final thing is a philosophical question, I think, Thomas, your – I hope I'm not simplifying this too much, but one key element in your strategy is the observation that in the future P&C risks might migrate more from personal lines model towards commercial model, certainly motor insurance.

Now, if you look at the Asian presence, you've just become one of the first European carriers to own 100% of the domestic Chinese company there. 90% of Tianping is basically motor insurance and personal lines model there. So, how does that philosophy chime with the overall strategy? Do you have different philosophies for different regions?

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. So I suggest that on the first one, dividend, Gérald, you take it, capacity question, second one on the Lloyd's, Greg, and I'll do the last one.

A - Gérald Harlin

Okay. On your first question about dividend capacity, remember that when we presented in June 2016 our plan up to 2020, we said at that time that we could expect we have maximum of €5 billion of cash available in the end after a payment of dividend that would assume that 50% payout ratio. And you remember that it was (02:04:09). So, the best case was €5 billion. So, best case, roughly €1 billion available for each year. Here, what I'm presenting and what we present on page 48 is much more because in the end it means that going forward, we could expect to have cash available between €1 billion and €2 billion, between 50 and 60. So, it means that in the end, the transformation that we brought to this group through the acquisition of XL and the progressive disposal of AXA Equitable Holdings will translate into more cash. You remember that it was one of your question – of the questions from you when we presented in March the acquisition. This is concerned. So – and if you look at the foreseeable future, 2019 to 2020, what I told you starting from the €14 billion and you make, again, your own guess on the dividend, but you will see that this – there is ample cash available, and that will be even north on €1.2 billion per year. Okay? I believe that's good.

A - Thomas Buberl {BIO 16182457 <GO>}

Greg?

A - Greg Hendrick {BIO 1649843 <GO>}

And on Lloyd's, so, to reiterate, it is one of – it is a very important marketplace to us and one of the ways that clients and brokers access us. So, just to be clear on that, we have XL Bermuda, where we write insurance and reinsurance. We have what we call XL XC (02:05:38), which is the European insurance carrier. We have XL Re Bermuda. We have a number of different legal entities where our clients choose to access us and source our capacity. Lloyd's is one of them. That was the main thing they convey. It was a – it doesn't stand alone by itself. I don't direct them to go off and work in isolation on their own Lloyd's business plan. We build the business plans product by product.

Having said that, we are very committed to Lloyd's marketplace. We are the largest managing agent. We bring that to the table with the acquisition of XL by AXA Group. We're the second largest syndicate and one of the things that you observe is that each of those three segments I talked about, specialty, insurance, P&C Insurance and Reinsurance use Lloyd's as a mechanism.

Lloyd's has a marketplace and AXA XL's book as well does have a heavier concentration of some of these lines of business that I've touched on that are more challenged as an industry observation: property, marine, aerospace, energy, short tail lines of business. There's a higher concentration in that business that trades at Lloyd's. And so I think for us the push is not about revenue synergies there or it's mainly around improving profitability in those classes of business either through re-underwriting, either through working closely with Lloyd's as we all seek to reduce the expense load that comes at transacting business at Lloyd's or we continue to work on the overall profitability of each block of business. So there's not a synergy in there from being part of the AXA Group. It's something that XL brings to the table that we're very proud of that we have, but that we're very committed to improving the profitability of each of those portfolios.

A - Thomas Buberl {BIO 16182457 <GO>}

On your third question, Ralph, we have three convictions and that is very much linked to the strategy that we laid out. First one is we want to focus our growth on health, protection, and commercial line. Why? Because we do believe that those are the areas that are higher growing and those are the areas where we will have the most natural customer context in order to serve the customer better. You've seen that all our growth efforts, both organic and inorganic have been going in that direction.

Second conviction that we have is that quite a few risks that are today personal lines risks will move to the more commercial space to the more complex space. Again, take the famous example of the car or you can even take your household insurance when you think about water leakage and probably today, you have a very high frequency of claims. If the mirror has been driven off if you have a small dent, tomorrow those small claims would be all avoided by a more intelligent technology than the human brain and the reactions that we have and the biggest risk will probably a cyber risk.

So it moves from a large frequency risk to a high-severity risk. And you see the same way in the other direction, you will see that these complex solutions are also moving in the private space.

So take for example the insurance of cyber for your home. This is a complex risk, a risk where we can leverage the XL franchise. Take your solar panels. This is not a simple risk. This is a complex risk, but we can tailor those products also for the retail space.

Third conviction is about emerging markets and going back to your questions, if you want to develop insurance in the emerging markets, you have to start somewhere. The most logical product is always the energy product which is motor.

And so as Gordon has laid out to your specific question on China, yes, we have increased our exposure to AXA Tianping, which is traditionally a motor insurance company with a very clear view of; A, being very focused (02:09:20) in all the provinces, we want to stay focused, but to leverage that franchise to build the health business, the short-term health business because we see that there is the big potential in the Chinese markets.

If you look at the statistics in China, the average Chinese person need to wait 4 hours to have a 10-minute consultation with a doctor in the public hospital network. I guess this is, in terms of patients, not what the Chinese population want to go in long term, and therefore having a solution for the private sector is where we want to grow and that's exactly aligned with the overall strategy.

Oliver, we will have time for our questions, so I'll just do it from a perspective of the mic location.

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. First question is with respect to the 3% to 7% per annum reconfirmed earnings per share growth target, I think you said at the start of the AXA Ambition program that you'd expect the growth rate to be accelerating towards the end of the period, but you're not reflecting that in these targets. So I'm just wondering if you want to comment on that.

Secondly, Thomas, you said at the start of the presentation that a lot of the mix shift had largely been done. So if you're still spending €1 billion a year (02:10:41) on M&A, where are you focusing that M&A now if it's no longer for mix change?

And then, Gordon, the Asia targets you've set, I assume they include Japan. Can you give us a little bit more idea about the Asia ex-Japan targets (02:11:02)?

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald, you will take the first question on the acceleration of 3% to 7%. Gordon, you do the second one of Asia ex-Japan, and I'll do the last one on the mix and the remaining M&A.

A - Gérald Harlin

Okay. You'll remember, Oliver, that when we presented this 3% to 7% years ago (02:11:23) a bit more, we had some assumptions in term of interest rates, and we are more or less in line with this outlook in term of interest rates. That means that we are not at all in a situation where rates look at the (02:11:38) Europe. The rates are 35 basis points on the bond – on the 10 years bond. We are slightly above 3.1% on the T-bond in the U.S., but we are not there yet.

Second point, FX, and this is the fact (02:11:57) this year, so that means that this year I can tell you that either headwind coming from the FX rate of 2.5%, which is not negligible. So, on the equity side, maybe slightly better but not fundamentally. I would say that there is – you have also to take into account that the spreads are very low. And over the last weeks, we had the recovery of these spreads, which is quite strong. Let's say if I take – no, if I take the whole 2018, but it's mostly over the last few years, three months, sorry, it's plus 14 basis points in Europe on a single A name (02:12:41), and it's plus 30 basis points roughly in the U.S., and this is an excellent news and – so for the future, but it's not in our books today. You can make your own math. We are investing €60 billion per year. We have a total assets of €600 billion. So, it takes a while. But this is a positive sign.

A - Thomas Buberl {BIO 16182457 <GO>}

Gordon?

A - Gordon Timmins Watson {BIO 21377545 <GO>}

Yeah. One, it do include Japan. Asia is not heterogeneous and our companies are not. I view, Japan is a region, Greater China and Southeast Asia. If we look at China, we've done a very good job in AXA of creating volume in China on the life side, but not the value. So, for me, the focus is much more balanced. That's why we sat down with Chairman Ma and with Xiang (02:13:35) to really review of what we want to do. So, the focus will be there much more on the value of new business to grow that. I mean, we still like volume but we need to balance.

Whereas in Hong Kong actually, if you look at the results you saw last year, to answer the question earlier, we've been down 13%. And I think in some ways, we had shrunk to greatness because we had the highest margin in Hong Kong. But we had very low volume. So, managing – Greg calls it the grind, so the grind is very important because when you manage a business, you have to do more volume, sometimes more value, and you need to – so in Hong Kong, we really need to get the volume up. We need to – that's why we have Howard in in distribution as we create more value as we introduce more health products, et cetera, et cetera.

In terms of Southeast Asia, I use the case study of the Philippines because clearly, the Philippines is doing the best of the three companies in generating new business value. The volume is good. The value is good. We can still improve that a lot. We're growing faster than the market.

Thailand, our company in Thailand is 50% agency, 50% banca (02:14:59). I think most people, for some reason, feel it's much more banca (02:15:02) than agency. We have 15,000 agents. Our GWP has grown about 12.6% year-to-date, which is actually above the market. But there have been issues in Thailand on the bank side where the industry has gone down, the APs (02:15:20) down about 7%. So, we are in line with that and we're half-half, but having been with problems in agency. So agency didn't suffer from that, but we do have our product now approved. Our sales system for banca (02:15:32), which the first approved by the Bank of Thailand, so we're very happy with that, so we will start to be in a better growth mode in the bank side.

And in Indonesia, we have an amazing partner and frankly, I don't think we've done the best job in the world of really tackling that and penetrating that with the products we want to do. So obviously, Southeast Asia, we expect higher growth, focus on new business value in China, and really do the grind in Hong Kong. Well, the grind (02:16:03) everywhere, but specifically Hong Kong at this point in time.

A - Thomas Buberl {BIO 16182457 <GO>}

Oliver, on the third question, I said that the heavy lifting of the readjustment (02:16:13) and the shift of the portfolio is done. When you look what we've done is we have shifted from being predominantly life and savings to being predominantly P&C, health and protection. So to really move the portfolio in the direction of a technical margin, we are today with the composition of the portfolio once all the operations have been carried out and in particular the remaining half of AXA Equitable Holdings, we are happy with the mix.

We have certain parts still in life business, in areas where we feel these are very interesting markets. If you look, for example, in France, we are very strong in life, strong growth figures. When we look into Asia, Gordon was talking about Japan and the other markets. So from a mix perspective, we feel happy. Where I do believe, and that's what I indicated in the next phase, we will really go more into the Payer-to-Partner area. There's two areas where I believe we need to grow our footprint still. One is in the area of health. We have some markets where we still need to increase our exposure. And the second piece is on the services around the insurance coverage, and we have started telemedicine in Europe with great success. We want to roll this out.

We have bought Maestro Health in the U.S. in the secondary market health population. Health management, we want to grow this. And so on the Payer-to-Partner health, we are already quite advanced. Where we also want to get deeper into that Payer-to-Partner is obviously on the commercial line side when it comes to AXA XL (02:17:54) you mentioned this news cyber product with a partner, we want to also grow in these areas, because our aim with the portfolio is we are the number one commercial line insurer with AXA XL.

We are already today one of the leading international health insurers, but I believe we can do a little more. Where we need to really push in the next phase is the services around the insurance coverage in order to make this move from Payer-to-Partner even a bigger reality.

I go to James because his hand must fall off.

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

Thank you. James Shuck from Citi. Three questions from my side please. Greg, firstly on XL, you've given the 4% net cap budget, could you just give us some insight into what the man-made large loss budget is, please, now you're running against that year-to-date?

Also within XL, you've mentioned about the rate increases running above the industry data, could you just give an indication about how it's running up against your lost cost

(02:19:06) inflation and with that 95% by 2020, you're actually improving, assuming (02:19:12) underlying margin help from the pricing environment, please.

Secondly, Gordon, just a small point that the – under Ambition 2020, there was actually a net profit underlying CAGR growth target, I think was 15% to 20%, from your slides that's kind of absent, so just interested to know whether that's still valid, please.

And third point, Gérald, the points around the cash buffer at the holdco, so I appreciate you've drawn up €3.5 billion from the operating units. You've indicated that you'd like to replenish that. Could you just give a bit more insight, please, into the liquidity at the holdco level because the €3.5 billion, I don't really know the starting point. I don't really know how you want to manage that and what is the appropriate number. So when I think about your cash remittances up to holdco after (02:20:05) dividend, it then gives me an indication of how much that you want to run with. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

All right. Greg, you want to start? Man-made lost budget and the rate increase versus the loss inflation?

A - Greg Hendrick {BIO 1649843 <GO>}

Sure. So on and man-made loss that was embedded in that exhibit I had around attritional and man-made together, and we – they come together and we kind of look at them together. If I separate out just on the short tail lines as AXA – as we said, sorry, still translating sometimes. As AXA has said, in the third quarter the – no individual loss and no aggregation of large losses was material to the AXA Group results.

On a year-to-date basis, we would say we are slightly ahead of (02:20:49) – slightly higher than our normal average experience in man-made losses, but not in a material fashion. So, they have come – as you've read about them in the industry. We don't talk about individual insurers at XL and intend to continue that practice AXA XL. But in the aggregate, they are slightly larger than what we would normally experience, but not in a meaningful way.

On rate of over lost costs, a lot of that rate is in the short tail lines of business, which most of them use exposure as a rating measure. And so, inflationary type increases in costs get reflected in the exposure base, which translates right into the premium. And so a lot of that rate is ahead on short tail lines. It's well ahead of a very low number on lost cost. Casualties, it's more of a balance, although it's a wide variety of stories from line of business to line of business.

In terms of rate point in there (02:21:40), we don't – to get to that €1.4 billion, we need some rate, but it isn't an excessive amount of rate to get to that, that profit margin I talked about.

A - Thomas Buberl {BIO 16182457 <GO>}

Gordon, is the underlying earnings trajectory of Ambition 2020 still (02:21:54) for Asia?

A - Gordon Timmins Watson {BIO 21377545 <GO>}

Well, I think, clearly, Asia – the make-up of Asia has changed a lot. Japan, it's now included in the question that you asked before, the growth rates in Japan are different. But I think most of the countries are tracking well, some are a bit behind. Overall, I look at it including Japan, so I would say that things are tracking along, but I can't say exactly based on – including other countries and other parts whether that will be exactly there or not that (02:22:25) that will be close.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald, on the cash buffer?

A - Gérald Harlin

Yes. On the cash buffer, I would say that, yes, I mentioned the €3.5 billion because it was clearly said and highlighted when we the presented the acquisition and the financing plan. To answer your question, I would say that beyond this reconstitution (02:22:49), we can live with €1 billion, €1.5 billion at the holding level in terms of excess cash. We are extremely liquid. We have plenty of lines of credit, and we don't need more. I would say that – and I mentioned it many times, it's a pure holding company and that's a big difference with some of our peers, where the – an insurance company which is at the same time a holding company, so that's why we have to make the difference and to give some more detail on the cash we manage.

But honestly, absolutely relaxed with €1 billion to €1.5 billion, which is what we'll have at the end of year, and (02:23:30) period. So that's – in other words, what does it mean? It means that the €14 billion that I highlighted, the €3.5 billion is fine, so we don't need more if you want, in order to reconstitute an additional buffer.

A - Thomas Buberl {BIO 16182457 <GO>}

So is that €1 billion to €1.5 billion (02:23:47)?

A - Gérald Harlin

We start – when you have a starting point at €1 billion to €1.5 billion, you add €14 billion (02:23:55). And in the end, you will have still the €1.1 billion – or €1.1 billion to €1.5 billion on top of the different use that I highlighted for the users is €14 billion corresponding to the dividend, corresponding to reconstituting the buffer, corresponding to the external organic growth of share buyback.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's move over there. Niccolo, I think. (02:24:22)

Q - Nicholas Holmes {BIO 21515144 <GO>}

Nick Holmes at SocGen. Two questions, please.

A - Thomas Buberl {BIO 16182457 <GO>}

Oh, I'm sorry. There's a big difference between Nick and Niccolo, but it's fine.

Q - Nicholas Holmes {BIO 21515144 <GO>}

I misheard. A couple of questions. First, Thomas, just on the timing of the AEH (02:24:41) disposal, just – I mean, clearly, it's very difficult to be precise and exact about this, but wanted to ask, would you be disappointed if a full disposal was not achieved by the end of 2019?

And then second question for Gordon, looking at Tianping and its growth in P&C and motor insurance in particular, just wondered if you could give us more color about the control mechanisms you have for underwriting quality. And the reason I asked is that in other emerging markets like Turkey, I think was a conspicuous example where not just AXA, but many foreign companies found it difficult to adopt to the underwriting environment, I just wondered if you could share with us your thoughts about underwriting quality control in China. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Gordon, do you want to start? The big difference between Turkey and China is that they have no Chinese presence will reduce (02:25:45) the Motor TPL rates by 30%.

A - Gordon Timmins Watson {BIO 21377545 <GO>}

Yeah. I think what's going on (02:25:55) in China is we now have 100% control. Before we never appointed the CEO of our company in China. Now, we have the CEO in the room, Xavi. So Xavi (02:26:09) will have control of underwriting and when I gave my presentation, I spoke about more sophistication going after the segments that we want to be in.

So I think when the detariffication, which I believe is a word, and the detariffication of China that will give us much more opportunities to play where we want to play. We have 3.5 million customers at the moment. Most of them are in the middle class, so we can start selling, upsell, cross-sell, as Thomas spoke about health, health innovation, et cetera, Payer-to-Partner, value-added services. So for me, I think what we're doing will strengthen the underwriting and the governance and do the business that we want to do in China. And as I said, we have access to almost 80% of the Chinese population. And we have 25 branches and 3.5 million customers. So for me, I think it's an opportunity to go from just volume to really start creating that value, and of course a lot of that starts with underwriting control.

A - Thomas Buberl {BIO 16182457 <GO>}

So on your first question, Nick, am I disappointed, yes or no, if we haven't sold everything by the end of 2019. No, I will not be disappointed because we are now in a situation where we are halfway. You've seen Gérald has presented that the remaining exposure is roughly 50%, and we have the clear willingness of selling down to zero. But we have clearly said, we want to be opportunistic about when and how we do it. And this when and how is very much dependent on a couple of things. One is what is the liquidity of the stock? Obviously, the liquidity of the stock is today much higher than it was at the 10th of May when we did the IPO.

Second question for me is, what is the overall market environment in the U.S. You have seen that it has gotten a little bit rougher in the last couple of weeks, so we have to monitor that closely. And then thirdly and this is the most important piece for me, we have a very strong management team in place. We have a strong company, and this management team has got a very clear plan on how to increase the return on equity of AXA Equitable Holdings.

And therefore, the timing that is – seems to be ideal is to find the right point where those plans are well reflected in the expectation of the share price and where the management team is far enough down the road, we'll also have the track record of having implemented. So, those are some criteria that we will take but again, there's no pressure. I think that Gérald has made more than clear that the cash generation capacity that we have does not rely on these additional $5 billion of AXA Equitable Holdings. I cannot say it differently. I would certainly be very glad if we could implement this divestiture as quickly as possible.

Niccolo?

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Niccolo Dalla Palma from Exane BNP. My questions are all on the €1.4 billion from AXA XL. Could you just clarify if they – do they include the re-risking (02:29:26) of the asset portfolio that you mentioned earlier, Gérald? Do they include the New Ocean buyout of the minorities? And do they include also the reduction of debt (02:29:35) costs related to AXA XL? I mean, at 0.8 (02:29:40) you said by the end of the year will come from AXA XL, and I suppose a large part of the €3 billion as well, is that included in the €1.4 billion? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald, since this is very finance related you share that answer with Greg.

A - Gérald Harlin

Okay. So you start?

(02:29:57)

A - Greg Hendrick {BIO 1649843 <GO>}

So I'll start. And so, I'll say the first and the third, yes, are included in the €1.4 billion of – absolutely. As I said, it was a posture that we took at XL. It no longer applies as (02:30:10) part of the AXA Group about being very conservative on the investment side. We're just coming into line with other peers and into line with the AXA Group Investment Philosophy (02:30:18).

A - Gérald Harlin

Yes. And what I could complement is that you can make your own mass that it's quite (02:30:22) consistent with the 95%. It's in line with – which was presented before, 95%. This includes, of course, all the synergies and the synergy – we can expect that the synergies will significantly decrease the expense ratio. So that's mostly to all EZ net (02:30:44), yes, but it's quite a strong performance that we expect there because at the same time, you remember that there were a lot of questions when we made this acquisition. It's compared with what? It's compared with €12 billion of acquisition price. Remember that we will normally obtain (02:31:14) €1.5 billion to €2 billion. Just at the time, we'll be (02:31:19) integrating our internal model, but we have also and that was a previous question. We have also to take into account the fact that we have AXA Corporate Solutions and we have AXA Art. So, roughly speaking, you can keep in mind €12 billion. So, €12 billion with €1.4 billion it's a quite nice ROE – ambitious ROE.

A - Greg Hendrick {BIO 1649843 <GO>}

And on New Ocean, just very quickly, there's – the current run rate of assets, which is nearing €1 billion is embedded in the plan. We have not projected into that number any of the significant growth we think will take place. But as we raise more funds in conjunction with the AXA Group and as we apply more risks to that, that portfolio, but it shouldn't be a driver. It shouldn't be a major driver.

A - Thomas Buberl {BIO 16182457 <GO>}

Johnny?

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Thank you. It's Johnny Vo from Goldman Sachs. Just a few questions. Just to Gordon, just in terms of – it looks like there's significant investment you're going to make in the Asian region. So how much of your own balance sheet capacity do you have (02:32:22), and how did you finance the (02:32:24) of the joint venture partner? Did you use your own balance sheet or is that from group?

Just the second question is in terms of synergies from internal reinsurance vehicle of AXA. How much of the synergies are embedded in your numbers (02:32:38) €1.4 billion? And in terms of the internal reinsurance vehicle, again, materializing diversification benefit, is the diversification benefit going to be passed to the entity lowering the capital requirements in XL and therefore give you pricing power against your competitors? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Johnny, for those two questions. I suggest Gordon you do the first one again in pair with Gérald. And since the second one is very focused on the reinsurance and the reallocation, Alban de Mailly Nesle, our Chief Risk Officer is in the first row, and he's happy to take that question.

A - Greg Hendrick {BIO 1649843 <GO>}

On inorganic side, most of that will be funded from the region. I will be – talking to my friend, Gérald – I do want to do more on brand. I do want to do more on distribution of growing the distribution faster and having better training academies. So, we're still having the discussion as to how much the vast majority will be funded from the region on the Tianping, then I think Gérald can probably answer that.

A - Gérald Harlin

Yes. About Tianping and the Tianping financing, as we said, it's €580 million investment. I reasonably hope that in the end, the regulator will accept that we'll use the excess cash that we have inside the company. So, it means that it will be €0.4 billion of net investment. And like we said that for the next and for the next plan, we will have a few hundred millions of investment over the next five years, but we don't speak from their huge needs in order to grow and to develop this business.

I would like just to add one point. You remember that many times about the remittance ratio, we said that we should be between 75 to 85 (02:34:45). It's still true. And I would say that – and it was true in the past, meaning that Asia – remittance is much lower than France and Europe. So, big contributor (02:34:58) to the remittance are France and Europe. But we can expect going forward that it will progressively improve mainly coming from Japan first and also from Hong Kong because we expect that Hong Kong being more and more, I would say, a much more mature country that we will – will get it. So, we can expect to make it sure that we will self-finance the local growth and that we could expect that the remittance progressively could slightly improve. But we don't rely too much on this because it's mostly Europe and France.

A - Thomas Buberl {BIO 16182457 <GO>}

Alban, on the reinsurance.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So good morning, Johnny. The answer to your two questions is in fact the same. So yes, we have mechanism as you know, at group level to get the reinsurance synergies, but we redistribute those synergies to the entities. So yes, it's included in the amount of earnings that you've seen and yes, that allows AXA XL in particular to have better reinsurance and protection pricing for its own protection – yeah, protection costs.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's move to the middle, Andrew.

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

It's Andrew Crean, Autonomous. Three questions. In Asia, you still got JVs in quite a lot of your countries, in China, Thailand, Philippines, and Indonesia. To get control, would you want to buy these at the same way as you bought out Tianping, or have to pay more to continue the relationships? Is that going to be a substantial cost?

Secondly, are you happy to talk at all about in the round how much the company might get from selling some of the 26 countries' portfolio, which you've sort of put into high cash (02:37:00) or private equity-style initiative?

And thirdly, the €1.4 billion target for XL, what does that imply in terms of return on capital?

A - Thomas Buberl {BIO 16182457 <GO>}

So let's start with Asia and the other JVs. And, Andrew, in order to buy something, you always need two sides, one that is selling and one that wants to buy.

A - Gordon Timmins Watson {BIO 21377545 <GO>}

Yeah. Andrew, thank you for the question. I think that you go country by country because it's not one Asia. We look – take Thailand. Thailand, 50% agency, 50% bancassurance. We have a joint venture, 50/50 with Krung Thai Bank. So, we are very happy with that. They have a great brand. We're developing agency. We have access to their customers. In fact, if we just take the three banks in Southeast Asia, they have 35 million customers between them, their captive customers because they're all top three players. So, we got in Mandiri. Mandiri, we have an equity joint venture with the same situation. We do have a small agency, 100%-owned agency company, so that's a bit different from what we have in Thailand and what we have in the Philippines.

The Philippines, again, we own 45% of it. The Philippines, we have a great partner there. And you heard the story this morning of how well we're doing in agency in addition to get into Metrobank and PSBank. So, we have very happy relationships with them. In fact, I think we can do a much better job in penetrating Mandiri, for example. So for me, that is all opportunities, so that's certainly not something that we're looking at at the moment.

In China with ICBC, we have 27.5% share. There are lots of regulations in China. I mentioned we have a very much improved relationship with Chairman Ma with Xiang (02:38:55), et cetera, and we're developing agency within that joint venture as well. So, we're always looking at optionality in China, no question, and other places, but we're very happy with the partners that we have.

A - Thomas Buberl {BIO 16182457 <GO>}

The second question, Greg, you take the one on the return on equity or capital for the €1.4 billion.

A - Greg Hendrick {BIO 1649843 <GO>}

And (02:39:20) in case I get something wrong. But so to start with, I'd say the exact amount of capital is clearly still a work in progress. It will rely somewhat upon how exactly we achieve and in what way the mechanism around reinsurance. It's also around what Gérald touched on in his comments around coming into line, bringing the old XL into the AXA Group economic capital model and how all those play out and you saw Gérald had a range of those as well. But as Gérald just said, if you use roughly €12 billion as the proxy, you'd be in that 12% kind of return on equity basis.

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

(02:40:00)

A - Gérald Harlin

As I said, the acquisition price. But in term of return, we shouldn't be fundamentally different at these levels. We can follow up with you. As we said, we are working on the economic capital. Just as a matter of comparison, Andrew, I could say that if you take the U.S. property cap which is more or less well priced. Also, we are still expecting to have the rate increase. Today, we have a combined ratio on top of my heads to be between 90%, 91%, and it remunerates capital at 12% because we have a lot of capital due to the volatility we just discussed this morning.

A - Thomas Buberl {BIO 16182457 <GO>}

Your third question was on the 26 countries and how did these 26 countries come about. What we showed last November was a segmentation of our countries where we said we have 10 large countries that make 80% of the group's profit. We have six countries that are high potential where we really want to extend our position. One we zoomed on today is China. And then we have 26 other countries that we need to treat differently. We did not say that we want to sell them all, and I want to stress that again. We have sold some of them. The aim is and was to reduce the complexity of the group in a way that we would separate those 26 and manage them in a very different way to how we manage France, to how we manage Japan, to how we manage XL, different way in a way that we look at it in a more private equity mode.

So we put these countries together in one portfolio under the leadership of Benoit Claveranne. These countries are managed with a defined cost of overhead, and those countries do not follow an overall logic of the AXA Group they look at what is the local opportunity and how can we benefit from it. And there, you see for example that when we think about how do we address the health growth in Colombia, it's very different to how we address the health markets in Nigeria. When we talk about Brazil, there's again very different challenges to Turkey.

And so each country needs its separate treatment, and being more agile, being very aligned when it comes to the question about regulation, audit risk and control, but being very agile when it comes to the local condition, that's what we have achieved, that's what is working well, and we like this model and want to continue this model.

I can't see with the light. Yes, sorry...

Q - Michael Huttner {BIO 1556863 <GO>}

Michael Huttner from JPMorgan.

A - Thomas Buberl {BIO 16182457 <GO>}

Sorry, Michael. Sorry, I can't see because the light was so bad.

Q - Michael Huttner {BIO 1556863 <GO>}

No, no, no, no, thank you for this opportunity. I have two questions. The one is on volatility and the other one is I wondered if you could ask one of your money machines, France, to say a few words? Because to me it's the underlying power of the group at the moment. And on the volatility, I think, Greg, you said that you are reviewing at the moment the risk appetite or the reinsurance or whatever. But I'm not sure if that's included in Gérald's slides on the plus 8%, minus 7%. In other words, if you reduce the volatility because people like me don't like it very much, would that change a slide or is that already included in that slide that you presented, Gérald? And could we reach the point where the volatility from nat CATs and things become so – it's so full of noise that we will have to wait till the 31st of December at midnight to have a rough idea of what your dividend will be because it's a payout and it clearly affects the earnings. So basically I'd like for you to have less volatility.

And on France, I just wondered if you just could ask your France CEO to say a few words. To me, that's the hidden power of the group with sort of this extraordinary growth numbers, 8% to 5% in 9 months. Wonderful – I'm assuming fantastic combined ratios because clearly there have been nat CATs, so you haven't mentioned anything in that region. And to gain an understanding of how much more France can produce in terms of profitable growth that would be really pleasant. The reason I asked that question particularly is your France CEO kind of alluded that the reserve strength has actually gone up, so that's another kind of earnings lever.

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. Gérald, I think you should take the first question because the volatility has very much drifted into – is that in the €1.4 billion? What does that mean for dividend? And then Mr. Money Machine, as you called him, Jacques de Peretti. Jacques comes from Corsica. They are a strong people, but they are very humble. He will talk about France and the great successes afterwards.

A - Gérald Harlin

Yes. Let's be clear. So what we said is that we are starting from 3% average cost of Cat Nat. It's roughly speaking, 4% for AXA XL, it's 2% for the rest of the group. If you have a question about the 2%, this is 2% all-in. That means that it's Natural Catastrophes plus Natural Events, everything is included. Going back to the volatility, which is a big question. We said plus 8% in 1 in 10 and minus 7% in 1 in 10. That's inherent volatility and it goes back to the previous question that was question from Andrew. And you're right, that means that we have to pay and we have to remunerate the volatilities that is generated by this business.

We have two ways to look at it. We looked at it through the purchase price which was roughly speaking €12 billion. We can look at it on a different way which is the economic capital, and we can expect that the economic capital which we are just finalizing this calculation and these figures should be at 200% which is our guideline, I would say, something like €10 billion. So long as we have – that's always the point of volatility. The volatility should be adequately priced, and that's why it's so important to benefit from this price increase. I hope I'm clear, but it's really a ratio. When you have volatility, you have higher capital and you have to remunerate your capital. That's it. And that's always the way we have been calculating and pricing our products and that's exactly the way we'll do it tomorrow and the way it was done by XL, just people joining this group.

A - Thomas Buberl {BIO 16182457 <GO>}

Jacques, the hidden power of France.

A - Jacques de Peretti {BIO 18970697 <GO>}

Thank you very much for the question. I think that we have taken advantage in France of definitely a very dense footprint on the territory, definitely. We have taken advantage also of the expertise of our team. This team is now, let's say, a seasoned team and know very well the market. We have taken also the opportunity of the brand. The brand in France, and it's not the case for Gordon till now, but the AXA brand in France represent really something, a trust and also a large notoriety.

And also, we are taking advantage also of what is going on, let's say, on the business climate, France, thanks to the change that occurred a few months ago, have taken, let's say, new orientation in the labor organization on the (02:48:26). Now on retirement, for example, there won't be any obstacle to raise our business on the zero deductible (02:48:36) in health. That's also a large opportunity to increase our premium. And when you are a leader in health, when you are a leader on retirement, let's say that these new regulations also open new territories for us.

So which is new is that we are recover a large growth and we posted a 9% growth on the first – 8% growth I think on the first semester. And we are also growing, let's say, the underlying earning. But there is a real cash machine which is not France, which is Europe. Because if you see at the first semester, excluding France, they posted an even higher increase of the underlying earning with 10%. So I am jealous of my colleague.

A - Thomas Buberl {BIO 16182457 <GO>}

Now you have invited Antimo to speak. He has to say something.

A - Antimo Perretta {BIO 18246589 <GO>}

Thank you, Jacques. So what I can say about Europe, we are very focused on our preferred segments that we want to grow and have seen in this number that we have published that we grow in commercial line, we grow in full (02:49:52) protection. We are doing really a hard job in all the savings, general accounts topics. You have mentioned Switzerland that we have moved our balance sheet from a poor general account product to a separate account. So we are really doing a lot in the field that we can really have the pace and the speed to grow in our targets that we have fixed.

So what I can say, all the entities in Europe has done a really good job about underlying earnings. And we see that we have a potential that we can really do more when we leverage best practice around the different countries. And we are still some challenge, but on the end I think to fix clearly what are the preferred segments that we want to grow and we will also put a lot of attention on retail business because it's important for the payer (02:50:51) that just Thomas had explained to have more introduction, but it can leverage this portfolio into different entities to grow in health, to grow in all the other products. So long story short, I think the potential even in Europe, not only in Asia, we have the potential to grow and we have the potential to do – to continue to deliver great results.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Antimo. Let's go here. I think it's Andy, if I'm not mistaken.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. Yes, indeed it's Andy Sinclair from BofA Merrill Lynch. Three for me if that's okay. Firstly, Gordon, you said that your first priority is to double up in China. Do you now think you've got the raw materials you need now that you've done the Tianping acquisition in terms of raw materials and stakes, or do you think there's any more to be done there?

Secondly was on XL and the reserves methodology. Is the reserve methodology now standardized across the group? Can we say that there'll be no further adjustments as XL moves to the AXA methodology? And third and finally, was just on the solvency range. I just wondered if you could tell us a bit more about how you came to that range. It still feels pretty wide even though it's been tightened up a little bit given the limited volatility of the solvency ratio. Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Thanks, Andy. So let's start with Gordon, China and AXA Tianping. Afterwards, we go to Alban again on the reserves and the standardization of the method. And then, Gérald, if you could comment is 170% to 220% still too wide. Gordon?

A - Gordon Timmins Watson {BIO 21377545 <GO>}

So Andy, clearly, you can't understand my accent. I said double down not double up, but maybe double up is better. Yeah, so we're doubling down and doubling up specifically in AXA Tianping, getting control. We have Zavi (02:52:46) as interim CEO. We'll be building a team. We've hired Shaden Marzouk for Asia Health to leverage the health, so we're better underwriting, more segmentation and et cetera, taking advantage of that.

On the life side, clearly we have – as I said, we have 27.5% control. So that's not real control, that's influence and we're creating a much better partnership, I think, than we had in the past with the ICBC, with the new leaders. So that's why we sat down and we aligned. We're doing our best to influence as much as possible. It's the biggest bank of the world so they have massive reach. And we will continue to do our best to influence and work and really create value, go more to regular premium.

And we do have some tailwinds, the BCRC (sic) [CBRC] the regulator in China is very much on our sight in terms of creating more regular premium business and single premium business. So on the Tianping side, we have control. We'll build the team. We will retain the people we want to retain. We've already taken care of that. [ph] Zavi (02:53:59) will be doing a road show throughout the 25 branches. ICBC will continue to influence heavily to create value, build that agency force that we haven't really done before. And of course, we have the asset management company which is doing very well indeed and we want to strengthen and deepen our relationship with SPDB.

A - Thomas Buberl {BIO 16182457 <GO>}

Alban, on the – while you get the mic, maybe, Gérald, you can do in the meantime the Solvency II range.

A - Gérald Harlin

Yes. Indeed, to answer your question about don't you have a too wide range. I believe that, first of all, why did we move down from 230% to 220%? Just because, as I explained, the volatility is lower. Remember the slide that I presented saying that we would have dropped in the global volatility by 20% to 30%. So that means that the probability for us to have blips that would push our solvency above between 220% and 230% is lower, which means – that's the reason why we lowered it to 220%. At the same time, it's the interest of our shareholders to have a relatively wide range, because imagine what it would mean if we would reduce the range, meaning that it would be a stop and go, and we believe that it's the interest of our shareholders to have a consistent policy. Last but not least, I could say that my understanding of what our peers are doing is not restricted for reducing the range.

A - Thomas Buberl {BIO 16182457 <GO>}

Alban?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So on reserves first, you've seen that with what Gérald said on the pickup (02:55:52) we reviewed for a third time the reserve. We have done that before the acquisition, just after the acquisition, and then a third time for the pickup (02:56:00), and there was no adjustments to the assessment that we have done the first two times. Then on the methodology, I think XL has a very strong reserving methodology. Just to give you a few things on the way to proceed, it's extremely granular. I think it's 1,200 lines that they review, 1,200 triangles, and they do that at least twice a year. That's extremely granular. I don't think we should oppose the XL methodology and the AXA methodology which we also have twice a year around reviews of reserves, and that's very similar. Where it's different, it's the nature of the business where it's low frequency, high severity compared to the AXA business. And therefore, the angle that you take to analyze the losses and the reserves is different because you need to be extremely accurate on a case-by-case basis. But in terms of methodology, one thing we should say that we're going to move to the AXA methodology because the XL one is already extremely strong.

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. I'm afraid we have to come to an end. This clock is already giving me the indication that we are far over time. I would like to thank you for your questions. I'm sorry we couldn't get to the questions on the telephone but I hope that the participants on the telephone and the webcast has been inspired as well by the questions in the room.

If I summarize, you have seen that we are on a journey fully in line with Ambition 2020. We have changed AXA from being predominantly life and savings to being predominantly P&C. You have seen that the delivery of Ambition 2020 focus and transform is well underway, and I hope you have also seen today that with the three pieces that we have shown you on AXA Asia that there is a renewed leadership with Gordon. We're extremely happy to have Gordon with all his team which represents a much higher local expertise than we ever had going backwards. The focus is very clear on distribution and health, and we have a very strong ambition on growth starting with China, and in particular in China because it's the second biggest insurance market of this world.

On XL, you have seen that the leadership is strong, the leadership is very experienced. The integration is well underway. We are taking a very disciplined underwriting approach where we balance well profitability and growth, and where we have put out with the €1.4 billion and 95% combined ratio, a very clear and ambitious earning target for AXA XL.

On the side of the capital management, you have seen that we have a higher cash flexibility going forward due to the different business mix, that we focus very much on this core priority of deleveraging and that the path to that is very clear. All of this continuously built on a strong and resilient balance sheet which is even less now volatile to the earnings volatility given the shift of the portfolio. And I hope you have seen that the new capital management policy is a very attractive one. So we now have to enter into the next phase which is very much around continuing the execution.

We have all the tools we need. We have completely shifted the company. We have a great management team and many, many talents in the company. We are working a lot on the cultural change of the company towards more growth, towards more agility, and I'm very certain that with that starting point, with the dynamic, with the great teams, we will also master the second half of Ambition 2020.

Thank you very much for being here today. Thank you very much for the teams for the great contribution, and I hope to see you soon. Thank you.
