



**Morgan Stanley European Financials  
Conference**

**Fireside chat – Transcript**

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## MORGAN STANLEY – FIRESIDE CHAT

**Jon Hocking | Morgan Stanley** Good morning everybody. So welcome to the session with AXA. We are delighted to have Thomas Buberl with us, the Group CEO of AXA. So before we start the fireside chat, we have got an interactive polling question, can we have that up please. So, unsurprisingly, the question about XL. So, what do you see as the key debate regarding the XL transaction? Number 1, the consistency with the communicated strategy. Number 2, the price paid for the business. Number 3, AXA's ability to deliver on the intended synergies. Number 4, replacing the lost earnings from various disposals. Number 5, cultural and business fit with AXA and number 6, the fundamental attractiveness of the Specialty business. So, here are the options. Can we please poll?

[Countdown music in the background.]

**Jon Hocking | Morgan Stanley** Okay, so pretty clear – the consistency with the communicated strategy. Thank you.

[Silence]

**Jon Hocking | Morgan Stanley** So, Thomas, firstly thank you very much for coming to the conference.

**Thomas Buberl | Group CEO, AXA** Thank you Jon.

**Jon Hocking | Morgan Stanley** I am doing the fireside chat. So, I guess the, in line with our polling question, I guess the key issue for a lot of investors is, I guess trust, fundamentally what you said in terms of strategy, what you delivered and you have surprised people. And I guess, trust is a massive thing in terms of valuing share, in terms of multiple and consistency of communication. So, how would you address that issue?

**Thomas Buberl | Group CEO, AXA** Look, I mean, first of all, recognise that there was surprise. Surprise linked to the size of the deal, surprise linked to the timing of the announcement and also surprise linked to the business. And, I fully understand that initial reaction. Let me try and explain to you how this fits into the strategy “Focus and Transform”, that we have announced in June 2016 and that we have reiterated and further detailed last November. Focus and Transform was about 4 to 5 main issues. And I will show you how XL fits in this. The first one is we want to focus on fewer countries. AXA is large. 10 countries make 80% of the profits but we are in 64 countries. We are reducing our footprint and we are focussing on 10 plus 6 countries. And XL is very present in those 10 plus 6 countries and will reinforce our position on the Commercial lines. So, no change to that, fully in-line. Second topic is around the question, how come we shift our portfolio, from a portfolio that is very focussed on financial margin to a portfolio that is focussed on higher growth and technical margin. We indicated two big strategic moves, one was to push into Protection and Health and the other one was to push into Commercial lines. Protection and Health has been growing extremely well. Last year 6% growth of revenues, 11% growth of the underlying earnings. We want to continue this because we do believe this is the right thing to do. And it's not only a high growth area but an area where we are very close to the customer. And then you have the Commercial line business where we have been, so far, successful in the SME businesses, our core business, but where we were lacking the specialties, the US presence and the larger corporate business. XL does fit that hole and does increase

our scale where we have traditionally been very small with AXA Corporate Solutions. Then you had a third topic which is around simplification of the organisation. We announced a reduction of Euro 300 million in costs through a restructuring of the Group, of the regions. This is in implementation and is almost done. We have roughly, I think, 20 people still to look for job, the rest is done. Then we come to the scaling of innovation. And that we have tested in a lot of areas, we want to focus our innovation on Health and on Commercial lines. We are now scaling it up on health, you have seen acquisition Maestro in the US, which is around population health management. Pushing telemedicine from zero to 10 million beneficiaries in 2 years. And now with XL, we can also go and push the area around risk consulting. So, yes, I acknowledge that XL has been a surprise, but it is fully in line with the strategy that we have communicated from the very beginning.

**Jon Hocking | Morgan Stanley** And I think, if we go back to the investor day, I guess in November/December in Paris, people left that investor day with a feeling messaging was around buybacks, and bolt on acquisitions. I think the size has surprised people. How do you address that? The expectations was in terms of capital returns and bolt-ons and this is a big transformational deal.

**Thomas Buberl | Group CEO, AXA** So, if we start with share buybacks. I have always been very clear that when I took over, I did not only take over, but I inherited some of the philosophies from my predecessor. And one of the philosophies was on share buybacks. And, both predecessors have always rightly so said to me look, share buyback is an option but it is a sign that you have no entrepreneurial ideas anymore. And therefore, I have always positioned share buybacks as an option but it needs to compare well to a transformational idea be it an investment organically or be it an investment inorganically. And we have certainly looked, when we looked at XL, to always compare this to a share buyback. XL has a return on investment of 10%. If I look at a share buyback, it is lower in terms of return on investment and it has a negative effect on the Solvency and there we clearly decided to go for this investment. On the size, type, Jon you are absolutely right. When we look back, we have always envisioned small deal sizes and when I was talking about 1-3 billion, this was the deal size we looked at but when we looked at the different areas where we needed to fill our gaps be it in specialties, be it in the US market presence, you always stumbled across XL because at the end of the day, XL is not a company that is only operating in the large accounts based in international programs. When you look behind the curtains, you see that it is a company that is very diversified. 40 different lines of business, where roughly a third is in the Specialty business, a third is in the P&C business, both on the US market and international, and a third is in the reinsurance market. So, very diversified portfolio with its special lines of business. And therefore, when you look at the variety of businesses and the global scale it gives us in one go, obviously there was always a trade-off, should you do three consequent acquisitions that are smaller, bearing in mind that very few targets have the purity that XL has where you buy something where almost 100% is fully in line with what you have and not where you buy something where you have to buy other stuff and you need to sell it then. This was the reason why we did the deal. A, a portfolio of many different areas that we were interested in and B, a very high fit that we did not see anywhere else. And C, if you look at the price, a price that is very reasonable for what it is in there.

**Jon Hocking | Morgan Stanley** You have always told that Commercial lines, since you set out the “Focus and Transform” strategy. And you talk about, health care and you talk about loss of things in terms of the developing the whole insurance business model and getting closer to customer. On the Commercial lines, I think a lot of people expected something that is more SME and more niche in terms of smaller customer type, digitising parts of the business that are not digitised, can you talk a little bit about that because a lot of people look at XL and just see like a big global Commercial lines business. How does it fit with the SME piece of Commercial lines?

**Thomas Buberl | Group CEO, AXA** So, first of all, we are already very strong in SME on the continent. And in this area again, when you want to buy companies, you always have to buy a small SME portfolio with a lot around that you don't want. So, it is always a trade-off. Secondly, when you look at where is our growth potential in SME, it is not by going into more markets, it is by penetrating the existing SME portfolio with Specialty lines. We are very strong in the straight P&C coverages in the SME space, where we are not strong yet is Specialty. Just to give you an example, if you have I don't know, a company of lawyers that need a D&O insurance for 8-10 people, we are often not capable of delivering this. With XL, we have the capabilities to have Specialty business that we can then drill down to the SME business. That is the number one. Getting an underwriting capacity and capability to penetrate more the existing SME business. Second one is, on the large and mid-market, we always stumble over the fact of the US. Many of my conversations with French customer went well until the point where they said, okay, what about the US. We could not offer anything; the discussion was over. This is not the case anymore tomorrow. And then, when you think, thirdly, risks are moving more towards the Specialty space. Think about traditional retail risk like a car insurance risk, very individual today very frequent based, tomorrow, car insurance will be a product liability, a car manufacturer's liability, will most likely be more severity based to the degree that cyber risk is probably the biggest risk. So, businesses are moving towards the Specialty space and obviously that goes then also with the development of the margins. Margins in retail will come under pressure, margins in Specialty business will be less subject to the pressure of the retail.

**Jon Hocking | Morgan Stanley** So, looking at the other business lines that you were trying to develop, so, particularly in, I am thinking of Healthcare, Protection, does doing the XL deal, does that slowdown the development of those areas, now that you have less capital that you can invest in those parts of the strategy?

**Thomas Buberl | Group CEO, AXA** No, not at all. I mean, as I said earlier, we are very successful in the Health business: +6% on the revenues growth last year, +11% on the underlying earnings. Health, is very much, an organic play in the markets where we are in. We are the biggest health insurer worldwide, if you take the pure US players out. We have been growing a lot in the existing hubs that we have, the 6 large markets, but also in new markets in Asia. Yes, there is may be one or two markets where you could go inorganically and buy something, but these are smaller ones. And again, you know, we have time. The priority now is to focus on three things: one is to do the IPO well, secondly is to do the XL integration well, and thirdly to get down the debt gearing. But, that does not mean that our overall strategy “Focus and Transform” or our ambition is being put in question. On the contrary, we have clearly said, XL fits into the strategy, we are continuing the strategy and we have also on two occasions, on three occasions, reaffirmed our Ambition 2020 targets, despite those changes.

**Jon Hocking | Morgan Stanley** I think, another aspect that people are uncomfortable with is the timing, because you have obviously got a big transaction that's going to happen at some point in the US, you have pre-used some of that financing for the XL deal. You have got a degree of execution risk around that transaction. I guess you can never choose timing, in terms of a transaction like this. Can you talk about that, on how you think about that and how you and the Board got comfortable with taking that execution risk? And, what is the execution risk.

**Thomas Buberl | Group CEO, AXA** So, first of all, it is true that, you know, the timing was a surprise to many people and I would have, personally, also preferred to do this deal after the IPO. However, the execution risk is very much linked to the financing of the deal. I mean, yes, you have execution risks: A, placing the IPO well, B, making the integration well. But I guess the major concern is around the financing. And, when you look at the financing, you will see that the financing has been designed very independently of the IPO. In a way that we have said, look, we have a significant amount of cash at hand in the Holding. We want to use, of this amount, Euro 3.5 billion, and we have more than Euro 3.5 billion, as a first layer. The second layer that we communicated on the 14<sup>th</sup> of November in our Investor Day, was that roughly Euro 3 billion will flow back from the US, independent of the IPO, pre-IPO. This is majorly part due to the change in the financing but also due to the sale of the AB units to the AXA Equitable Holding. And then what you have is two other parts, one, is obviously a first tranche of the IPO. If the IPO does not happen, we have different means of getting to the money, either by disposals, I said earlier, we want to reduce our footprint and we have started our disposal program. We could also go into more inforce action on the Life side and we have also announced that we want to launch some sub-debt around Euro 3 billion. So, the financing has clearly been chosen independent of the IPO. And in whatever case, whether we do the IPO, whether we do a partial IPO, whether we do a full sell-down, we will always come back to the 28% gearing and my ideal would be to go further down.

**Jon Hocking | Morgan Stanley** In terms of the perimeter, you have got this focus approach now to look at smaller number of territories, where you have got real competitive advantage, you have got the US transactions as well, so a lot of assets that AXA is either in the process of selling or is willing to sell. Another push back we have had from investors is your negotiating position with potential counterparties has weakened because people can see that you have at least the short-term need for financing. Can you talk a little bit about that and how the investors can get comfortable with the fact that you are not going to, I guess, fire-sell assets, for the lack of a better word.

**Thomas Buberl | Group CEO, AXA** Look, assets in general are quite rare. And when I look back now, between the announcements in November and today, I have had many calls of people wanting to buy those assets in the third bucket, the assets that were at disposal. I am not selling, or fire-selling those assets: A, because those assets are very good, those assets are rare and there is a competition around the assets. So, I understand the fear. But when I look at what I have experienced so far, I can assure you that I do not see this fear happening. And again, we have no need to fire-sell, we have optionality which creates upside.

**Jon Hocking | Morgan Stanley** Okay. And looking at the financial flexibility of the business, I think, one of the attraction of AXA was the financial flexibility and fungibility of capital, dividends being on a growing trajectory.

Can you talk a little bit about, you know, how confident you are, do you still have that flexibility, once you have digested this and the dividend, what is the outlook for the dividends? The range of the dividend that you have tied to the Solvency range. Can you talk a little bit about that and what the opportunities are in the medium-term?

**Thomas Buberl | Group CEO, AXA** Yeah, so we clearly said that in the range of 170% to 230% Solvency II ratio, we will aim for a payout ratio between 45% and 55%. We are today in the lower part of that payout ratio, so there is still potential to the upside. And secondly, we need to look at, when we do now the XL transaction and do the IPO of the US, we fundamentally change our earnings mix. Yes, we are exchanging roughly USD 1 billion of Life earnings against USD 1 billion of P&C earnings but if you look at the nature of these earnings, they are of a very different nature. You have a, let's say, one dollar of life profit that turns into 50-55 cents of cash. One dollar of P&C earnings turns into 80 or more cents of cash. So, the cash accretion of the earnings is significant, and secondly, it will generate a very different Solvency which then also will bring us more in the upper part of the Solvency range and not in the lower part of the Solvency range. So, personally, I would see that as a very positive message when it comes to the dividend outlook.

**Jon Hocking | Morgan Stanley** Okay. Then moving to the price paid for XL, seems like that it was a competitive process, and other bidders were interested. How did you and the Board get comfortable with the price that you have paid or agreed to pay.

**Thomas Buberl | Group CEO, AXA** So, yes, it's true that we were not the only ones. But, you should never focus your pricing on the competitors. You should look at the business yourself, and see, what is in it. And, I think, what often is, let's say, disturbing, if you look at the XL numbers and their profit generation, all you see and all you hear is about the large nat-cats. If you look more into detail, you will see that there is actually quite a stable business underneath. Again, as I said earlier, based on ca. 40 different lines of businesses. So, you have a normalised post-tax earnings of USD 1.1 billion. In there, you have USD 1.2 billion of underwriting result, pre-tax, which is very stable over the years. A good combined ratio, in areas that are very specialised. And when you think about, in particular the US, you see that there is a certain upturn in the rates. So, for me, that is a very positive message, and if you look at how the companies in the US have positioned themselves, there is a high degree of execution of these rate increases. Then you obviously have the nat-cat, which was last year particularly at XL, a very disturbing factor. We will take a very different profile on this one. So, if we take the normalised cat losses, they are more around USD 0.5 billion. We will take exactly that approach which we have always done at AXA. To be less exposed to nat-cat and to bring the nat-cat exposure down to USD 0.5 billion, which means that we have to, obviously, add to the reinsurance cover. XL had already been on the journey of doing this at the beginning of this year, we will now go together further. And then, there is another component of USD 0.8 billion which is around the investment income. It is a large investment portfolio due to the fact that they have got very large reserves. It is relatively conservatively managed and by bringing it to AXA Investment Manager and by bringing also our own approach to asset management, I do believe we can make more out of it. And then obviously, you have got the whole Holding costs, the tax in it which gets you to the USD 1.1 billion. This is before synergies. If you add the

synergies to it, of roughly USD 0.4 billion pre-tax, USD 0.3 billion post-tax, you will get to a very attractive number. The synergies are calculated on a relatively prudent basis, so I do hope that we will exceed this number. But, when you look at this valuation, I would say, USD 1.1 billion plus USD 0.3 billion in synergies, you add, USD 1.4 billion which represents roughly 11 times earnings post-synergies, that is relatively well comparable to the other deals you see in the industry.

**Jon Hocking | Morgan Stanley** Okay. On the cost synergies, AXA is much bigger than XL but XL is much bigger than AXA Corporate Solutions. There is not much overlap. And I think, you have highlighted that as one of sort of attractions of the transaction. So, how confident are you on the synergy number given the limited overlap.

**Thomas Buberl | Group CEO, AXA** Look, XL has got a cost base of USD 1.8 billion. AXA Corporate Solutions of USD 0.3 billion. If you put the two together, you have USD 2.1 billion. You have two levels of synergy, one is all the overhead functions of XL that are not needed anymore because it is not a quoted company anymore and secondly, you have got the overlap with AXA Corporate Solutions. The savings represent roughly 8% of the combined cost base which is relatively prudent. I would expect us to do more.

**Jon Hocking | Morgan Stanley** And on the nat-cat risk appetite of XL, you mentioned, that they had a very difficult year last year. They were reducing that exposure [indiscernible] pre-transaction. How confident are you that you are not going to end up with a big cat exposure for this storm season, that outside of your risk appetite prior to the deal closing and you end up with the losses but not actually the ability to influence the risk appetite.

**Thomas Buberl | Group CEO, AXA** Look, again, you get as much risk as you are prepared to take. We have taken a very clear stance, that when we integrate the XL business, and even beforehand, that we are integrating it with the AXA risk management approach which means taking a much lower risk tolerance and loss tolerance that XL has done. And therefore, XL, as I said earlier, has already started to reduce their nat-cat exposure. We are together doing it further before the closing of the transaction and afterwards our aim is, as you see, to go to a loss of USD 0.5 billion nat-cat and not more. And again, this is feasible. We have done it with AXA portfolio, I mean, we are also exposed to nat-cat if you look at Mexico, for example, we are the number two in Mexico. We were as much exposed to the earthquake last year and the windstorms as others were, but you did not see the same volatility in our numbers.

**Jon Hocking | Morgan Stanley** So, when you are looking at the return on invested capital you expected and bringing the multiple down to 11 times post synergies, and the cost number, you have included the additional cost of the reinsurance you are going to purchase for the XL book. Have you also factored into the earnings number the sort of reduction of earnings. I guess, the quality of earnings improves but the quantum of earnings in a light cat season will be materially higher post reinsurance. How should we think about that sort of risk adjusted return on the transaction.

**Thomas Buberl | Group CEO, AXA** Now when you look at the return you should look at nominator and denominator. Obviously on the nominator, yes, we have included all the potential negative effects into the



equation, coming from buying more reinsurance, coming also from the effect that we might lose some reinsurance volume that we have done with competitors, but we mustn't forget by the combination of the two businesses you have a diversification effect that is massive. I mean, European windstorms and US windstorms are well diversifying, which is not the case with low US interest rates, low European interest rates and low Asian interest rates. This leads us to a combined capital base that is 30% lower for the XL capital, so we can run the same business with 30% less capital, which again is another USD 2 billion of capital release coming.

**Jon Hocking | Morgan Stanley And,** just to dig into XL a little bit by business line, I think a lot of it is Specialty. It's Commercial. There's also a chunky reinsurance business in there, which I think has really surprised people because that is something which, I think, is a genuine departure of what people understood in terms of strategy. Can you talk a little bit about that reinsurance business, what it is because it's obviously relatively big within XL? I guess globally it's not a huge reinsurance business, but how do you think about that? How you going to integrate that with AXA? Which bits of it do you want to keep? Which bits do you want to grow?

**Thomas Buberl | Group CEO, AXA** So it is true that XL has got reinsurance, roughly USD 5 billion of the business is reinsurance. That business is profitable. That business is a niche business where they pick and choose. And it is a business that is also more profitable than many of the other competitors. When you think about that business, the question always comes, "Should you keep it or not?". What you see is that the boundaries between the two markets of primary insurance and reinsurance are fading; that these are not two different businesses anymore but that they are coming together. Why is that the case? Because look where reinsurance today is used. Reinsurance is used to look at access of capital pools in a different way. In the past, we were very mono-line and said look, if we take a risk we take it 100% on our balance sheet. Tomorrow, with having a reinsurance capacity and within that reinsurance capacity having also an ability to place risk in the capital market through ILS, we have a much broader way of getting access to alternative capital. Not only saying we keep the risk on our balance sheet, but we could also originate, package and then disperse and cede the risk again through reinsurance, but also through the capital markets. A second thing you see, as I said earlier, more risks are moving towards the Specialty. More and more e-commerce companies require insurance protection that is based on reinsurance schemes, so if you think about a potential rationale between the Soft Bank and Swiss Re deal, it's exactly that. And then thirdly, when you look into emerging markets where we are present a lot, we never got a real foot on the ground with our own primary expertise because all of those markets go through the initial stage of reinsurance being the catalyst of developing the P&C business on the Commercial lines. So, when you take all of this, for me the reinsurance business presents a great upside for us and give us more degree of flexibility that we have not had beforehand.

**Jon Hocking | Morgan Stanley** How do you think about the durability of returns in Specialty, Thomas, because you look at the bigger picture? You have got a lot of reinsurers, like Swiss Re for example, that are trying to build out their primary business. You've got the commoditized-end of Commercial trying to become more Specialty. You've got the ILS market, which is making sort of a big difference to obviously knock out pricing, and I guess

with technology will in time creep into different lines of business. How do you think about this sort of moat that Specialty business has?

**Thomas Buberl | Group CEO, AXA** Look, I take our own experience. We've been trying to build that Specialty business for quite some years. Yes, we have advanced, but it takes a long, long time, and that I believe that is also true for our competitors. The Specialty business is very much linked to the question of, "What is the underwriting expertise that you've got?" What are the key people that you've got? Where is your distribution access and access to the Lloyd's syndicate for example? And when you look at the XL as a total with a Catlin part, you see that, as I said earlier, about 50% of the insurance premium, so roughly Euro 5 billion, is Specialty. This is divided across 19 lines of business, and those businesses are very innovative. Take the question around cyber; take fine arts. Those are specialties that you cannot build from zero in a very quick run, so it's very difficult to get in there. And, that's why we have also decided to buy a franchise and build it out, rather than take 20 years to build it ourselves.

**Jon Hocking | Morgan Stanley** Okay, thank you. We will take questions from the floor now. There should be somebody with mics. Who would like to first ask Thomas a question? In the front row here please.

**Participant 1** | Thomas, what do you expect to be the most difficult part of the XL integration? What are you most focused on?

**Thomas Buberl | Group CEO, AXA** So when you look into the XL integration I think there will be three parts of it that will be a challenge. The first one is the actual organizational integration, and also with that the cultural integration. This one I believe is relatively feasible because, as we said earlier, there is very little overlap and it is relatively clear what to do. On the cultural side, I also believe this is easier than what I've seen in previous transactions, because the cultures are very much aligned and there is a high degree of wanting to make this happen. Since the logic of the deal was not a cost-cutting logic, it was a logic of combining something that would make the combination stronger than the two individual pieces. Afterwards, you have got the question around the risk management framework integration. I think that is something that starts to be more challenging. As I said earlier, XL and AXA have very different risk approaches on the back-end, so how much risk do you retain. I made very clear that in the combined entity we will go to the AXA standards of retaining risk, not to the XL standard of retaining risk. XL has already made the journey into our direction. We want to go further and we have agreed to go further, but this will certainly be, from a cultural perspective, a challenge. And then you have a third challenge, which is the question going back to the SME portfolio, how do we create the corporation between XL and the local entities in the SME market? Because we don't want to integrate XL into the country organizations. We want to keep it as a separate stand-alone business on a global basis, XL and AXA Corporate Solutions, but obviously in order to penetrate the SME portfolios you need to create a mechanism to incentivize the local CEOs to leverage the XL capability of doing this. Those I would clarify as the three main challenges, but again, AXA is not doing this for the first time. We have many comparable examples where we have managed to do it, but we are paying a lot of attention to those three things.

**Jon Hocking | Morgan Stanley** Do we have another question? In the front row please.

**Participant 2** | I probably divide my question into one of credibility and then competence. One and a half weeks before the deal was announced, your management team was in London and confirmed what you have guys been saying, that you do not expect any acquisition before the US IPO. And one week later the deal was announced and I think it goes to a record. Your market cap has come down Euro 7 billion [indiscernible], so you have wiped out 60% of the value of the deal on your market cap. I haven't seen in my 25-year investment life a deal with such failing destruction, which is interesting because if you look at the XL undisturbed price, USD 35, it's exactly 60% up. It seems that the market was quite efficient in pricing of what you overpaid. My question is around credibility. How come in a week and half you changed your mind and you have your CFO and your management team saying you don't expect or have a deal before the US IPO? And then, it is the bolt-on acquisitions. And then, the second part is about competence. AXA is at an all-time discount to Allianz. It was a time we were expecting you to bridge some of that gap. Why should AXA investors go to these [indiscernible] in terms so that the US market can close, so we have an issue in terms of the funding of the deal. You say you that can leverage up more, but certainly it's a risk that we are aware in a kind of time that we should be building up credibility in the market to bridge that valuation gap. And if I may, if you walk away from the XL deal, how much would it cost today?

**Thomas Buberl** | **Group CEO, AXA** Thank you for your three questions. Let's start with the first one. You know that talking about deals is always extremely difficult because we are subject to very, very strict rules of confidentiality, not only when we talk to parties but also to the financial authorities. If somebody had been talking about this deal one and a half weeks beforehand, we would have had to make an announcement, so it's impossible to be able to talk about this.

**Participant 2** | Quite the opposite, because if you tell the market that you are not doing something publicly, I mean I was in a meeting with seven other investors and then you do the opposite, that is perjury. That is even worse.

**Thomas Buberl** | **Group CEO, AXA** Look, I was not in the meeting but all I am saying is that on these deals, you don't know up to the last minute that you will make it or not. Your second question which is around the IPO and closing the gap. I understand that this is clearly from a shareholders' perspective a logic that makes absolute sense. The IPO, again, I have high confidence in the IPO. When you look at the 2017 numbers of AXA US, I think they speak for themselves. When you look at the timetable of the IPO, we have announced the 10<sup>th</sup> of May last year. We have filed the S1 document on the earliest day possible. When you look at the comments that we got from the SEC on the last S1 amendment, it was one comment. So, I have a very high confidence in the IPO. And again, when an investor looks at the US life entity, they need to look at what is the substance of the US life entity and that is what they will be looking at. That's also when we start now the discussions, the feedback that we'll get. [Background chatter] Sorry. The walk away. Look, there are very little reasons to walk away. Yes, there are provisions to walk away, but I do not expect for them to come true. Again, we did not do this deal to walk away. We did this deal because we do believe it's fully in line with our strategy and it gets us on the Commercial side, somewhere we would have never gotten otherwise. Therefore, I believe in this deal. I do believe this deal makes

us the #1 Commercial-line player and gives us something that we would never otherwise have. We did not do this deal to walk away from the deal.

**Participant 3** | Sorry I was just slightly confused by some of the comments you were making in relation to the deal. You were saying in terms of the reinsurance that it was great because this gave you access to offload some of the business into the ILS market. If I think about the other players in the ILS market, and forgive me maybe I'm incorrect, but I seem to remember that the first cat bond that ever triggered a loss was actually the Zurich cat bond that triggered as a result of the Lehman default, and that was way back in 2007/2008. It seems that the competitors have seemed to be in that market for at least 10 years. You also made the comment about XL gave you some attractive opportunity to be able to access the business in and around Lloyd's and yet if I think about those other companies that have been in and around Lloyd's, St. Pauls was in the market since about 2000. AIG has been in that market for as long as I can remember. ACE has been in that market for as long as I can remember. If I think about the London market companies, RSA and Aviva, have already, always written that business through the London market, which obviously sits on the same floor or in the similar area. Are you actually saying that that was the only way you could get access to this business or are you actually telling us that strategically, AXA was significantly behind where its competitors and where its peers are, and that this was a deal you needed to do to be able to catch up.

**Thomas Buberl** | **Group CEO, AXA** So thank you for your two questions. For your first question, you are absolutely right. The ILS market has not been existing for two weeks or two years. It has been existing for a long time, but when you look at the sophistication of the market, when you go back to the first cat bond and today, it has very much changed. And, we see that more and more capital is coming into this market. With the same rationale that I talked earlier, because those risks are diversifying very well. We believe, and we see certainly in the US, that this market is developing more and more. It's getting more and more efficient. Therefore, there is a need to place more business there. On the Lloyd's side, yes as I said to you earlier, we have AXA Corporate Solutions, a business of Euro 2.7 billion, which was mainly focused on Germany and France, and we were not present in the Lloyd's and we had no access to these businesses. Our question was, are we building those businesses from zero onwards, which we did in the last couple years, which does work but it takes a long time. Or should we buy into the leading franchise and immediately get into a leadership position to leverage the access to these market and also leverage the expertise for our existing portfolio. So yes, we were not present there. That is the one blank spot of AXA in the Commercial lines, in the upper Commercial lines space and the US. We were not present.

**Jon Hocking** | **Morgan Stanley** Do we have another question please? Thank you.

**Participant 4** | Two questions. First you talked about your better investment capability. Are there other areas where AXA's scale could be beneficiary with the XL business? And the second question, looking at the economic cycle, are not you afraid that you have bought a P&C insurance company at the peak of the economic cycle?

**Thomas Buberl** | **Group CEO, AXA** So, when you look at the other areas where I do believe that there are synergies, I mean investment is very clear, the reinsurance by bulking up when you think about procurement

scale on the claims side, on the administrative goods, there is certainly combinations to be done. So, we will look at this in a very systematic way now and see how we can make sure that one plus one is more than two. And obviously, as I said earlier, on the cost savings of 8%, my ambition is to do more and do better. When you talk about the peak of the economic cycle, often the peak of the economic cycle does not always go well with the peak of the insurance cycle. When you look at the insurance cycle, we are at the lowest end of the interest rates, so there is certainly when you talk about a long-tail business there is a uptick in the interest rates. When you look at the question of rate increases, I mentioned to you earlier, that in particular in the US there is a push for rate increases. When you look at the other competitors you see that they are able to implement those rate increases. I would suspect that XL has the same capabilities to do that.

**Jon Hocking | Morgan Stanley** Okay. We have got time for one last question, if someone has one? [Silence] So, I will just ask sort of the final question. So, Thomas, the share price has had a big reaction and has not come back. What do you do now to sort of fix the share price? What are, sort of, your key priorities?

**Thomas Buberl | Group CEO, AXA** Look, as I said, I recognise that this was a surprise. And the priority now needs to be to implement on the key points that were the reason why the share price has gone down. One is, the uncertainty around the IPO, first priority is now to get the IPO off the ground. We have said that we want to do it in Q2. Q2 starts in 10 days, so that number one priority. Number two is the question around the XL integration. We want to be as fast as possible on the closing. Obviously, we have certain external events like a shareholder vote, like the regulatory approvals in many jurisdictions that will take some time but the quicker we can be, the better. And the third priority is clearly to get the gearing back from the peak of the 32% down to 28% or even further. And, we are relentlessly now working on those three priorities and nothing else.

**Jon Hocking | Morgan Stanley** Okay. Thomas, thank you very much for your time. Really appreciate it.

**Thomas Buberl | Group CEO, AXA** Thank you Jon.

**Jon Hocking | Morgan Stanley** Thank you.

[Applause]

--- END OF THE TRANSCRIPT ---