AXA 9M19 conference call

Transcript

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Good morning everybody, and welcome to AXA’s conference call on our activity indicators for the first nine months of 2019.

I am pleased to welcome Gerald Harlin, our Deputy CEO and Group CFO, who will be taking you through the highlights of the release from last night and will be very happy to take your questions afterwards. Gérald, for the last time, I hand over to you.

Gérald Harlin, Deputy CEO and Group CFO, AXA

Thank you Andrew. Hello and good morning to all. Thank you for joining our call.

As you can see from yesterday’s release, AXA has delivered another strong performance for the first 9 months of 2019.

Overall, total gross revenues increased by 5% at Group level, with all geographies contributing to the growth, and with continued growth momentum in our three preferred segments, ie P&C Commercial lines were up 7%, Health +6% and Protection +3%. Our balance sheet remains very strong with a Solvency II ratio at 187% at the end of September. We will come back to Solvency later in the call.

So let me now take you through the details of the activity for each of our geographies. 

In France, total gross revenues increased by 4%, with growth across all lines of business and notably in our preferred segments. Health in France was up 7%. Unit-Linked sales were down 10%, as in the rest of the French market, but offset by an increase in our Savings products. We remain extremely disciplined in managing our French G/A Savings business, with inflows broadly offset by outflows. And so, this means no dilution of our French General Account from growth in Savings business.

In Europe, total revenues grew by 3%, notably with +4% in P&C Commercial lines, with increased revenues across all countries, as well as +4% in Health. Life & Savings revenues in Europe were also up 3% with growth across all countries expect Switzerland in the context of the Swiss Group Life transformation.

Moving to Asia now. Revenues and APE in Asia were both up 4%. A few things to have in mind for the region.

As you know, in Japan there was a tax rule change related to COLI products (Company Owned Life Insurance) in the second quarter of 2019. This had a strong negative impact on APE. If we exclude the impact of the Japan COLI products, APE in Asia overall was up 15%. This strong increase was driven by higher sales in Japan from Protection with Unit-Linked and Health, strong sales in Hong Kong from Protection with Savings and continued growth in China. We did see some slowdown in sales in Hong Kong to Mainland Chinese customers in the third quarter, following the impact of social unrests. This was however, mostly offset by continued strong sales to
domestic customers. APE for Q319\(^1\) from Mainland Chinese customers was -20%; growth from domestic customers was +23%.

International revenues grew by 5%, notably driven by Mexico, Turkey, and Columbia, with again continued growth in preferred segments. Revenues declined in AXA IM, impacted by lower non-recurring fees.

Let’s move now to AXA XL. AXA XL’s revenues continued to be strong, up 11%. We are growing selectively as you can see. Revenues in P&C Insurance grew by 18%, and Specialty was up 8%. Reinsurance revenues were up 2%, with growth in Specialty reinsurance business and reduced volumes in Property lines.

Price increases at AXA XL for the nine months were 6.9% in Insurance and 2.8% in Reinsurance. Pricing momentum continues to build. In the third quarter alone vs the same period last year, prices in Insurance were up 11%. This is a very favorable environment for AXA XL’s key businesses.

As outlined in our Press Release, in the third quarter of 2019 and early into the fourth quarter, a series of severe natural catastrophe events occurred, resulting in above average claims charges for AXA XL, mostly in Reinsurance.

At this stage, given the severity of these events, and combined with ongoing wildfires in California and other smaller Nat Cat events, we estimate that AXA XL may incur claims charges of ca. Euro 0.4 billion in excess of the normalized level of Nat Cat at AXA XL for the second half of 2019.

This level of deviation from normalized, and taking into account a relative normal year for Nat Cat elsewhere the Group, means that we remain very much within our overall tolerance level for earnings deviation, which I remind you is Euro 0.5 billion at the Group level net of tax, for a 1/20 year.

Now moving on to Solvency II, which as I mentioned earlier was 187%, well within our target range of 170-220%. This is a very strong level, especially in the context of the very low interest rates in September. Since then, rates are up significantly and we have clear structural increases in the coming year with the integration of XL in the Internal model, potential EQH selldowns and the sale of AXA Bank Belgium, all of these elements more than offsetting the impact of future deleveraging.

So, to conclude, AXA delivered another strong performance in the first nine months of the year. We recorded strong topline growth across the Group. Our balance sheet remains strong and resilient. And we experienced an elevated level of Nat Cat at AXA XL, above our normalized level, as for the rest of the industry. This should continue to contribute to a favorable pricing environment for AXA XL and its businesses.

I am now happy to take your questions.

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\(^1\) During the call, the period mentioned was 9M. It has been corrected in the transcript
Q&A SESSION

Operator The first question comes from John Hocking from Morgan Stanley. Sir, please go ahead.

Jon Hocking | Morgan Stanley Good morning, Gerald. I've got three questions please, all on XL. Firstly, just looking at the Reinsurance segment of XL, how happy are you with the sort of risk appetite of that unit? And how more we expect you to reshape that book if at all going into 1-Jan renewals. It’s the first question.

Secondly, in terms of the protection to Reinsurance business, I think at the Investor Day last year you talked about the alternative capital and Cat bond protections for the Reinsurance segment. Can you talk a little bit about what the gross/net is on those reinsurance losses and how much protection we've got left for the remainder of the year?

And then just finally, can you make a comment on if there is any trend of note in man-made losses in the quarter to date? Thank you.

Gérald Harlin | Deputy CEO and Group CFO, AXA Okay. So let’s start with the Reinsurance business. So, indeed we had quite elevated CAT levels. I could say that normally speaking we should benefit from higher - you know that we benefited mostly from strong price increases in Insurance and less in Reinsurance. As mentioned in Reinsurance, we were at 2.8%. I should say as well that on the CAT side, we decreased our topline and, as we mentioned, we have protections.

On your question should we reshape or not our risk appetite, I would say that this is something that has been done already. What we could do, we could eventually slightly further reduce our exposure to CAT, mostly in Reinsurance. That’s the point that we will see. We will update you later on and mostly when we will publish our full-year figures in February. So that’s what we can take. But keep also in mind that there are other lines which are quite profitable. And globally speaking, I would say that the outlook for the global Commercial lines is pretty good with continued increase in rates, and we are not the only one to mention it.

About the man-made losses, you remember that we said in the first half that we had roughly an excess of Euro 0.1 billion for man-made large losses. I would say that the trend is still there, it’s still more or less the same. So that means that relatively high level of man-made losses and we could say that it could be of the same magnitude than in the first half. So that’s mostly it.

As far as the protection is concerned, so that means that we have our global protection level and our excess of loss aggregate protection and that this protection has not been hit yet.

Jon Hocking | Morgan Stanley And was there a big gross/net on these Nat CAT losses so far?

Andrew Wallace-Barnett | Head of Investor Relations, AXA Could you repeat your question please, Jon?

Jon Hocking | Morgan Stanley Sure Andrew. I'm just saying is the numbers you put out in terms of being above the budget, is there a big difference between gross and net on those numbers. Have you actually got any meaningful protection that you benefited from so far in the second half?
Okay. As you know, the protection is at a much higher level. So that means that -- again I should insist on the fact that we are within our tolerance level. I mentioned that we were in excess of Euro 0.4 billion over the expected level, it is Euro 0.4 billion pre-tax. I remind you that tolerance level is Euro 0.5 billion post-tax. So that means that we are completely within our tolerance level.

Okay, thank you very much.

The next question comes from Andrew Sinclair from Bank of America. Sir, please go ahead.

Thanks and good morning everyone. Three from me as well, if that's okay; but I'll try to keep it to just one for XL. Just wondered if you could give us any detail on how much you've actually allotted for the California wildfires? I think the others were quantified, but not Cali wildfires, just wondered if you can give details on that.

Secondly, just wondered if you could comment on debt leverage today, after you've done a few redemptions over the last few months, just wonder if you could give us a rough update.

And thirdly, it was just on AXA Life Europe, should we still expect that transaction to complete by year-end this year? Thanks.

Okay, Andrew. So about the California wildfires, we are not speaking from a very large amount, so it's part of it. But it has nothing to do with the scale of what happened last year. So, globally speaking, you know that Hagibis as well as California wildfires are quite recent events. So we are just in the estimating phase, but we don't expect it to be very strong as far as we are, and the impact won't be very strong on AXA XL. That's our guess today.

About the debt leverage, you remember that we said that we would be at roughly 30%, 31% at the end of June. We mentioned that we would be in September at 30%. I confirm it, and we should be at 28%, around 28% by the end of the present year, taking into account the reimbursement. I should say as well that taking into account the fact that we confirm that we intend to sell the totality of Equitable Holdings up to the end of next year means that we confirm the 25%. So as far as the debt leverage is concerned, we are absolutely on track.

As far as AXA Life Europe, what I can tell you is that we are still expecting the green light from the Central Bank of Ireland. You know that it's always complex, but we are expecting it.

Yes, thank you very much.

And the benefit of course, the benefit of AXA Life Europe will come later on.

The next question comes from Kamran Hossain from RBC. Sir, please go ahead.

Hi, good morning. It's Kamran Hossain from RBC. Two questions; the first one just on AXA XL, could you maybe talk us through what the losses might have been last year if you've had
basically the same catastrophe losses, same reinsurance program or no change to reinsurance program, what the kind of H2 might have looked like versus what you’ve got this year? So that’s the first question.

And then the second question is could you maybe update on when we expect AXA Tianping to consolidate? Thank you.

**Gérald Harlin** | Deputy CEO and Group CFO, AXA

Okay. First of all on the losses, I would say that the program was not fundamentally different. So it’s been refined. But let’s keep in mind that when you compare last year with this year, it was much stronger last year than it is today. So that means that the Euro 0.4 billion that I mentioned would have been much higher last year. But I remind you as well that as we mentioned that last year, our excess of loss and our aggregate coverage, reinsurance coverage didn’t trigger.

About AXA Tianping, so I believe that before the end of the year anyway we would consolidate it.

**Kamran Hossain** | RBC

Fair enough, thanks very much.

**Operator**

The next question comes from Farooq Hanif from Credit Suisse. Sir, please go ahead.

**Farooq Hanif** | Credit Suisse

Hi, thank you very much. Apologies to keep asking this question, I just want to clarify the Euro 0.4 billion. It seems to me what you’re saying is you’ve made an allowance for events in Q4 and you seem to have some level of confidence that it’s not really going to be much above Euro 0.4 billion, is that because you think you’re close to triggering protection? So maybe ask another way, are you still very confident that you’ll be limited at Euro 0.5 billion within your tolerance, almost regardless of what happens in Q4.

Question two is casualty inflation, so there has been a lot of commentary from US primary carriers about problems in the casualty book. Can you remind us how much casualty business you write in XL and what potential reserves are there and whether you are seeing anything?

And the last question is, if we take internal model for XL, the European VA business, exit from US Life and net deleveraging, where do we end up in terms of management actions on the Solvency II ratio net from one of those actions? Thank you.

**Gérald Harlin** | Deputy CEO and Group CFO, AXA

Okay. So Farooq, let’s be clear, meaning that, as you know we said that the average level of CAT for the whole Group is Euro 1.5 billion pre-tax. For XL, it’s half, Euro 750 million.

And what I said is today, taking into account the expected losses for Q4, which took place in October, then, we would have a deviation of Euro 0.4 billion and this takes into account exactly what we know today. It’s an up-to-date estimate and it assumes that for the rest of the year, it would be in line with the average. That’s what I can tell you.

About the casualty business and I could say that there has been a large loss activity in the casualty insurance marketplace in the US. It’s been driven by social inflation and there had been a slightly higher frequency of large man-made losses on casualty. Outside the US, I would say, it’s a far lesser and the extent is much, much smaller. So it leads to an increased pricing across many of our casualty lines. And in the US, we can expect that this dynamic will continue in 2020. So it means that we benefited from very strong price increases in this year and we
can expect it to go on. That’s mostly it. We can share the figures with you when we have all the details of these figures.

**Farooq Hanif | Credit Suisse** So just a return -- apologies. So basically, if you had more events by the end of this month and by the end of December, you know heaven forbid, if bad things happened, would you still feel comfortable that you’ll be capped at Euro 0.5 billion above the budget?

**Gérald Harlin | Deputy CEO and Group CFO, AXA** No, we wouldn’t be capped, as I said, because we are not at the limit of our aggregate. I would say, nevertheless that we are already in November. And I can say that from a statistical basis, and today, generally speaking, we said that the hurricane season ceases mid-November. So we are not very far. That’s what I can tell you. But for the time being, we cannot say that we are capped. Nevertheless, keep in mind that we assume that for November and December we are implicitly taking the equivalent of Euro 130 million roughly of CAT coming from XL.

**Farooq Hanif | Credit Suisse** Okay, that’s clear, thank you very much.

**Gérald Harlin | Deputy CEO and Group CFO, AXA** Okay.

**Operator** The next question comes from Nick Holmes from Société Générale. Sir, please go ahead.

**Nick Holmes | Société Générale** Hi there, thank you very much. Just one question, with the solvency ratio, can you explain a bit more how you achieved such a strong operating return, +5%? That really seems very, very strong.

**Gérald Harlin | Deputy CEO and Group CFO, AXA** Okay. So, Nick, we had normalized operating return of 5 points. We assume -3 points coming from the dividend and we have been operating variance of +2 points. You know that it’s quite logical to have operating variance. There are more positives than negatives because we’re, as usual, relatively cautious. That’s what I can tell you.

**Nick Holmes | Société Générale** So, could you tell us which business lines were contributing to that?

**Gérald Harlin | Deputy CEO and Group CFO, AXA** It was mostly the P&C business. France and Switzerland.

**Nick Holmes | Société Générale** Right. So would that imply reserve releases or something like that?

**Gérald Harlin | Deputy CEO and Group CFO, AXA** No, it’s not reserve releases, but it means that it’s an operating variance coming from lines, which are P&C lines in France and Switzerland.

**Nick Holmes | Société Générale** Okay, that’s great.

**Gérald Harlin | Deputy CEO and Group CFO, AXA** Okay, Nick, it’s not because you have releases, you know that you can have releases, but we are tracking as usual, the level of reserves and when we consider that this level of reserves is increasing, this level of excess reserve is increasing then we have to adjust it and that’s what we call the operating variance here.

**Nick Holmes | Société Générale** Okay, that’s very clear. Thanks very much.
Operator The next question comes from James Shuck from Citi. Sir, please go ahead.

James Shuck | Citi Thank you, good morning. I had three from my side, if possible, please. First one, just a quick one, for the losses of Dorian, Faxai and Hagibis, could you tell me what you are basing those off in terms of industry losses, please?

Second question, linked to kind of Casualty trends and just the XL reserving situation you booked Euro1 billion P-GAAP reserve margin at the time of the acquisition. Could you just tell me how that has been developing over time, given the trends you are seeing on the loss cost and other developments since then please?

And the last question was just around the Solvency II development in Q3. So we had H1 with negative market impact of 9 points. By nine months that have gone to negative impact of 3 points, implying 6 points of benefit in Q3, just given the interest rate movement in Q3 standalone, I would have expected that to be worse in Q3, not better. If you could just shed some light on that, that would be helpful, please.

Gérald Harlin | Deputy CEO and Group CFO, AXA Okay. Starting first with the three catastrophic events, so roughly speaking, we are assuming that it would be USD 25 billion.

James Shuck | Citi So, can you just split those between the three please?

Gérald Harlin | Deputy CEO and Group CFO, AXA In total, so USD 25 billion in total.

James Shuck | Citi Yeah, could you split those between the three perhaps?

Gérald Harlin | Deputy CEO and Group CFO, AXA No, because we are making assumptions. One important point that I wanted to share with you, don’t consider that the only way to assess claims would be a kind of a top-down approach. It is a combination of top-down and a bottom-up approach. That’s mean that don’t consider that we are starting from the USD 25 billion that I mentioned and that we take our market share. No, we are more sophisticated than this, meaning that the Euro 400 million has been backed by I would say, adequate assessment of the claims line-by-line. That is a better view and it is a combination of these two approaches which makes that in the end, we announced the Euro 0.4 billion.

The second question is the development of the Casualty. You are right saying that we had Euro 1 billion euros of excess reserves linked to our P-GAAP. And your question was clear and what is the evolution and that means that we consider that today we are well reserved, and that we are well reserved and that this Euro 1 billion is sufficient in order to cover an eventual increase of reserves. So that’s it. And I do not see in the foreseeable future any kind of need to reinforce our reserves taking into account this buffer.

The last question is on Solvency II, so we had -9 points into the first half. We had -5 points in the third quarter. So the total market impact is -15 points. And what I could add is that if we would do it today, it would be -11 points, meaning that we recovered the equivalent of 4 points from the nine months to the first days of November, to be clear. So everything equal, it means that we would be not at 187% but we would be at 191%, so that’s it. And there were some questions, you asked a question about what are the moving parts. We could say that as we mentioned XL, we still are expecting that XL will be integrated in our internal model and the upside by 2020
should be between +5 and +10. Then we have the operational return net of dividend, which could be expected between +5 and +10. Then we have AXA Equitable holdings. I remind you that we still have an economic interest of 30% to sell 148 million shares, corresponding to 5 to 6 points of Solvency at the time it will be sold. And then we have AXA Bank Europe, it is been published and you noticed recently, and we mentioned that the upside in term of Solvency should be +4 points. Last, AXA Life Europe, circa 1 point. This will be offset by the deleveraging. I answered the previous question and saying and confirming that we would be at 25%. And this is a -5 point impact on the Solvency. So I hope it is clear. These are all the moving parts that we could expect for the rest. But it will be by 2020, pay attention. XL internal models, it is clear that it will be by the end of 2020, operational return will be spread over the whole year. And AXA Equitable Holdings, it will depend at the time we will sell it. Last point AXA Bank Belgium, it will depend on the closing, so it would be at closing that we will get the 4 points.

James Shuck | Citi No that’s helpful.

Gérald Harlin | Deputy CEO and Group CFO, AXA And for the deleveraging, on top of my head, it corresponds to Euro 1.7 billion of which Euro 1.3 billion\(^2\) should be reimbursed in April.

James Shuck | Citi Okay, that’s helpful. I think some of my numbers are a bit off for Q3, but that’s helpful to get that pro forma. Just one quick question, in terms of the mix of debt between senior and subordinated, obviously most of your debt at the moment is subordinated. Do you see any need or do you like to rebalance away from subordinated more towards senior?

Gérald Harlin | Deputy CEO and Group CFO, AXA Not for the time being, so meaning that you are right saying that most of our debt will be, when I said that we will have 25%, most will be subordinated. So, for the time being, there is no plan to fundamentally change. You know that today the spreads are quite small, meaning that the difference between a subordinated debt and the senior debt is not so huge. So that’s why we do not plan in the foreseeable future to change it.

James Shuck | Citi Okay, that’s very helpful.

Gérald Harlin | Deputy CEO and Group CFO, AXA Thank you.

Operator The next question comes from Colm Kelly from UBS. Sir, please go ahead.

Colm Kelly | UBS Thank you for taking my question. Just on the Solvency, a number of peers in France have cited challenges with respect to their subsidiary Solvency ratios for the respective French Life insurance businesses, which is logical, given the low interest rate environment. I appreciate we have had positive interest rate developments fourth quarter-to-date, but I was just wondering if you could take the opportunity maybe to update in that context on the Solvency for France. Is there anything that would concern you there with respect to upstreaming in the second half, et cetera. Thanks.

\(^2\) During the call, it was mentioned Euro 1.5 billion. It has been corrected in the transcript
Gérald Harlin | Deputy CEO and Group CFO, AXA

Okay. No, that’s a good question, because I’m quite conscious that a lot of our peers or some have been communicating on need for recapitalization and so on. It is not at all our case and I wanted to be clear on this. In France, we have a General Account of Euro 110 billion and this is on top of roughly Euro 35 billion of Unit-Linked business. First of all, I should say that our General Account business has been managed extremely cautiously over the last years, meaning that we did not dilute our business. Take the example of this year, over the first nine months, roughly speaking, inflows offset the outflows. And that’s the name of the game. That means that all our peers who have been hit or who communicated on the absolute need to stop this General Account, where is it coming from? It is coming from the fact that they diluted their funds to such an extent that their fund is exhausted. It is not that all our case, meaning that we can keep our fund over the last years, roughly speaking, as I said inflows equaled outflows. So it was quite well balanced. We stabilized the General Account and we can over the next years, we have absolutely no fear and we can keep it like it is, taking also into account the fact that contrary to a lot of our peers, we sell much more Unit-Linked business. In the first nine months, we were at 35% and the peers are, on average, at 24%.

So the combination of, I would say, very prudent management of our General Account, no dilution over the next years, a strong percentage of Unit-Linked business, and I should say, which has been absolutely in favor of our policyholders, all of this makes that we have absolutely no fear, no need for recapitalization, and we are quite relaxed as far as our capital level of AXA France is concerned.

Colm Kelly | UBS

Perfect, thank you very much.

Operator

The next question comes from Peter Eliot from Kepler Cheuvreux. Sir, please go ahead.

Peter Eliot | Kepler Cheuvreux

Thank you very much. I will give you some respite from XL, Gerald and all three different questions from me. First one, on the Solvency, can you confirm what management actions you took in the quarter and what impact those had. I think you took out some further hedging. But I was just -- yeah, it would be great if you could quantify any actions.

The second question was on AXA IM, very strong flows there. I was just wondering if you could split those between the XL integration third party inflows or anything else. And I mean maybe just in the context of the changes announced. I mean the results look pretty good, I would say from these results from yesterday release. So I'm just wondering if you want to elaborate on anything that you think can be differently in your new role.

And then maybe finally the EIOPA review has been out for a few weeks now. I was just wondering if you had any comments that you wanted to share from your analysis of that. Thank you very much.

Gérald Harlin | Deputy CEO and Group CFO, AXA

Okay. So management action. No, nothing specific that I could mention. Maybe some people that – one point that I didn't mention yet is that, keep in mind that with the decline in interest rates, we have an exposure to Japan and the decline of interest rates, long-term interest rates in Japan has been lower than for other currencies. So, meaning that we have always an active management of our Solvency. You remember what I said many times, that means that in the investment side we optimize, that means
that we trying to privilege the assets with a strong return on Solvency and that is what we did. So nothing specific Peter, nothing specific to mention on that side.

On AXA IM, I could say that on AXA IM we had, roughly speaking, plus Euro 7 billion\(^3\) coming from XL. We had plus Euro 2 billion on top of my head, coming from the third parties and we had also an outflow coming from the joint ventures and from China of roughly Euro 7 billion\(^3\).

You asked me about my new role. I would say that my new role, you know over the last 10 years, I have been in charge as the CFO of the investment side of the Group, so I know AXA IM quite well. Maybe some of you remember that I have been CFO long time ago. I have been at the Board over the last 25 years, and you know that the success of AXA IM up to now has been on what we call the win-win. What is a win-win? It is the fact that we invest first for the insurance company in new asset class and then after a couple of years, we can sell it to the outside world. My mission at AXA IM obviously clearly will be to develop this business. It is a nice business, it is a fee business and on the both sides of the two categories of assets, which are core assets and alternatives, I remind you that today we have Euro 110 billion of alternatives, over the Euro 800 billion total AUM, meaning that these two categories of assets will be develop and it is my mission. I will do it. I'm confident that we will achieve it.

So the third question was the EIOPA. EIOPA is a completely different topic. I would say that, as you know, we are in the preliminary phase. EIOPA is screening different, I would say alternatives in term of evolution of Solvency II. Personally, I am absolutely convinced that nothing will happen, not at all in 2020, at the earliest it will be 2023. Second, you can imagine that it is not because the EIOPA is screening different opportunities, including strengthening of certain criteria or certain parameters that it will be accepted by the Commission. So that's it. So, honestly, I am not worried by this and it is a long time before we will see any change.

\textbf{Gérald Harlin | Deputy CEO and Group CFO, AXA} So I would like to thank you for attending this session and I wish you a very nice day. Thank you.

*** END OF THE TRANSCRIPT ***