Acquisition of XL Group Ltd by AXA SA Call

Company Participants

- Alban de Mailly Nesle, Group Chief Risk Officer & Head - Group Insurance Office
- Andrew Wallace-Barnett, Head-Investor Relations
- Gérald Harlin, Group Chief Financial Officer
- Thomas Buberl, Group Chief Executive Officer & Director

Other Participants

- Andrew Sinclair, Analyst
- Andy Hughes, Analyst
- Ashik Musaddi, Analyst
- Colm Kelly, Analyst
- James A. Shuck, Analyst
- Johnny Vo, Analyst
- Nick Holmes, Analyst
- Oliver Steel, Analyst

MANAGEMENT DISCUSSION SECTION

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Okay. Good afternoon, everybody. Good afternoon to everyone here in London. Welcome and good afternoon to those of you joining by telephone. We're here obviously this afternoon to talk about the announcement today, AXA to acquire the XL Group. We're joined here by Thomas and Gérald. We've also got Alban, Chief Risk Office, in the room with us.

So, we're very happy to have you here. We'll give you a brief presentation, and then move to have as much Q&A time as we can. Obviously, as per usual, we'll give preference to the people here in the room, but we will take questions over the phone, so please follow the instructions you've been given. And if there's time, at the end, we will also address your questions.

Thomas, I'll hand over for you for introduction.

Thomas Buberl {BIO 16182457 <GO>}

Thank you very much and good afternoon, all together. I'm very happy to be with you again to talk about the different topic than the results. As Andrew said, the acquisition of XL Group by AXA.

Why have we decided to go into the step? First of all, we believe that the combination of XL Group and AXA is a clear way forward in our transformation journey. The transformation journey is very much about the question, how do we change the profile of the group from being very focused on financial market risks towards – going towards insurance-related risks?

When we look at the combination, we are able to create the leading commercial lines P&C player in the world across all lines. And when you look at the two companies together, you will see that there is very strong complementarity in the two operations, so very little overlap, which will enable us to earnings growth and value creation. Combined with this, in order to really change the risk profile of the group, we have also decided to fully sell down our U.S. Life business.

So to do the IPO as planned, but not to stay at a minority stake to go down, obviously provided that the market will allow it. I would like to stress here that the two transactions are not linked. We are not doing the full IPO just to finance XL, those two are fully separate. The motivation of doing them in combination is only coming from the fact that we want to do this transformation journey and that we want to shift really the profile of the group.

When you look at the two together, you will see that there's significant diversification when it comes to our balance sheet and the risks and clear capital benefits under Solvency II. In this, we would also affirm our Ambition 2020 targets, because the ambition has not changed since this acquisition of XL Group is fully in line with what the ambition is and was.

What will this acquisition do to the profile of our group? Today, we are predominantly focused on Life & Savings. This as we said is very much linked to financial market risk. We have clearly stated the ambition of shifting our risk, of shifting our profile towards P&C, health and protection, and by doing those two transactions, so acquiring XL Group and selling down the AXA U.S. Life entity, we will become a majority P&C player. So change of the profile, more diversification, more potential for cash remittance and certainly more growth potential, because this business is growing much faster than the existing business.

With this combination, we can create the number one P&C Commercial line insurer. That insurer ensures from the small SME to the large company, has access to all the necessary expertise and the necessary markets, in particular the London specialty markets and also will enable us to be in the specialty business which is a business that is strategically very important for us, and I'll come later on to the fact why this is the case.

When we look at the combination, we have to admit that we at AXA, we're not very strong in that business, and that we, by the combination of XL Group and AXA, create a new champion in the large mid-market and specialty risks, which obviously is a new pillar for AXA. We want to keep this business as a global business, and we want this business to be run by the number two of XL Group, Greg Hendrick. He will become the new CEO. He will join the management committee. And the existing CEO, Mike McGavick will be a special advisor to me and will be Vice Chairman of the company to make sure that, (A)

The limited integration challenge that we have is properly dealt with, but also that we focus ourselves very quickly on growth of that business.

In total, we can achieve, by the combination, a much higher diversification of the group. If you think about interest rate risk, we have low interest rates at the moment in the U.S., in Europe, in Asia. European windstorm, however, is very different to U.S. windstorm. So you have a much more higher and higher diversification, and clearly, obviously, a reduction in the sensitivity to the financial markets. We are shifting our profile. We are shifting our portfolio towards higher technical margin.

That is exactly in line with what we wanted to achieve in Ambition 2020 and want to continue achieving. This business also will enable us to have a higher cash remittance proposal and potential and will also reinforce the growth profile of the entire AXA Group.

Let me go quickly into the transaction highlights. For us, it's a compelling opportunity because we can create the number one P&C Commercial line insurer in the world with a strong presence, in particular, in the U.S. where we were hardly present with the P&C business.

We are getting a very strong underwriting franchise, and when you think about XL, it is not a franchise that is only in one line of business. They are in 40 lines of business, very specialized, and have very good underwriting expertise. It is a perfect fit with AXA's strategy. We clearly said our focus strategically is to go into the health business, the protection business and the commercial line P&C business. Here is the shift into the commercial line P&C business on top of what we already have in the SME business, and it's really the opportunity to build the number one global P&C insurer.

What is important is that this value creation potential is there for us. We can offset the dilution by the U.S. IPO as soon as this year, and we have a clear diversification effect of our balance sheet. And this deal for us, if you look at its standalone ROE of 10%, was and is a very attractive deal.

In terms of the financing and the timing, and Gérald will go more into detail on this, we want to acquire XL Group 100% in cash. The transaction for us is very important and very valuable because it has a 11 times P/E earnings post synergies, and the financing will happen through a combination of cash in hand, the U.S. IPO and some sub debt. So a capital increase is excluded.

We hope that we are going through the regulatory filings. The antitrust issues have to be solved very quickly. However, we have to also be realistic that this will take until end of Q3 and Q4 this year in order to close the deal.

Let's have a quick look at XL because I do believe that we need to go a little bit more into detail. XL, as I said to you, is the leader in P&C commercial lines and specialty. It is not a company that is only writing large risk and is in a big international program. That is not at all the case for XL. XL, as I said earlier, is a highly diversified business being in 40 business lines, very focused on specialty business lines and that creates their global network of 7,400 people.

In total $15 billion GWP and thereof also $5 billion of reinsurance. I've been asked a lot, are you going to get rid of reinsurance? The answer is no. Why is the answer no? Because we do believe that the market has completely changed in terms of blending the reinsurance and primary insurance together. Today, it's not anymore a question of are you in primary insurance or are you in reinsurance? The question is what access do you have to capital pools in the market? Are you using your own shareholder money? Are you using reinsurance or are you using even capital market instruments like insurance-linked securities? And with that, we get the full spectrum and also want to optimize the entire AXA with this operation.

What is also important, and we hear that a lot from our customers including from some that actually have phoned me and (10:26) have said, look, XL is extremely innovative and it's very important to have somebody innovative because when you think about new risks, they are all in the innovative space. Think about today a risk of a car insurance, it is an individual risk. It is a risk of frequency, parking claims, small accidents. And think about where it will go.

It will go towards autonomous vehicles, which turns from an individual contract to a commercial liability of a car producer. It will turn from a frequency business into a high-risk risk business because we are not talking anymore about the small parking claims. The machine is much more intelligent than we are. We are talking about the big risks of cyber. And there you need to be able to understand these risks and be innovative. And that is also one way for us to get out of the commoditization trap of the existing small business.

When we look at the premium and loss situation, $15 billion premium, a very, very strong underwriting expertise. I just came from a town hall meeting of the XL colleagues in London, and you can see the quality of the people, the spirit of the people, and the dynamic of the people. When you look at the loss situation, you see, as I said earlier, an extremely diversified business, 40 lines of business where the underlying business is truly functioning well, but where there was last year an issue of nat cat. You see it here. And the issue of nat cat is a very simple one. The more you want to lose in insurance, the more you will lose. It's a question of your risk appetite. And I can clearly tell you I, we, will be running that business with a very different risk appetite, i.e., a smaller risk appetite than XL have done it.

When you look at the combination of insurance and reinsurance, about 70% insurance, about 30% reinsurance, I want to stress again, extremely diversified. They are not in the commodity business of large programs. They are not in the business of just being follower. More than 50% of their accounts, they are leader. They are cashing in fees. It's a very, very diversified business that is not focused on how do I insure a large customer like BP or like Siemens. They are very much picking and choose where they think they have a right to be and where they think they can be innovative. And so it's a very comprehensive model of originating, packaging, but also of replacing risk in the market.

Going back to what I said earlier, that the boundaries of reinsurance and primary insurance will disappear, it is a question today where do you access the capital markets, what risk do you take on your own balance sheet and what risk do you actually get out? And what you see is that XL is very leading in the space of originating, packaging, but only keeping a small share of the risk and placing the risk elsewhere through reinsurance or through capital instruments. And this is something for us that is extremely important and is extremely attractive, something we don't have today.

When you look at those two combinations together, I think I spoke about it. It is of strategic relevance to us because it fits very well with what we want to achieve. We are not in this business today. We're getting an expertise of underwriting, a global platform of underwriting that we don't have, that we have not been able to create ourselves in a short time, coupled with the fact that we also have a reinsurance expertise that we don't have today which offers as such a great product expertise that we can use for the entire of XL and AXA, but also a reinsurance expertise to really control our risk appetite, what do we keep, what do we give away, in a very different way to what we do it today.

What is the strategic rationale? And I want to stress again, this transaction is fully in line with our strategy and should not be a surprise. We've always said we want to transform the company. We want to shift our risk profile from financial market exposure to insurance exposure. We want to do it in health, protection and commercial line because we do believe that high-end customer contact, especially in specialty lines, high innovation and higher focus on technical margins will give us a way to be ready for the innovation in insurance, i.e., for really getting away from the risk of commoditization.

Take my car insurance example from beforehand. The individual car insurance will come under pressure. We need to be ready to insure these new risks in a very different way and clearly, also the reinsurance part that we can better control what do we keep on the balance sheet and what do we also reinsure out to the market.

As I said earlier, those two really bring together something that doesn't exist today, the number one P&C global insurer and we do believe that by joining, we will really be a much stronger force and can really benefit from one each other, going through an integration that has very limited risk and that will not take a long time because there is very, very little overlap.

What has led us to think that this is an important deal? And there are synergies and there are clearly also a lot of diversification benefits when it comes to capital. The synergies are clearly on the cost side. We don't need a large XL head office anymore. We don't need all of the functionalities that are relevant for a courted company. But also in the countries - we have, in some countries, some overlap, specifically in Germany and France. The AXA Corporate Solutions business is much bigger than elsewhere, so there will be savings. And clearly when you go further and look into all other functions such as asset management, you will have significant synergies.

Obviously, there are also revenue synergies, but I really would like to focus myself now on all the other type of synergies, because I do believe that there is a much bigger potential.

I really would like to draw your attention to two other synergies, one is the capital synergies where we get a 30% reduction in the FCR which is significant, and to the reinsurance synergies that are also quite high considering that these are net reinsurance synergies.

So, as I said earlier, we will not run the XL business in the same risk appetite that XL has run it. We will reduce it. And obviously this will cost us reinsurance. And at the same time we do have reinsurance synergies together with XL. This is the net number.

As I said, the integration will happen as a standalone pillar. So we are not integrating the UK business of XL into the UK entity, the German business of XL into the German entity. It's a separate business with a very straightforward integration, run by the people who know how this business is being run.

I would now like to hand over to Gérald, who will go into the financial aspect.

Gérald Harlin

So the financial – there is a strong – as explained by Thomas, there is a stronger strategic interest in this deal, but also good financial benefits of the shareholder. We have substantial synergies. We are at a 15 times P/E pre-synergies, post-synergies 11-time P/E, so 11-time earnings, high return, return on investment 10% and cash accretion. That's a point that I want to insist on because there is a much more remittance. The remittance ratio is above 80% because there is no strain which is a big difference with the Life business.

Let's go through the financing plan of this transaction. As explained by Thomas, it's fully financed in cash. Absolutely, no need for any rights issue. Second, this is fully backed by a back-up line of $9 billion. It's a bridge financing with a cost between 1% and 2% without any covenant and with duration or maturity of two years. So safe, meaning that there is absolutely no pressure on the IPO. And even if the IPO for whatever reason which of course we don't believe would be delayed, then absolutely no problem with this back-up line.

So the financing, the transaction value is €12.4 billion, $15.3 billion. Cash at hand €3.5 billion. Then we have the U.S. IPO and related pre-IPO transaction, and the related pre-IPO transaction correspond to €2.7 billion, and I refer to the presentation we made for the IR day. It was on November 14, and at that time, we said that we would have $1.8 billion of loan repayment; and, second, that we would sell the AB shares to the U.S. unit. And this would present $1.1 billion.

In the meantime, as you know, the AB shares price increased. As a whole, it means it explains why we have €2.7 billion of pre-IPO transaction, the rest, i.e., €6 billion minus €2.7 billion, correspond to the IPO, and as we said, it will be between 20% and 35%, and we don't assume that there would be any secondary offering in 2018.

Last but not least, sub-debt, €3 billion sub-debt. I remind you and two weeks ago in this room, I mentioned to you that our sub-debt decreased by €1.2 billion in 2017, meaning that as a whole, it's an increase compared before to €1.8 billion.

Let's go through the impact on 2018 AXA Group financials. First of all, there is obviously a temporary increase in AXA Group debt gearing, up to 32%, and of which 3 points from the U.S. IPO because, as you know, we – as announced also in November last year, there will be a related debt issuance in the U.S.

Then the U.S. – it will compensate the earnings dilution from the U.S. IPO. Here, I took an example an example with 35% IPOs that would take place in Q2, while the XL Group integration would take place in Q4. So, as a whole it's a wash, meaning, that it's not dilutive in 2018. Strong estimated Solvency II position, we can expect at the end of 2018 to be between 190% and 200%.

Let's move now to the 2018 to 2020 impact. And we can expect that at the end of the two years period, we would be back to 28%, and this is irrespective of our U.S. subsequent sell-downs. That means that if we wouldn't do the U.S. sell-downs, we would be roughly at the same level i.e., 28%. We confirm the global objectives of underlying earnings per share a company growth rate of 3% to 7% of the plan period. As I said, same as in 2018, the earnings dilution from the U.S. IPO and subsequent sell-down being offset by the acquisition of XL Group.

Last but not least, Solvency II position above 200%. And again, as explained before by Thomas, we have a strong – we have 5 to 10 points of risk diversification because we intend starting in 2020 to integrate XL in our internal models.

Last, I would say that medium to long term the benefits for us will be, first of all, we confirm all the objectives of AXA and of Ambition 2020 targets. Second, it will reduce the sensitivity to financial markets. The cost of equity should go down because it will mean a lower beta because it will be extremely diversified and the earnings of our group would be less dependent on the financial market. Increased cash remittance, I mentioned to you, more than 80% for XL, and then reinforces the group growth potential with the growth of the commercial lines.

Thomas Buberl {BIO 16182457 <GO>}

To conclude, before we come to your questions, if you look at this combination, it is fully aligned with our strategy. We want to go the transformation journey from focus on financial market risk to shift to insurance risk. This transaction coupled with the exit of the U.S. Life business will make us from a Life & Savings dominated player to a P&C player with high-risk diversification, higher cash remittance. We are buying a business that is of extreme high quality, a business that is very diversified, a business that we don't have today, and a business that enables us to escape the commoditization of our business.

Together, we do believe that this adds a lot of value to the Ambition 2020. That's also why we reaffirm our strategy and why we reaffirm Ambition 2020. We are here – I am here to create AXA for the long term, and this is one step in this direction. Thank you very much.

We are now coming to your questions which I believe will be numerous. Let's start with Oliver on my right-hand side.

Q&A

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Two questions, one's actually just a clarification. I mean you talked about accelerating the U.S. IPO but I think, at the same time, you're also talking about a maximum of 35% being IPOed this year. So just wondering what you mean about the acceleration of the rest.

And then secondly, I mean I think one of the reasons why non-life companies tend to trade on higher fees is they have a high payout ratio. You seem to be halfway there and that you're talking about a higher cash conversion but you're not saying anything about the dividend. So do you want to take it that next step?

A - Thomas Buberl {BIO 16182457 <GO>}

So, Oliver, thank you very much for your two questions. The acceleration of the IPO was meant in a way that we are clear now about what is going to happen. Last year, on the 10th of May, we said we are announcing the intention to IPO a minority stake of our U.S. business. Today, that same message is we are announcing the total sell-down of our U.S. business over time.

We will start with the IPO in the time that we set, so Q2 this year, and the sell-down will happen in a very opportunistic manner depending on market conditions and depending on how the operation will evolve. But it's obviously clear that we want to try and maximize our value. We are very confident that we can do this because if you look at the IPO process so far, it has gone very smoothly. If you look at the results of the U.S. entity in 2017, I think they speak for themselves.

Your second question on the higher payout ratio, obviously, that is a question that arises. We are today at 49%. We have clearly linked our payout ratio to our Solvency II framework. If you remember, we always set in a Solvency II range of 170% to 230%. We are willing to pay out dividend between 45% and 55% payout ratio. Beyond this, we need to be thinking about doing more. Below this, we need to be thinking about doing less. Certainly, with the shift of our risk profile, we are also entering into a new period of solvency creation and cash remittance. And I do assume that with this deal, and that's also one of the reasons why we did the deal, that that the nature of our earnings will change and that also the solvency creation of our earnings will change, which will hopefully leave us to be rethinking what you have just illustrated.

But I hope you can understand that on day one of this announcement, it's a little early to think about it but I fully can understand why you asked the question. You can see that you are not running against a closed door.

James?

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

Thank you. It's James Shuck from Citi. Two questions from my side please. I mean, firstly, recently, you've kind of been pretty clear that you've ruled out large M&A. You've commented that you'd look at bolt-on in the region of €1 billion to €3 billion. So I guess the question is what specifically has changed in your mindset there?

And linked to that, as part of Ambition 2020, you had kind of €5 billion or so set aside for net M&A. 2020 is kind of not that far away, but are you assuming a full sell-down by the 2020 period? Are you still sticking to that €5 billion of net M&A? Are you going to run over that (30:28) slightly in the near term?

And I guess when we think about the proceeds from the U.S. IPO, because there's no direct link needed between the two, but as you get money in through the door then that will be the use to reduce debt but what else will it be needed for? Do you need it to actually rebuild the cash position or will it be used for incremental EPS type things as well?

And then my second question was just around the volatility in earnings that we've seen from XL Group over the last few years, because you look over the last kind of 5 or 10 years from whatever timeframe really, it's barely really managed a double-digit kind of ROE. I'm sure there's all sorts of reasons for that, you talk about de-risking it. There should be a cost to that. You've mentioned the $100 million or so of net reinsurance, but just kind of some reassurance about the underlying quality of that book that's difficult to see from the outside.

A - Thomas Buberl {BIO 16182457 <GO>}

So these are in effect four questions. Let's share a little bit with Gérald. So I think ruling out the large M&A, I should be talking to that. The question around the €5 billion net M&A and the full sell-down, Gérald, if you could take that that would be good. And also, the third question, which is around what are you doing with the proceeds, is it reducing debt? Is it building incremental EPS? And I would take the last one again on the volatility of earnings of XL.

Let's start with the first one, and I have to say I can understand that it irritates you because big deals are always deals that hardly any people like. But let's be realistic. When you have the ambition to grow in the commercial line space, and if you go through the different targets, you will find that there is, A, not many companies and, B, not many companies of the quality we want it to be. If you look at XL, and we've seen it on one of the slides, it's not one big block of business. We are talking about 40 different lines of business exactly. Here is the thing. We are talking about a reinsurance business. We are talking about a midmarket business. We are talking about a specialty business. And so this is, for me, not one block. It's a series of many businesses that are, by definition, under one roof.

The fact that we have now ended up buying it is also then a very pragmatic consideration. Would you rather do nothing if you stick to your siloed approach or would you say, look, if there is an attractive target, if I have a big transition to do with the IPO and shifting from a large U.S. exposure in Life towards something else, for me it seems the perfect deal at the perfect timing. And also the fact that we are pleased that decouple the two, should give you a very clear comfort that we have been thinking long about it and this is the perfect target for us, hence, you can basically do all your shifting in one go. It's to my mind much better than doing it in pieces and always being disturbed by integrations. We do it once. We do it quickly. We focus ourselves on the existing business.

Gérald, € 5 billion net M&A.

A - Gérald Harlin

Yes. About the M&A position, so we still will have the capacity of M&A that will be restored as soon as in 2020. And at that time, you can consider that you remember that we said that on a recurring basis with €1 billion per year, it will be at least €1 billion even more taking into account the fact that, as you know, we have in the 26 countries which are in bucket three, we had some potential disposals that could be planned. And that indeed it means that all together, you can consider that we will have a few billions that could be available as soon as in 2020 to invest in our other priority lines which are protection, health. So that's it. So that this point is clear and we will have capacity.

A - Thomas Buberl {BIO 16182457 <GO>}

Then the last one was on the volatility of the earnings. If we go back to the one slide, so where we see the loss ratio, I think when you look at the history of XL Group, it's a very, let's say, diverse history because a lot has happened in that history and that's why going back 10 years is probably not the right measure to look at it.

I would go back to the fact when there was a combination of XL and Catlin. And what you see there that there is a potential to really generate good returns. And if you look at this picture, this is pretty self-explanatory, you have an extremely solid base business and, as I said, this is not one business that makes go or no go. These are 40 businesses, 40 smaller business that contribute to it. So XL in itself is a very diversified operation and the only reason why you had the volatility, if you go back four years, is the fact that there was nat cat that was hitting them.

As I said earlier and I say it again, I would personally not run the business at this exposure. And when we look at how we have combined it, we clearly will reduce our risk exposure. And just to give you an example, we had, I think Alban, correct me, €3 billion risk appetite for AXA; XL have €3 billion risk appetite; and the combined risk appetite will lie around €4 billion. You're nodding, so yeah, maybe you can talk quickly because you're the expert.

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

No, that's exactly it. I would just add that the 1/200 years AEP, as we say, I mean, the loss that you would have in 1/200 years. So moving from 3% to 4%, so a significant reduction to what you would have coming from XL.

A - Thomas Buberl {BIO 16182457 <GO>}

And that, as I said earlier, is already included in the synergies on the reinsurance side. So we have been looking at this business in detail. We have the chance to look at it in detail. And so that's why also it's not one business. It's a multitude of smaller business which gives us the comfort of diversification. Andrew.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andy Sinclair from BofA Merrill Lynch. Three questions, please. Firstly, how do you perceive the rest of your credit rating, particularly if you have to tap on your bridging loan for this transaction?

Secondly, just wondered if you could tell us what your comfort levels and what due diligence has been done on reserving levels for XL.

And thirdly, just you've historically been biased towards more of the small and midsized commercial lines space. What makes you feel its right to move into this larger space? Do you feel that the dynamics are as attractive in that space for AXA when it brings into place XL? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Okay. Let's do the following. Gérald, you do the first question. Alban, could you do the second one, and I will do the third one. Credit ratings?

About the credit ratings, that means that in case we would have to draw our line, maybe we could be under negative outlook which is possible. We have been living being a A+ company for years and years, so it's not a big issue. I remember you that it's – we consider, I consider that we won't have to draw this line, but I take the worst case.

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

So on the reserves, on the reserves, so we were provided with detailed triangles of the various lines of business. We hired an external advisor on this. We had our own team in risk management looking at those triangles in detail. Obviously, we focused on the long tail lines such as casualty or professional indemnity. And at the end of the day, it is what you expect from a company which even though U.S. GAAP, they are at the best estimate.

A - Thomas Buberl {BIO 16182457 <GO>}

Andrew your third question on – you've been in the SME, why in the larger space. If you look at the SME and the larger space, they are linked to each other. The first thing is in the SME business, we see more and more and also in the smaller business, the risk of commoditization, price pressure, and risks moving more into the specialization. With being having a strong foothold in the specialization, we can escape from that risk.

And the second thing when you look at the SME business today that we do, we are very much focused on the P&C, so the Property & Casualty straight coverages, specialty in the

SME business hardly exists. And one of the opportunity that we were looking for all the time, how can we cross-sell our existing customer and SME with specialty business. Think about D&O and those kind of things. And it gives us, finally, the opportunity to have that expertise and really leverage it.

Q - Johnny Vo {BIO 5509843 <GO>}

It's Johnny Vo from Goldman Sachs. Just three questions. Just the first question, if I look at the average share price of XL on a 12-, 6-, 3-, and 30-day basis, the premium that you paid is north of 40% – somewhere between 40% to 50%. If I look on an undisturbed basis, it's probably even higher. So, sort of how much of the synergies have you paid away? Because when I look at your cost synergies, it looks relatively low when you look at in-market deals of somewhere between 20% to 30% of the combined cost base. So how much of the synergies have you paid away in order to get this deal done?

Second question is just on balance sheet. A lot of financial companies usually do M&A right at the peak of the market, and you're using obviously your balance sheet to do this. How confident are you about your balance sheet should a market downturn happen such that you can control the volatility of your own balance sheet and deal with this acquisition? I mean, I remember in 2006-2007 the acquisition of Winterthur, you levered up into the financial crisis and obviously had a reasonably difficult crisis, so if you can comment about that balance sheet.

And the third thing is just regarding culture. The culture of XL is clearly different from that of AXA. How are you going to deal with that culture difference? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald, do you want to take the first two questions since you were also there at the time of the Winterthur deal in 2006? And I will take...

A - Gérald Harlin

And I remember that I had the pleasure to discuss it with Johnny Vo. No. But to answer your first question, Johnny, the share price, the problem is not about the premiums that we pay. It's about the return on investment that we get. And so long as we get – at the time where interest rates are so low, 10% ROE, it's a good deal, and that's what we believe.

Second, about the – I would consider that it would be a peak of the market if we would buy this company with a combined ratio that would be at 90%. That's not the case. That means that, roughly speaking, if you take – to make it very simple, if you take the analyst consensus, roughly $1 billion. $1 billion correspond to 95% combined ratio. You have $500 million on $10 billion earned premium coming from the technical side, and you have $500 million from the financial side, the investments at $250 million roughly. That's the investment income this year. So that's it. 95% for such a business with such a big amount, maybe the company with the most specialized line. It's not a peak at all.

And again and you know this by heart, it's the ROE. And so long as you – if you end up buying a company with a return on equity which is 20%, 25%, it's worrying because it means a peak. Here's, it's not a peak.

The second is the balance sheet and (00:43:35). I believe that my previous answer answered the second question, that means that we don't believe that is the case. And again, return on equity at – return on investment at 10% is quite satisfactory. And so you have another way to calculate it. You can say at the same time that we pay $15 billion, we will save $2 billion due to the synergies, the capital synergies we discussed before, it's $13 billion, and you divide $1.3 billion including synergies and you are even above close to $11 billion.

A - Thomas Buberl {BIO 16182457 <GO>}

On the culture that was your third question, Johnny, so I mean, obviously, culture is always a very important topic when it comes to integration because if the cultures don't fit, the integration will not work. And we've been looking at this very carefully And I have to tell you that in the discussions we had with the XL teams, culture has probably taken a very, very large part, much larger than normally, because for me it was very important to understand how do these guys think. I wanted to understand from us how do we think and how can we really make sure that we are aligned. And if you look at their values versus our values, if you look at the way they think, we are in effect quite similar.

And as I said earlier, the deal spectrum for us was not very large. And obviously we've also been looking at other opportunities. I have not found in the other opportunities anything that is so close to who we are. And if you look at AXA, I mean we have a long history of deals, a long history of integration. I am personally a product of a deal. I was a Winterthur employee in 2006 when I had to give my second signature on the first day on the NDA of the AXA deal, so I thought I'd be engaged and fired in the same day. And look at what happened 12 years later. This integration and looking how can we make it work together is something that's extremely important for all of us and where we spend lot of time to understand does it work or not. And if you look, this deal is a very friendly combination. It's based on a joint vision that one plus one is more than two and has been an extremely friendly deal.

Look, I mean we are even giving the keys of the house to Greg Hendrick, who is coming from the other side. But I am very comfortable with that.

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

(00:46:18) from the Société Générale Credit Research. A couple of questions regarding your capital structure, you actually say that your leverage will go up from 25% to 32%. You said you'll bring it down to 28%. Can you give us some more detail on that? And in that context, can you comment on what's going to happen to the two old Catlin bonds of $550 million each at XL and the XL perp and the XL 30-years non-call 10-years? Will you bring them up to the holding, redeem them or guarantee for them?

Second, what about the new issues? You said there will be $3 billion of new sub debt? Do you still prefer issuing Tier 2 or do you seriously consider issuing RT1 and how much leeway will you have after the transaction for issuing Tier 2?

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald, two questions for you.

A - Gérald Harlin

Yes. And so, moving from 32% to 28%, so it's a normal cash flow of our group. So that means that it's $1 billion even after paying the dividend. As you know, that's the point that we mentioned before. And at the same time, it will be the further disposal of – following the IPO of our U.S. business. And again, even if we wouldn't do it, we would be roughly, I said below 28%. So, that means that to make it clear, assuming that we would dispose all the U.S. business, we would be below 28%, clearly below 28% and we would be roughly at 28% if we wouldn't do it because we have significant cash flow every year.

About the bonds and the Catlin bonds, which is your second question, we will see. That means that we have the possibility to reimburse it and to refinance it. Most probably, but don't take it for sure, but I believe that we should do it because it's our interest to put the debt at the holding level. The new issues of Tier 2, the new issues is €3 billion. I believe Tier 2, the cost is – the spread is quite compressed these days. It's 150 basis points which is quite low. And in Tier 2, we would have a bit more than €2 billion additional capacity in Tier 2.

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

That is additional capacity after...

A - Gérald Harlin

Yeah, yeah. After, after, after. Exactly.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's go to the end and then we switch over to the other side. You will get your question. Don't worry.

Q - Colm Kelly {BIO 19140684 <GO>}

Thank you. Colm Kelly, UBS. Three questions, the quickest one first. On cost synergies, can you just maybe clarify the expected timing that that should come through? Secondly just on the capital synergies. So, you've articulated the fact that there's a lot more risk diversification to come through, and that'll lead to capital synergies and capital release.

On the flipside, XL already reinsures and retrocedes quite a lot of risk. And you're saying that by bringing that into the group, you actually need to add reinsurance to bring it within the risk appetite limits when, in theory, I would have thought the opposite. So, if the risk appetite is linked to the solvency capital model, I'm not sure how those two link together.

One, capital release through risk benefits; on the other, more reinsurance needed to bring within appetite.

And then, thirdly, you talked a lot about the $15 billion gross written premiums for the commercial P&C business. Is there a scope to maybe grow the net earned premium there by reinsuring less, then increasing the margins, getting more diversification benefit on that capital, so, in effect, enhancing the risk-adjusted return on the capital for that business by reducing the reinsurance and increasing the net earned premium? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you very much. So, I would suggest I start with the first question, and then, Gérald, you take the second one. And then, Alban, do you want to take the third one. I'll do it. It's fine.

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

Or I can do the one on capital.

A - Thomas Buberl {BIO 16182457 <GO>}

Or do the second one, exactly. And then we'll see who takes the third one. Well, the first one on the cost synergies. As I said earlier, there's two places for cost synergies. One is in the headquarter, obviously, we have to now start the planning of the integration, always keeping in mind that technically we are still competitors and that we are still relying on the regulatory approvals.

The briefing of the regulators has shown us that there is a high willingness to really support us if everything goes well. And so, as I said earlier, I would expect the closing towards the end of Q3, Q4. As of then, we will certainly start implementing, the headquarter topic is in an environment where you have a relatively friendly way to change your cost structure. So I do believe that this will go relatively quickly once we also manage to take the quotation away of that business.

And when you look at the European business, as said earlier, the biggest overlap is in Germany and France. You know that those two countries do have more rigid labor laws than others. However, when you look at the reorganization that we have done in the corporate center that we spoke to you about on the 14th of November, where we also had to reduce in Paris roughly 100 people, today, we are in a position to be much faster than expected. We have about 15 people that we still need to redeploy.

So even in places where there is technically high rigidity of labor law, we have been managing to implement things fast. And I do expect that this will happen fast because also I don't want to spend so much time on the integration. We have to do it properly, but it should be a relatively short topic since the overlap is not that big.

Second question, Alban.

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

So on capital, the capital and reinsurance are two different things for that purpose. Simple thing is today XL is a P&C company. And so it has P&C financial and operational risks. When it comes into the group, those risks will diversify with our own risks which are also on the Life side. And so typically what you see with our own subsidiaries is that from their standalone capital to capital that the group has to inject, you have diversification benefit of 30%. And that's exactly what we see simply by incorporating XL within the group's framework and diversifying with other risks.

Within XL, typically, the exposure to U.S. hurricane, that's something that we hardly have that will diversify significantly. And then on top of that, as we said, we have the reinsurance part where we decided to reduce our risk appetite and therefore to reduce the amount of capital that we need to have on this compared to XL, but those are two different things.

A - Thomas Buberl {BIO 16182457 <GO>}

On your third question on the question of how to optimize the return on capital by looking at what you keep, what you give away. As I said earlier, this is a completely new game for us because today we are very much focused on we are taking shareholder money and optimizing the shareholder return. Tomorrow we have more capital sourcing potential by reinsurance and also by capital markets structures like insurance-linked securities.

And my aim is clearly to have a look at this in a larger context. We've shown you earlier that the reinsurance cost by the synergies of reinsurance will change, so that is any way I think to look at in a different way. And we will also look clearly at the alternative capital market because what you see today, in particular in the U.S., that the alternative capital way is the cheapest way of getting to capital.

And I would expect us to really rethink origination, packaging and also then ceding out risk in a very different way. And that is also one of the beauties of this transaction, that we have a facility that we have not had enough of today. So, yes, we will review. But again, day one is a bit early to give you a definite answer. Let's move over, and let's start at the very back and come to the front.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. Ashik Musaddi at JPMorgan. Just a couple of questions, one on your capital structure, Can you maybe just give us the numerator and the denominator of the acquisition, what you bought? And is that for Solvency II basis or U.S. GAAP regime basis?

The second thing is when you raise debt and you get some debt from XL as well, would you be breaching any sort of Tier 1, Tier 2 restrictions in case anything happens to the U.S. IPO? If it doesn't go through this year, would you be breaching that, i.e. will your sensitivities on Solvency II basis go up? So these are two questions. Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald for these two.

A - Gérald Harlin

Yes. About your questions, the requirement of today, if you take the (00:55:59) which are close to Solvency II, we said that it's slightly the denominator. The capital requirement is slightly above $6 billion. Okay? And today, the company has – at the end of 2017, the ratio was 185%. Okay. So that's it. That answer your first question. And your second question is – but tell me if I well understood it.

In case we wouldn't do the IPO which is your question, it wouldn't change at all our – it means that we would have issued €3 billion debt, we would do it. It wouldn't change. There are no covenants, no such type of thing. So that means that there is a total independence between the €3 billion that we will issue and the IPO.

A - Thomas Buberl {BIO 16182457 <GO>}

So we have two minutes and two more questions.

Q - Andy Hughes {BIO 15036395 <GO>}

Thanks so much. It's Andy Hughes from Macquarie. First question was, if you're increasing the re-insurance and reducing the risk tolerance, why isn't there a capital benefit by reducing the risk tolerance? Presumably, you're buying more reinsurance, you're reducing the peak risk for capital benefit should come through, and that's not in your numbers.

The second question was about, a touch of déjà vu on the AXA Arizona (00:57:30) question from two years ago but XL have said that they're going to bring more of the business onshore following the big tax changes in the full year results and they said they've already done that. Presumably, there's a capital impact from bringing business onshore. Also doesn't that change the 80% remittance ratio that reflects the fact it's kind of a (00:57:50) business without the capital, rather kind of controls on dividends the U.S. businesses have.

And a third question is, I think at full year results, you were very positive about the Ambition 2020 and the growth, even though a lot of the growth I think last year came from the U.S. Life business you're actually selling. And I'm a bit confused as to why a buyback wasn't a better option given the share price of AXA and your view on the earnings growth compared to minus 15 times pre-synergies. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald, would you take the first – sorry, Alban, you to take the first question Gérald, the second one, and then I'll take the third one.

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

Yeah. On your first question, I didn't express myself clearly, and you're absolutely right. What I wanted to say is irrespective of additional reinsurance, the simple fact that we will incorporate XL in our balance sheet, you will have that capital diversification, which will reduce the amount of capital that we need to put behind the XL business compared to what they have to do now. By reducing further the risk appetite by buying more protection, you reduce further the capital needs. So you are absolutely right.

So in the numbers, what you see is the capital synergies and the reinsurance synergies as such. Now, in terms of amount of capital, today cat events don't need a lot of capital because it's a very, very low correlation between them and with the other risks. So in terms of capital, adding further protection would not materially change the amount of capital that you need to have.

A - Thomas Buberl {BIO 16182457 <GO>}

Gérald.

A - Gérald Harlin

On your second question relative to tax, that means that we – that before XL up to 2017, the significant part of its U.S. business which was reinsured in Bermuda, and that's your point. And in all our calculation, we have taken into account the fact that we wouldn't do anymore because from a tax point of view, it doesn't make any sense, but it's in our figures.

A - Thomas Buberl {BIO 16182457 <GO>}

On share buyback, I think we've been more than clear that share buyback is an option, but it's not our preferred option and that we always would take the option of reinvesting into the business as our priority given the fact that there is an interesting and attractive opportunity. Here, we've got an opportunity, Gérald has shown it, of 11 times PE post synergies which is relative to our own PE, an attractive opportunity with a return on equity of 10%. And we have clearly decided that this is the priority option for us to reinvest the business and not through the share buyback. At this point in time, as I said earlier in my answer to Oliver, I do not exclude that, going forward, this can change. Nick, last question. Andrews we will do your question in one of the meetings – or after the meeting. Nick, we have to...

Q - Nick Holmes {BIO 3387435 <GO>}

Yeah. I'm taking the last question. Nick Holmes at SocGén. Just two quick questions. The first is what sort of growth do you think commercial P&C offers and can it help you achieve the higher end of your 3% to 7% target?

And then second, in Asia, I wondered how much does XL help you. Are there interesting opportunities in Asia that XL opens up for you? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So on the first question on growth, yes, it is clear that XL has a higher growth trajectory than we do. If you also look into the – first into the Q4 that they have mentioned last year and if you look and we had the chance to look into the numbers of the Q1, you can see that we had in our own book a commercial line premium increase of 2%. XL is certainly most of this growth, so that's why we also said we do believe that with this addition, you have a very different growth dynamic, we believe, between 4% to 5%.

Second question on Asia. Yes, we have a franchise in Asia. XL has a franchise in Asia and so by the combination, the two of us will get bigger. However, what is more important in Asia is to have a look at the development of the market. And what you see is that a opening up of a market, development of a market always starts with a reinsurance. And due to the fact that we now have a reinsurance capability, we will be able to also access these markets in its infant stage through the reinsurance because if you look at the commercial line market in China or in Singapore, it's quite developed. But in Indonesia, Philippines, it's in a very nascent stage and, there, reinsurance is playing the key role.

Q - Nick Holmes {BIO 3387435 <GO>}

And just, sorry, is a very, very quick follow-up. U.S. commercial, are you worried about the pricing pressure? I know it's coming out of the soft market, but is it a good time to enter?

A - Thomas Buberl {BIO 16182457 <GO>}

Yes. It's a good time and I think it goes back to the question that Johnny asked earlier. If you look at in which position XL is and the experience that XL has, it is a great time to invest because it's kind of a traditional AXA deal where we buy a company that comes out of a trouble where we can help to make it less troublesome and that was also the rationale to do it and to do it now. The U.S. business we see clearly hardening. Again, XL is in the mid-market where you have few players and where you have very little worry about the fact that you have come out of recession. I mean look who the players are in the U.S. I need one hand and I'm done.

So, we have to really finish now. We have the opportunity afterwards to answer more of your questions. I'm glad that there are so many questions. Thank you very much for coming today. Thank you very much for asking all these questions, and thank you very much to my colleagues for answering all your questions. I wish you a great rest of the day. Thank you.