S1 2019 Earnings Call

Company Participants

- Alban de Mailly Nesle, Group Chief Risk Officer and Head of Group Insurance Office
- Antimo Perretta, Chief Executive Officer, European Markets
- Etienne Bouas-Laurent, Chief Executive Officer, AXA China Region
- Gerald Harlin, Deputy Chief Executive Officer and Group Chief Financial Officer
- Greg Hendrick, Chief Executive Officer, AXA XL
- Jacques de Peretti, Chief Executive Officer, AXA France
- Thomas Buberl, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Andrew Crean, Analyst
- Andrew Sinclair, Analyst
- Ashik Musaddi, Analyst
- Farooq Hanif, Analyst
- James Shuck, Analyst
- Johnny Vo, Analyst
- Jon Hocking, Analyst
- Nick Holmes, Analyst
- Oliver Steel, Analyst
- Peter Eliot, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good afternoon, everyone, and welcome to AXA's 2019 Half-Year Results. A warm welcome to those of you on the phone. A warm welcome to those of you on the webcast, and of course, those of you here with us in London.

Here in the room with us today, we're joined by our CEO, Thomas Buberl, our Deputy CEO and CFO, Gerald Harlin, and Gerald, I think, it's the last one, our CEO for France, Jacques de Peretti, our CEO of AXA in Europe, Antimo Perretta, CEO for AXA XL, Greg Hendrick, our Group Chief Risk Officer and Investment Officer, Alban de Mailly, and our Deputy CFO-elect, Etienne Bouas-Laurent, who is sitting here with us as well. Welcome to all.

With all these people present, I'm hoping we'll be out answer clearly and thoroughly all the various questions you may have on our results today. As per usual, the Q&A session will be at the end of the presentation, and we'll be happy to take questions from those of you on the phone or on the webcast. Please just follow the instructions you've been given. As usual, we'll give preference to questions coming from here in the room.

It's now my pleasure to hand over to Thomas.

Thomas Buberl {BIO 16182457 <GO>}

Thank you, Andrew, and good afternoon to all of you. I'm very happy to be with you for these half-year earnings, and we will do it as usual. We will split the presentation between Gerald and myself, and afterwards, we'll have enough time for your questions and our answers.

When you look at the highlights of the earnings, it is a very good mix between a very solid top line, 4% growth and focus very much on the preferred segments, and at the same time a very strong growth on the bottom line, 10% plus underlying earnings per share with a strong performance across all geographies. The new kid in the family, AXA XL is for the first time with us and as of the first half of this year. And you can see that also AXA XL, is progressing very well and very much in line with the 2020 earnings target that we have set ourselves.

All of this is happening on a very strong and solid balance sheet, 190% solvency. You've seen that the shareholders equity has increased, and also that the return on equity of 18.3% is very solid. And we have continued the delivery on the selldowns and deleveraging. AXA today is really transformed with 80% coming from technical results. And when you look at its positioning globally, you see that it's very uniquely positioned, the largest insurer in commercial lines and one of the largest global insurers in Health & Protection, and in combination that is scarce and very differentiating.

Let's have a look at the top line growth. I said 4%, which is a very good number, driven mainly by the preferred segments, and when we talk about preferred segments, we talk not about a dream, we talk about the majority of the AXA portfolio being in their plus 6% on Commercial line P&C, which is mainly fueled by XL. Certainly through a very good pricing momentum, but also through gaining good businesses in a phase where we were still in integration.

Health, which is 12% of our revenues, has grown by 5%. Again, we are very strong in six markets across the globe, and we can see that all of these markets have contributed to it. Protection at the level of 3%. When we look at the bottom line, we also see that it's a very strong technical profitability, like-for-like all technical ratios in P&C in Health & Protection have improved. When you look at the P&C combined ratio, we have improved again, like-for-like, because last year XL was not part of the AXA Group by minus 1.2% at a level that was already low to 93.3. Health combined ratio improved by 0.7 points and on Protection, improved by 1 point, you see for the first time that the AXA Equitable results are not in there anymore, since AXA Equitable is de-consolidated.

Let's zoom on AXA XL, because as I said earlier, it's the first time that we have AXA XL into our accounts for the first six months of this year. I am very pleased to see that AXA XL has performed well both on the top line and the bottom line. You have plus 9% on premium, which is great. Coming from three things: one, obviously taking benefit of a improving pricing environment, certainly the strongest in the US, but also quite strong in Europe, improving the business mix more towards US, more towards specialty, but also winning quite a few new businesses, which makes me in particular very happy because in a period of integration, it is where you mostly lose business and we have seen exactly the opposite. At the same time, we have delivered on the earnings EUR0.5 billion for the first half year, when we look behind the earnings is very much fueled by the price increases, by the growth in business, but also by delivering on the synergies, both on the cost side and the revenue side. And with this EUR0.5 billion, we are very comfortable to be on a good track to reach the ambition of EUR1.4 billion by the end of 2020.

On the Group, this results in an underlying earnings growth of plus 7%, and here I would like to differentiate two pieces: one, is how has old AXA or previous AXA performed? Because this was the piece that remained constant. And what we see is that there is a strong performance across all geographies, be it France, be it Europe, be it Asia, be it the international markets, plus 5% is very robust and very strong. And then we have a plus 2% from the transforming piece, which is getting XL into AXA, slowly disposing of AXA Equitable with reduced ownership, but also having significantly higher holding and financing costs due to the effect of this transformation.

This results in a 10% underlying earnings growth per share, both on underlying earnings and on adjusted earnings per share, which is very much in line with the ambition that we have given between 3% and 7% and for the half year certainly above this corridor that we have given ourselves, and as an ambition in 2020 in June 2016.

As I said earlier, all of this has happened on an already very strong balance sheet, which has become stronger. As we said, one of our priorities was reducing the ownership in AXA Equitable. We've IPO'd AXA Equitable last year on the 10th of May, and since then we have done several sell downs, we have seen the recent one, which has brought us to 39% of total ownership, but 30% of economic ownership. As we always said, our aim is to go to zero, but depending on market conditions.

This has led to a reduced debt giving, which was our third main priority. We've seen that we started at the end of last year at 32%. We are now at 3.8% and with the available cash to be repaying additional debt, we've come down to 30.2%, again, which is well in line with our aim of getting to 25% to 28%, because as you remember, we had three sources to fuel the deleveraging: one was the further selldown of the AXA Equitable; secondly, the disposable of AXA Life Europe; and thirdly, the transformation of our Group Life portfolio in Switzerland.

190% solvency range, which is very strong, which is exactly in the middle of -- in line with the range that we have given ourselves, published last year November, 170% to 220%. And you've also seen that the ratings have been reaffirmed, and even on Moody's, the negative outlook that was given at the time of the AXA deal has been removed.

When you look at the transformation and look at what does the new AXA look like, you can see that we are exactly in line with what we said, shifting from financial risks to technical risks and creating a global insurer that is strong in Commercial lines and strong in Health & Protection of preferred segments. You see that we have, if we assume that AXA Equitable is fully sold down, that 82% of our earnings come now from technical sources, and this was 66% two years ago. So a massive shift, fully in line with what we said. And when you look at its global positioning, as I said earlier, a very remarkable position in Commercial line, the largest commercial insurer of the world, the most global one. And at the same time in our preferred segments, Protection & Health, one of the very large global ones, a scarce asset, that is very difficult to copy with great market positions and a very differentiated proposition. And certainly, what makes me very proud for the 10th year, the number one brand in the insurance sector.

We've also accelerated on our payer-to-partner strategy. Last year, at the full year, we spoke a lot about what we have achieved in telemedicine in Europe. We have now added another leg to our payer-to-partner strategy in health, which is concerned mostly the emerging markets. This is very much around vertical integration. In those markets, you have very limited medical infrastructure, and therefore, also limited access for many people to this infrastructure. And so we thought, can we create an ecosystem that has clinics. And clinics are small clinics of eight to 10 doctors, not hospitals, where you can receive customers and patients, where you can help them immediately and where you can also create a combined positioning and proposition between the clinics and the health insurance. We have launched this in Mexico with a strategic partner Keralty, who have been in this business for a long time, and we've also launched it in Egypt on ourselves.

At the same time, we have continued the same approach of payer-to-partner, which is how do we go beyond the insurance coverage, how do we augment and combine the insurance coverage with services on the Commercial side because when you think about health payer-to-partner, we talk about the individual. On the Commercial side, we talk about the health of the company. And so, let me take one example of three, the connected cargo. We are working together with a company called Contguard, where we've also taken a large share, where it's about positioning sensors on containers to really help avoiding claims to understand where do thefts happen, where do fires happen, what are the most dangerous cranes, what are the most dangerous route and how can you optimize your logistical flow in order to benefit from this inside, which goes well beyond our own claims experience.

All of this combined with our very important role in society because being an insurer also means giving back, also means being there to ensure that the social cohesion that we create in our own portfolio is also created in the society. And therefore, we've focused in the last six months on a continued engagement on climate, mainly focused on biodiversity because we do believe that this is a very co-element to the climate change, and I'm very happy to see that we have worked well with WWF, but also XL with the Ocean Alliance has really contributed a lot to that. And we have also been very close in links with the G-7 in order to work on this. And the second topic is very much the launch of an Impact Fund around the same topic to make sure that we also mimic our behavior and take our insights that we've drawn from these studies into the way we invest.

I would now like to hand over to Gerald, who will guide you in more detail through these results. Thank you very much.

Gerald Harlin {BIO 7424807 <GO>}

Thank you. Good afternoon. So here you have the -- let's start with the underlying earnings. Underlying earnings are up 7% that EUR3,620. As you can see on the right hand side across the board, all our markets have positive contributions with one exception, which is in Transversal, which is IM, and that I will -- slide dedicated to it. As explained by Thomas it represent all these markets represent a contribution of 5% out of 7%, and then we have AXA XL, so 77 that you can see in the first half of '18 corresponding to AXA corporate solution and AXA Art. And the contribution this year -- this first half of XL is EUR502 million.

In the United States it was EUR465, EUR283 for the first half just corresponding to the consolidation, we consolidated 93% one year ago and now it's 53% last on Central Holdings, so we have a negative contribution, which is increasing and it's mostly due to the financing of XL and the AXA Equitable Life sell down like the hedging, US dollar-euro hedging and for the financing of XL some temporary debt. On top of this we had some specific tax on extraordinary dividend coming from our subsidiaries for EUR30 million, so that explains most of the difference and most of the increase in Central Holding.

Let's us go through the France, first. As far as France is concerned, we have a strong growth of 7%, plus 7% at EUR873, first explained by a strong technical improvement. As you can see on the right hand side, we have a P&C combined ratio at 90.8%, meaning an improvement of 2.9 points and Health combined ratio is at 97.7% minus 1 points. Second, we have the strong top line in Health and P&C commercial lines all together we have plus 7%. We had last year a favorable prior year development, and it doesn't exist this year, which is roughly EUR30 million. So it's -- it was an element of last year, which is non-recurring this year.

Let's move to Europe, as far as Europe is concerned, so plus 4% on underlying earnings at EUR1,333 million. Explained first by technical improvement, just like France, we saw P&C combined ratio down 1.1 point, with Health combined ratio down 0.8. And this correspond two countries like Germany, UK and Ireland, Spain and Italy. We have higher volumes in P&C and Health, you can see on the top, right, plus 4% in P&C commercial lines, plus 3% in Health, and we have lower investment income.

In the Asia. Asia plus 8%, a strong performance, I would say was an improve -- at EUR620 million and across the board we have an improvement in underlying earnings in Thailand, in China, in Japan and in Hong Kong.

Next is international. International and new market. And here it's typical case of a strong top line growth, plus 6% with across the board technical improvement, which as you can see, combined ratio going down by 1.5 points in P&C, 0.6% in Health. So we have really good benefit from a leverage here, which explains the plus 16% underlying earnings growth.

Let's move to AXA IM now. As far as AXA IM is concerned, we suffered like a lot of asset management company from lower fees, we saw business mix, which was less favorable with a bit less equities and more fixed income, which means that on average we have our fees, which are going down from 17.2 basis point to 16.6. This is partially offset by lower expenses. In the end earnings are down 12%, i.e. minus EUR16 million.

AXA XL, as explained and as mentioned by Thomas, we have a very good first half earnings contribution from XL EUR502 million, explained by first strong top line growth plus 9%, 6 % in specialty -- 6% in specialty, 15% in P&C insurance, 2% in the reinsurances of which minus 7% in Property Cat, but as you know, that's a point that we discussed many times and that we discussed, I remember six months ago, when we presented the 2018 accounts. So we walk the talk. We said that we would decrease somehow the Property Cat to avoid some part of volatility, that's exactly what we did. It didn't prevent us to have a strong performance, we benefited of affirming pricing cycle with Insurance at plus 5% and with Reinsurance at plus 2.4%. And as mentioned before, these trend is still there. And we have the first delivery of expense synergies, roughly EUR50 million, and we add plus and minus, plus with favorable developments from Q4, '18, notably California Wildfires and Hurricane Michael, which is offset by elevated level of non-cat large losses. We are on track for the EUR1.4 billion target underlying earnings target for 2020.

Let's move to the United States. So it's quite simple roughly speaking, the -- at 100%, the underlying earnings from the US went up by 1%. But we have reduced ownership, which explains most of the decline between EUR465 and EUR283.

Let us go to the adjusted earnings. So adjusted earnings are up 8%, again these figures are constantly fixed. And we have underlying earnings of EUR3,620 million, net realized capital gains at EUR386 million. Don't expect us to be fundamentally different for year-end, we benefited from excellent market conditions in the first half, especially on the equity market. As a whole we are at EUR4 billion in adjusted earnings.

Let's move to net income, so net income was, down 19% to EUR2,333 million in the first half. And starting on the right hand side, starting from adjusted earnings, you have mainly two adjustments. The first one, is the change in fair value and ForEx coming from derivatives, firstly equity hedges. If you remember that we mentioned these equity hedges, which are long-tail hedges, up to the end of 2020, and it's mark-to-market. In face of these equity hedges, of course, we have significant capital gains which are NOCI [ph].

The second element of derivatives is interest rate swaps, which are here to manage the duration of the debt and being a way to lengthen the duration of their liabilities. It's a negative 0.3, but again, it's offset by significant gains in -- as we will see in a second, significant gains on the investment side, on fixed income side. So second element is a minus EUR705 exceptional and discontinued operation, you remember that in March, when we announced the second sell down, we mentioned that we would incur a loss at that time, we said it would be EUR0.7, so in fact, it's EUR0.6. It's due to the fact that we did the consolidation of AXA XL -- of AXA Equitable Holding. We had to markdowns 310 million shares at a price of $20.50, which was the price of the disposal of the second sell down meaning that in the future, so long as we will sell at higher price, it will fall into a -- it will be a profits that will offset part of these losses.

Shareholders equity, up from EUR62.4 billion to 66.7 billion, mostly three items, that I could comment here. So change in net unrealized capital gains you have in your book, you have the detail, maybe you will have questions in the appendices on the changing unrealized capital gains mostly from fixed income, but also from equities.

Net income for the period 2.3% and a dividend of EUR1.34 billion that was paid in May minus EUR3.2 billion. You can notice adjusted ROE, which is at 18.3% quite strong level, where as our target was between 14% and 16%.

Let's move to the assets, we have out of the -- as you can see here on the left, we manage EUR547 billion previously, one year ago it was EUR597 billion in the meantime we include the XL, but they consolidated AXA Equitable Holdings. No big change on that side. Mostly, we are invested in fixed income. What is quite interesting is the yield on assets, yield on assets on Life went down from 3% to 2.8% and P%C from 3.2% to 3%. And on the right hand side you have the details and the elements relative to the fixed income investment.

In the first half, we invested EUR28 billion again mostly in fixed income. We invested an average at 2%, of which 1.9% in Europe. Investment margin now, so the investment margin is down in Life. I would say slightly down only because we have a lot of flexibility. Many times, we mentioned to you that we had a significant potential margin, because we have quite low interest rate guarantees, which gives us some margin in order to limit the decrease of the Life and Savings investment margin at EUR0.67. On the P&C yield at constant scope excluding AXA XL, we dropped 6 to -- we dropped the investment income by 16 basis point quite in line with a 10 to 20 guidance that we gave before. It's 3% investment income including AXA XL.

Let's move to the performance in P&C with a combined ratio starting first on the left, including AXA XL -- including AXA XL, you can see here that the current year combined ratio is at 96.8%, of which 2.7% coming from nat cat, including natural events. I remind you that the normalized level is 3%, so we are slightly below the normalized level. Prior year development minus 1.7%, so we gave a guidance between 1.5% and 2.5% and here we are slightly below the midpoint.

On the right hand side, you have the evolution between the first half of '18 and 2019, starting with the current year combined ratio, which is down 96.8% to 95.4%, minus 1.4 points of which 0.9% coming from the nat cat and natural event, and the rest being a 0.6% -- 0.5% coming from the improvement in the attritional ratio. You can see that the prior year reserve development is slightly lower than one year ago minus 2.1%, meaning that in the end our all year combined ratio improved by 1.2 points at 93.3%, and we can say that we are very proud of this performance.

Solvency now. So our solvency is at 190% from 193% one year ago. You have the sensitivities on the right hand side, solvency roll-forward in the -- at the bottom of the page of the slides, with operating return plus 12 points, dividend minus 5. I could say that the 12 point is slightly higher than the guidance, which is between 15 and 20 points. Market impact minus 9 points, so it's due to the decline in interest rates.

Equitable selldowns its plus 4 points, so roughly it's we sold roughly speaking 100 million shares, and it correspond to plus 4 points. And then we have the XL treatment, that means that we moved XL to the standard formula, which is minus 3, then we have the VA reference portfolio, plus UFR dropping by 15 basis points all of this representing minus 3 points, offset by a positive FX effect of plus 2 in the end, we are at 190.

I hand over to Thomas for the conclusion.

Thomas Buberl {BIO 16182457 <GO>}

Thank you very much, Gerald. If we look at what are the main message of the half year, I would summarize them in three ways. Number one, a balanced achievement of growth and profitability, 4% top line growth, 10% underlying earnings per share, and a very good performance of AXA XL. Second headline, good progress on the priorities we've set ourselves. Number one XL integration; number two, the selldown of AXA Equitable; number three, the reduction in the leverage; and number four, advancing on payer-to-partner. Third big message, the strategy is paying off and you really see a shift in the portfolio from financial risk exposure to much more technical risk exposure, 66% to 82% of the earnings that come from technical risks.

Thank you very much, and we now come to your questions. Let's start with Nick.

Questions And Answers

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you very much. Nick Holmes of Societe Generale. Just two questions, the first is what would you say are the key drivers of the favorable P&C pricing at the moment, especially in commercial lines? And to what extent do you think low bond yields will help to maintain pricing discipline in the hot market?

And then second question is on the equitable divestment. Just wondered, do you think there might be an opportunity for further divestment this year? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So I suggest that Greg takes the first question. I'll do the number two and three, which was about the lower bond you and AXA Equitable.

A - Greg Hendrick {BIO 1649843 <GO>}

So it's -- I think the first thing to start with is, not only those the numbers to the half year we see in the second quarter an acceleration of the affirming. I'm not ready yet to call this a hard market in a classic sense, but definitely affirming in a firm market. And in the second quarter, the plus 5% insurance, was plus 8% and the plus 2.4% and reinsurance was plus 4%. So the second quarter is accelerating, getting better and I can tell you from just having been across The Street, both in the Lloyd's building and in our offices at AXA XL, it's continuing to affirm even more.

Your question about why is that happening, I think it's kind of three things, and Thomas said he would cover the last one. So I'll start with that one, which is, there is just -- it's a lower investment yield. So anything long tail is under pressure there. The second is, you're seeing, as you look around the industry, you're seeing a pressure on results across many lines of business. We've talked about here about slightly elevated man-made losses. These things are not unique to AXA XL. We almost never are right in these areas or 100% of a risk for taking the share it on these big large covers, and so others are experiencing this.

So there's a realization that while we haven't destroyed as an industry capital, we have put pressure on earnings and results. And that is a very common theme as I talked to colleagues in the underwriting. And I think on the third point, the broking community. Brokers and clients are now accepting of the fact that the price of risk has gone up, that it needs to pay more. Of course, there is the usual give-and-take of, not my account. Someone else's account. But the general theme now in the conversation is very much around the price of risk has gone up. So I think those are the three big drivers.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you very much, Greg. So maybe hooking on to the lower bond yields. I also believe that this will be a further driver of price increase. Nevertheless, if I take our own company, one mustn't overestimate the effects because we've always given a guidance that our bond yields will -- on the P&C side decrease by 10 to 20 bps. so we are very well in the guidance. Let's assume we would deviate from that by 10 bps. This would translate into a combined ratio -- on a necessary combined ratio improvement at AXA of 0.2%. So it is feasible, but in general, the low bond yields do cry out for continued good pricing environment that we have seen so far.

On your third question, Nick, on AXA Equitable, yes, our aim is clearly, as we always said, to go to 0 shareholding in AXA Equitable. We have so far, between May 10 and now, always found good windows of decreasing our ownership to today 39% or 30% in economic terms. And those transactions have all been done at $20 or above. And so our aim is clearly to continue this trend of the selldowns, but I repeat again, not at any price. We need to find the right moment in the interest of our shareholders.

Let's just move one in front. It's difficult to see with the light.

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you very much.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's just move one in front. It's difficult to see with the light.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi, good afternoon. Ashik Musaddi from JPMorgan.

Hi, good afternoon. Ashik Musaddi from JPMorgan. Just couple of questions. First of all, I mean, clearly, pricing is moving up in XL. You mentioned volumes are moving up. Having said that, the results were still EUR 0.5 billion, which is -- which looks like your earlier expectation as well. So had pricing not moved up so firmly, then clearly, these results would have been tough. So what's going on? Can you give a bit more dynamic if there is something we are missing? And just linked to that, I mean you're expecting EUR1.4 billion, which is like a run rate of EUR1 billion going to EUR1.4 billion next year. And that's a big jump, again, so what will bridge that gap? That's the second one. Yes, that's it. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Good. So I would suggest, Greg, you do the first one, on -- has the pricing made it all or hasn't. Clearly, the answer is, I guess, it hasn't. And then, Gerald, you will talk about the question of how to get from EUR 1billion to EUR1.4 billion.

A - Greg Hendrick {BIO 1649843 <GO>}

Yes. I think, so pricing in the large P&C and Reinsurance -- so if you look at what we do on the Insurance and Reinsurance side, earns in somewhere over 12 to 24 months. If you're writing reinsurance on a treaty basis, you're getting the risk earning in over a 2-year period. So the driver of these results is not all by rate. There is a component of rate, but it would be much more that lower rate that we've seen booked in the first half of the year in total, not that 4% to 8%.

That's going to come in later. Also, we tend to have a philosophy, that is again another example of where XL and AXA share philosophies is that we take bad news fast and good news slowly. So we're not moving loss ratios right away just because we've gotten a little bit of extra rate. We are waiting to see how everything plays out. In that, the result is a bit of the expense synergies that Gerald talked about. Some of the reunderwriting that we've talked about over the -- in the past 6 months and a little bit of -- in one terms, on the cat side, a little bit of fortuity that is lower -- than slightly lower than average on the cat side when you look at prior year development and current year.

A - Thomas Buberl {BIO 16182457 <GO>}

On EUR1 to EUR1.4, yes.

A - Gerald Harlin {BIO 7424807 <GO>}

On the EUR1 to EUR1.4, the message is quite -- it's quite simple meaning that you remember that we said that we would have a $500 million of synergies of which expense synergies which represents $100 million. Let's say it's EUR260 million it -- in the first half, I mentioned that it was EUR50 million, so that means that we have EUR208 million and EUR210 million to come.

And on top of this, think about the revenue synergies, so meaning that taking into account of revenue synergies, plus the remaining significant part of expense synergies what is left, maybe just to make it simple EUR150 million. If it's EUR150 million, it means 1% of loss ratio and taking into account, what was said above the price increase, I don't believe that it will be extremely difficult to achieve, that's why we are confident.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

I'll go to Farooq now.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, thank you very much. It's quite notable that excluding XL, your attritional loss ratio is really low versus history. Now some of that's luck and some of its technical pricing mix, I just wondered --

A - Thomas Buberl {BIO 16182457 <GO>}

Yes, it skidded all over.

Q - Farooq Hanif {BIO 4780978 <GO>}

It slightly double my number for 2H is what I want to know? Question one. So can you give the guidance? And secondly, you know, similar kind of question for XL. We're used to Commercial P&C insurers giving us a normalized combined ratio. So could you tell us some of the pluses and minuses, we should take into account in Re and primary for XL. In the first half when we're thinking about, sort of, a normalized picture? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

So I would suggest we cut this answer in half. We first let the very skilled CEOs of France and Europe talk about how they have achieved this EUR93.3, because the main drivers is coming from Europe. And then, Greg, you will talk about the AXA XL piece, and how the loss ratios are developing there. Jacques, why don't you start?

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

Thank you, Thomas. So for XL France we decreased the combined ratio in P&C by 3%, 3 points this year, down to 90.8%. And this decrease is made of three ingredients. First -- one part is the decrease of the attritional losses that is because we are very, very disciplined in underwriting and we don't go stepping, for example, the battle on the retail world between banking insurer and mutual. That's the first thing. The second, we have had a nat cat charges that was lower than last year. And also, we had more favorable prior year development in our losses. So we have a -- we consider that due to the expertise we have in underwriting now, in Commercial line and in retail line, due to the transformation of network with more digitalization, less cost, et cetera, et cetera, we are able to sustain this sort of combined ratio for the next years.

A - Thomas Buberl {BIO 16182457 <GO>}

Antimo, on the rest of Europe.

A - Antimo Perretta {BIO 18246589 <GO>}

Thank you very much. The answer is very similar. So we have only less loss ratios, and this was also the main driver that increased our combined ratio. The second element we increased the price in some business lines. And the third element was also a cost discipline. So overall, I would say, good technical results and better underwriting with a lot of innovation using data and logically also a better discipline in other costs. So that we make a lot of confident that we can continue to improve our combined ratio in the couple of next years.

A - Thomas Buberl {BIO 16182457 <GO>}

And I think before we go to Greg, Farooq, I think it's important when you look at like-for-like, our prior year developments are in the guidance between 1.5% and 2.5%, but relative to some of our competitors rather at the lower end than at the higher end when you look at these numbers. Greg?

A - Greg Hendrick {BIO 1649843 <GO>}

Farooq, I'll just give you the big leverage as I think about them. Gerald has already touched on the expense synergies, right, that we did recognize some in the first quarter, but we expect those in nominal terms to accelerate. The second one of the positive is the aforementioned rate increases. Although I would hesitate to quickly add -- sorry, I wouldn't hesitate -- I will not hesitate to quickly add that those are going to earn in over time, but they are accelerating, they are accelerating at a pretty good pace.

And cat, to say normalized cat, I will say, the half year was normal at expectation. Obviously, in front of us is hurricane season and it's always earthquake season. So there's no way for me to help you think about normalizing that. And the other piece to the downside in the first half of the year was the large loss, man-made large loss activity. That was a bit of a drag on the first half result. There is -- to Thomas' point, there's a lot of skill on that, but there's also a amount of fortuity of what happens as we go from here.

Q - Farooq Hanif {BIO 4780978 <GO>}

Just one quick question. The man-made bit in the attritional loss ratio, how much was that above? Is it a point or half point? What you'd roughly expect?

A - Thomas Buberl {BIO 16182457 <GO>}

I look to Gerald.

A - Gerald Harlin {BIO 7424807 <GO>}

It's -- I would say that it's less than one point relative to the global loss ratio.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Greg. Let's just stay on that side, going to Jon, so it's easier with the microphone, and then we move over.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you. Jon Hocking, Morgan Stanley. Got three questions, please, on XL. Firstly, the portfolio reshaping that you spoke about at the full-year and you mentioned it again today, can you talk a little bit more in detail about that? And given what's happened with the rate and the momentum there, is property cat something that actually you might think about diving back into a little bit given what we know now we didn't know back in the end of the year?

Secondly, the multi-year contract that you wrote, I think it came from Q1. Can you talk a little about why you did that, given the rates are going up? And is that something that you would do now with hindsight given the rate momentum we've seen year-to-date?

And then finally just like to say -- Greg, it's for you, and everybody I think in the industry is very keen to say this isn't a hard market. What's your sort of best read in terms of what needs to happen for this to become a hard market versus something that sort of a rebalancing of pricing just peters out? What do we need to see some exogenous fact [ph] to really drive pricing back into a hard cycle? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Greg, I guess, these are all for you.

A - Greg Hendrick {BIO 1649843 <GO>}

Maybe I'll just come stand next to you.

A - Thomas Buberl {BIO 16182457 <GO>}

You can stand straightaway.

A - Greg Hendrick {BIO 1649843 <GO>}

So the portfolio reshaping, there's nothing that I would say that we've learned so far that would change what we're trying to do, which is a little less short tail which comes with a little more volatility and a little more long tail and then geographically a little more US than international.

The cat piece, to be specific now, property catastrophe treaty reinsurance, so the large book of excess loss business that we have. The reason it's down 7% is we really went hard at 1/1 to try and move rate to try and get it closer to a level that we would find acceptable to come back and say, actually you know what, we are gaining a good return now, we might want to talk collectively as a management to say we want to take more risk. It didn't get anywhere near that. And so we cut the book heavily on 1/1. It was about a 1.5% rate increase in that book at 1/1. It's now a 4% -- sorry, 6% rate increase at June and July 1, which is much better, but still a long way to go for what I would ever want to come and see and have a conversation around I think AXA Group want to take more of that now. We're just not there yet. So there's nothing in this movement that I've seen that makes us think that the trajectory we're on should change.

The large account, it's multi-year. It's right in our sweet spot. It's what's called a global program. So we needed to issue compliant policies in about 30 different countries. It's got a captive, which keeps the first $12.5 million of each and every loss net. So that's a gross premium figure that we have. The net written premium is lower. And we bought a fair bit of reinsurance protection on so that what's left to us net in the end was something that we were comfortable as AXA Group to retain.

Would I do that again? I would absolutely do that again. That is our core sweet spot that has -- it was a strength of legacy XL. It was a strength of Corporate Solutions -- AXA Corporate Solutions. It is the calling card of AXA XL. So we'd definitely do it again.

And the third one was for me? Yeah. A hard -- so pricing is heading in the right direction to actually if you went purely for the pricing component of this conversation, you would say a few more points and we'd be going into a hard market pricing environment. To me, the hard market really happens when you're dictating terms and conditions, when you're making wholesale changes to the way the business is sold. We're not there yet. We're doing things in certain classes that need to happen, because as an industry, the results have been challenging, but we're not in that space yet of being able to say that at all in a measurable fashion.

What would have to happen? I think continued -- it could be a continued drag on poor under expectation, under hurdle rate returns, but more likely, classically, it's been some kind of capital event that causes that to happen. You haven't seen a turn -- I haven't seen a turn like this in 30-years of doing this hard without any capital destruction, effectively. And so I think some more tough years of results will keep the momentum going. That's why I'm pretty positive about. This is not a one-year and done rate increases, certainly not for long tail likes of business.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Greg. Let's move over, and then we can come back. Let's go to Andy. It's the easiest.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andy Sinclair from BofA Merrill. Just two for me. Firstly, apologies to go back to AXA Equitable Holdings' stake. I just wanted to check, as I understand that you might lose a bit of control when you go under 30%. I just want to know if there's any change in strategy for your sale out of AXA Equitable Holdings once you go below 30%?

And secondly, well, just on AXA Life Europe, just wondered if you could give us an update on the process there and when sale proceeds might be available for liquidity? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Gerald, would you like to take those two questions?

A - Gerald Harlin {BIO 7424807 <GO>}

Yes. First of all, the change of control below 30%. So of course, we have some agreement, and our rights will decrease, as long as we will decrease our shareholding. But from a pure financial point of view, there is nothing specific to mention. So that's for the first point. As far as AXA Life Europe is concerned, I could say that like this type of deal it's subject to the approval of the supervisor. So it takes some time. I'm still optimistic on the fact that it should take place in the second part of the year.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's go to James.

Q - James Shuck {BIO 3680082 <GO>}

Thanks. It's James Shuck from Citi. I had three questions, please. On AXA XL, the investment income EUR500 million on a EUR39 billion portfolio looks like annualized is about 2.5% yield. Can you just talk a little bit about what derisking plans you have on the investment portfolio? And directionally, which way that yield should trend over by the included in the 2020 target for example?

Secondly, just focusing on France a little bit more obviously lower pack, so I don't think you have a particularly strong presence in employee savings. Could you just talk a little bit about your positioning with packs and the potential for Life & Savings products? Equally, I think you launched a new motor product in France, but I can still see that the policy count in personal motor was still outflow, so you're still losing market share. So what's going on in that part, please?

And then finally, on the gearing levels, 25%, 28% is the target that you've talked about and are being pretty insistent on getting to by the end of next year. Is it the bottom end of that range? Would you consider doing buybacks in the midpoint of that range? Or do you actually want to get to 25%? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

So Gerald, I would suggest you take the first question. Jac, you take the second one on -- of your part and MonAuto and maybe to -- Jacques, you should also talk about our position in the employee saving markets, because it's actually the opposite. We are one of the leaders in France. And then I'll take the last one on the gearing. Gerald?

A - Gerald Harlin {BIO 7424807 <GO>}

Okay. So 2.5%, keep in mind the fact that we went through PGAAP exercise, which means that we mark-to-market the assets last year. And it means that we can expect, for sure, we have a decline in the interest rates, but as far as -- I would say as far as AXA XL is concerned, the decline should be less and, at the same time, the decline on the US dollar is less severe than on the euro. So that said, I believe that as far as your question is what about the next plan, we will see on the next plan. But anyway, we are still investing today at rates, which are quite strong.

And keep in mind as well that the plus from XL -- for XL is that now we can diversify much more our assets than what we did in the past. Roughly speaking, when you invest in -- when we invest on the P&C company today, we invest, let's say, 80% in traditional fixed income, which is A, BBB, but at the same time we have 20% of alternatives. And these alternative is a tilt which makes that in the end we can invest at a higher level. So this is true for the rest of the group. This is true now for XL. The gearing?

A - Thomas Buberl {BIO 16182457 <GO>}

You can do the gearing straightaway.

A - Gerald Harlin {BIO 7424807 <GO>}

No, it's up to you.

A - Thomas Buberl {BIO 16182457 <GO>}

Okay. You can do it.

A - Gerald Harlin {BIO 7424807 <GO>}

Okay. As far as the gearing is concerned, we have an objective of 25% to 28%. It will completely depend at the pace at which we'll do the other sell down. You notice what Thomas said. So it's zero intention to go to zero, meaning that if we would sell the totality of XL by the end of 2020, we would be without any doubt at 25%.

A - Thomas Buberl {BIO 16182457 <GO>}

And then let's quickly answer the second bit of your question, which was would you consider share buybacks in the interim period between 25% and 28%. Again, we've clearly stated that we have three priorities: integration of XL, sale of our Equitable and reducing the debt gearing. And we are fully motivated and fully focused on implementing those. And before we haven't implemented these, we are not thinking about anything else. Jacques, La Pack [ph] and MonAuto?

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

So in France, you are right. We have new La Pack in July, and this La Pack concerns the retirement market and the objective is to encourage the development of the retirement market. On this market, we are number one, both in group environment, but also in individual environment. And we expect to take advantage of the change in order to develop our business. This business is very profitable, because the share of the unit links is more than 50%. And with the new ease to underwrite this business, we will issue the contract, the adaptive contract -- the adapted contract by October, and we will be the first insurer probably to be ready to take advantage of this change. And that is normal because we are the largest one on this market.

Concerning MonAuto, you know, that concerning, let's say, the retail market, you know, that in the past years, we didn't want to step in the battle between bank insurer and mutual on this retail market. For bank insurer, it was, let's say, a new product in order to offset the decrease of the margin on the retail banking business. For mutual, it was, let's say, the difference of their core business. For us, it was not that position. We prefer to privilege the profitability. It's why we, in the past three years, we regularly increased the profitability of our retail business down to 90% now in term of combined ratio.

And now we consider that the pressure is less important than it used to be. That means that we -- thanks to the work we have made during this time on the transformation of network first. And we decide to take two initiative this year. First, the launch of two products, one on called (inaudible) on car -- on motor called MonAuto leveraging the experience of direct insurance in sophistication of pricing.

And secondly, we decide to improve drastically the quality of service we deserve to our customer. Thanks to these two initiatives, we will regain market share, and for example, for the first half of the year, our net -- our negative net contract in MonAuto that last year was at that time of the year 41,000 contract is now only 4,000 contract. Let's say that we are nearly at close to 20, and we aim next year to regain market share.

Q - James Shuck {BIO 3680082 <GO>}

Thank you, Jacques.

A - Thomas Buberl {BIO 16182457 <GO>}

You can keep it. Let's go to Johnny.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Hi, it's Johnny Vo from Goldman Sachs. Just three questions. First question, I guess, is on PYD. You mentioned that you're towards the lower end of your range of 1.5% to 2.5%, but I guess the difference is that you've got XL in the business now, and therefore, by definition, you've said before that XL itself won't be releasing so much reserves and it was relatively marginal for this half. So is it feasible to expect the PYD to move much more than where it is? Or are you really at a reasonable level, particularly given like France for at least quite a lot? That's the first question.

The second question is just in relation to capital generation and the low interest rate environment. Obviously, it's having an impact. Is this or can this have an impact on remittances of the group overall?

And the final question is just in relation to the AXA Investment Management. Obviously, it's a tough environment, as you've highlighted, very difficult. What are you doing operationally or strategically within that business to potentially have a turnaround there? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. Thank you very much. I suggest Gerald, you take the first two questions, the one on PYD, lower range -- lower end of the range, what does XL mean and the second one capital generation versus low interest. And since Alban will soon be responsible for the whole investment, including AXA IM, we'll ask him afterwards on what operationally will be done in AXA IM.

A - Gerald Harlin {BIO 7424807 <GO>}

So as far as the -- I believe that -- I encourage you to go to Page B33. I don't want you, Johnny, to flip too much pages. But I believe it's quite interesting to see the evolution. You remember that when we moved from 1% to 2% to 1.5% to 2.5% at the group level, we said that it was justified by the fact that we had a level of reserves -- of reserving ratio, which was pretty high. And look at the situation today, it's even more relevant. So that's why I believe that you can consider that at the group level, the 1.5% to 2.5% could be used, including for the totality of the Group, even if you have significant differences from one country to another. You remember Johnny that I mentioned last time that taking into account when I commented in November on the PGAAP of XL, that you could not expand, you should not expand in the foreseeable future any release. That's still true. But nevertheless, at the Group level, the comment of the 1.5% to 2.5% is still relevant.

Your second question was about capital generation in a low interest rate environment. First of all, I believe that the way I see it, the way I see it is that on the local Solvency position so long as we are pretty well matched, I don't believe that there are so much constraints. On the life side, so the key question won't be so much on the life side, because the margin as I said on the life side, we should keep a strong level of margin, especially on the spread business. It's much more a problem on the -- it could be a problem on the P&C side. But taking it into account the obvious improvement on the technical side, I don't have any specific fear as far as remittance is concerned.

Q - Johnny Vo {BIO 5509843 <GO>}

When you say matched on the life side, are you seeing matched assets to the UFR or matched assets economically?

A - Gerald Harlin {BIO 7424807 <GO>}

No. I mean matching assets to the liabilities from an economic point of view. So that's mostly it.

A - Thomas Buberl {BIO 16182457 <GO>}

And when you think about the shift of the earnings mix, financial risk versus technical risk, obviously, we've moved away quite significantly from some of these questionable faces.

Alban, on AXA IM.

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

So on AXA IM, we really have two businesses, one which is a traditional institution business, which, as you know, is being commoditized globally. So what you do is what you would expect, which is to work on the simplification of the structure and the reduction of our expenses in order to be -- to offset the pressure that we have on fees.

And then we have a very strong position on the second part of the business, which is about alternatives, so real assets and structured credit, and we want to go full steam on that one where the margins are much higher. So it's really as you would see in the business, which is commoditized on one hand and high value added on the other hand.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's move on. I can't see.

Q - Peter Eliot {BIO 7556214 <GO>}

Peter Eliot from Kepler Cheuvreux. Three questions, please. Firstly, sorry to make Greg stand up again. But on XL, you reported a 26.3% expense ratio in the first half for this year and obviously there's a lot of restructuring costs to come. When you knock those off, you get to a pretty low number. So I'm just wondering if that's sustainable. And I guess also given that the EUR1.4 billion was set before pricing, upward pressure has been more than you anticipated at that time, should we think about the EUR1.4 billion actually is probably being pretty conservative given the developments you've seen to-date?

And then two quick numbers questions, please. Firstly, on the slide where we were just on actually, I hope I wasn't asleep just now and you didn't mention it, Gerald, but would you be able to give us the reserving ratio excluding XL just so we got the like-for-like development?

And then finally, on the reinvestment yield, you give that overall, is it possible to split it life and non-life? And if we had at the end of the period rather than across it, that would be very helpful as well. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Good. Greg is used to standing up, and he'll certainly answer to your question, but because he'll be too humble to talk about the EUR1.4 billion, the EUR1.4 billion will stay the EUR1.4 billion. Greg?

A - Greg Hendrick {BIO 1649843 <GO>}

Thank you for that, Thomas. Yes. And on the expense ratio side, yes, it helps a little bit, but the focus of all the efforts is very much on finishing up integration. We fortunately now gone through what's called the consultation period in all the core European countries. So we're able to really execute hard on the last bit of people leadership announcements and get going on that point. And then we've got a plan to deliver that all the way through.

I'd say if anything, we've been holding back collectively at AXA XL and any kind of real hiring other than a few core positions to make sure we got through that process in a fair way. And so there's a clear little bit of a balance against the run rate at this point. It would be a little bit harder when you would normalize for some of those positions that we didn't hire just because we're going to get to through consultation, but the expense synergies are on track. That ratio should play through.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Greg. And then, Gerald, on the two items, reserving ratio excluding XL and reinvestment yield, life, non-life.

A - Gerald Harlin {BIO 7424807 <GO>}

Okay. So the reserving ratio excluding XL would be at 218%, meaning that it would be up, compared with 213% that was level of reserving ratio, both half year '18 and full-year '18. Then your question, Peter, on the reinvestment yield, I would say that it's not so easy to answer. The way I would answer it is as you know that have a difference in terms of duration, so the duration in life is more something like nine years where it's five years on the P&C side. So -- but at the same time, on the P&C side, we have a bit more flexibility, as I said before, in terms of diversification in alternatives. So that's what I can tell you.

So the reinvestment for the time being -- the reinvestment we could say that, as we said, in US dollars, if it's roughly $2.5 for P&C and if it's around EUR1.5 on euros -- $2.54 in P&C, roughly EUR1.54 in P&C, it would be slightly higher in life. But I don't believe that the difference will be so important. And I remind you on top that in life for significant part of our reserves in life, it's a spread business. So as long as it's the spread business, it's not the absolute number, which counts, but much more the guaranteed rate. And you have all the details in the appendices on the guaranteed rate. And as you can notice, roughly speaking across the Board guaranteed rate over the first half dropped by 20 basis points. So that's what I can tell you about the reinvestment rate.

A - Thomas Buberl {BIO 16182457 <GO>}

Good. Let's move on. Yes. Oliver?

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Two questions. I mean, I think, what one of the things that stands out from these results is just how well the original AXA is doing. And I remember one of my competitors asking about a year ago whether we should be expecting a tick up in the progress of your five-year plan. And I think the answer at the time was to play it down, but equally, we are seeing an improvement, quite a sharp improvement coming through both in P&C and in Protection and in Health. In Protection you're actually now beating your own targets, and in fact, in P&C you're beating your own targets. As Farooq put -- but it is -- is that just luck or actually can you continue to improve on the results that you've seen today? So that's question one.

Second one is a bit shorter, which is the 12 points improvement in the Solvency ratio in the first half from operational delivery, how much of that is sort of genuine underlying operational delivery? And is there anything exceptional in that?

A - Thomas Buberl {BIO 16182457 <GO>}

Good. I suggest -- thank you, Oliver. I'll take the first question and then Gerald will do the second one. I repeat, again, what I said to Farooq earlier. These numbers are not luck; these numbers are skill. And certainly, those two gentlemen and their colleagues amongst others have worked extremely hard to get there. And when I look at them they are continuously willing and motivated to even further improve. We set in our Ambition 2020 that we want to aim at an underlying earnings per share improvement between 3% and 7% over the cycle between 2016 and 2020. And we are, as you've seen on the full-year, but also now, well on this journey. If I take your words, Oliver, old AXA is working well, but new AXA is also working well. So we are reaffirming our targets of Ambition 2020, because again, we will measure at the end of the period where we are.

Today, we can see that we are still fully in line in this range that we've given to ourselves, 3% to 7%, depending on the development of capital markets. And so we will stick to that because, as you have heard earlier, there is also question on how do the capital markets evolve? And we started with low interest rates in 2016. It improved slightly, and we are rolling back into low interest rates, and therefore, for us, it's very clear. We do everything we can to do operationally better every time. 5% increase in underlying performance is quite tough, and it makes me very proud to see that these two gentlemen with their colleagues have achieved it. They're willing to continue all the efforts to do the same, again, but again, we have what is in our hands and we have what is not in our hands, and therefore, we want to stick to what we said in June 2016. Gerald, the second question.

A - Gerald Harlin {BIO 7424807 <GO>}

Yes, Oliver. So we had indeed a strong 12% operating return in the first half, which was slightly higher than the 15 to 20 points annual guidance that we gave you. The difference is due to -- we had some favorable operating variance in the first half. It's a couple of points, notably from France and from Switzerland and could be -- it is partially explained by the fact that what I explained before. That means that we have strong reserving position, as you know, and our Solvency II, we are using BEL, best estimate liabilities, so this explains also why we had some positive operational values.

A - Thomas Buberl {BIO 16182457 <GO>}

I'm sorry. I can't see. Let's just move one row back, the light is -- to the other side exactly.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, thank you. It's William Hawkins from KBW. Gerald, just coming back to couple of your answers, just the 12 percentage point increase in the Solvency II ratio from operating items, can you tell us how much of that came from own funds and how much gain from the SCR, please?

And then secondly, could you add a bit more color in terms of what you -- the slide you just referred us to for the life investment margin, there's been a small drift, as you highlighted. Could you maybe give us a bit more color about what's driving that small drift in terms -- obviously, yields are going to the big negative, but then crediting rates not guarantees and business mix may be offsetting that. And I'm just trying to get clear my mind how those moving parts are working?

And then to the extent the guidance for next year is between EUR55 billion and EUR65 billion. EUR65 billion is almost no change, EUR55 billion is a massive change. So can you just give us a little bit more color on how you think that figure is drifting from here? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Gerald, three questions for you.

A - Gerald Harlin {BIO 7424807 <GO>}

Yes. Okay. Two questions. So the first one is on the funds 5%. So we have -- most of it I believe -- do we have -- we should have a detail on this.

A - Unidentified Speaker

(inaudible)

A - Gerald Harlin {BIO 7424807 <GO>}

But yes -- because the way we are managing it makes that it's mostly from the AFR. You can see it -- look at the shareholders' equity, so there is a direct link between what I said on the shareholders' equity and the AFR. So it's mostly it, but -- yes. And the SCR, we try to monitor the SCR so that we limit it part of our risk appetite. The EUR55 billion, EUR65 billion and --

Q - William Hawkins {BIO 1822411 <GO>}

Can I just ask you just directionally, I guess, you're operationally gone down or up in the first half?

A - Thomas Buberl {BIO 16182457 <GO>}

Alban, why don't you -- I mean, you've got the details? Do you want to come here?

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

But I think it's on the slide itself, the SCR has slightly gone up as you see, the required capital, from 30.2% to 30.5%.

Q - William Hawkins {BIO 1822411 <GO>}

Yes, I'm sorry, I mean just from the operating items, presumably markets have taken the SCR up.

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

Yes. So the SCR would not have gone up rationally fundamentally, and it's -- the operating return comes from the development of the AFR.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Alban. Gerald on the --

A - Gerald Harlin {BIO 7424807 <GO>}

Yes. On the EUR55 billion to EUR65 billion, I believe that we are above EUR65 billion. We'll go and that's unavoidable between EUR55 billion and EUR65 billion, but I would say that it should be normally at a relatively low pace. Why? For the reasons I just explained before. And I could comment, but I believe that you have all the elements in the document. And notably, in the appendix, you will see that, as I said before, the guaranteed rates are going down as well. So that's why we can expect that it will go down, but at a relatively slow pace.

A - Thomas Buberl {BIO 16182457 <GO>}

Andrew?

Q - Andrew Crean {BIO 16513202 <GO>}

Yes. Andrew Crean at Autonomous. Couple of questions. Actually following up on that one, when you set that EUR55 billion, EUR65 billion, the EUR55 billion was the interest rates now are below where you set them. So if you're going to come in higher than that, it must mean essentially what you're offering the customer is less than what you've planned. I suppose a general question. How do you -- what is customer proposition when investment rates are 1.5% in Europe? What does the customer get from that?

And then second question. Before you did the AXL deal, you were quite focused on acquiring in health protection and SME commercial. I'm not sure, XL fits into SME commercial too easily. If you do still have plans in those areas, do you think you will execute them organically some of the examples you gave in the health market? Or do you think that it'll have to be more M&A?

A - Thomas Buberl {BIO 16182457 <GO>}

Okay. Thank you, Andrew, for the two questions. For the first one, I would like to, Jac, may be to -- that we'll give the answer together because you are confronted to this question of what do we do in the low rate environment. And since France is a very, very strong Unit Linked markets, they've sort very well about it what is the best proposition. And just in general, it is absolutely true that in a market where interest rates are very low, you need to fundamentally rethink what is the right balance between risk and upside. And certainly most of our markets have drifted more in the space of capital-light instruments where you have on a long duration a more Unit Linked proposition with a limited guarantee. And when I talk about guarantee, more about capital production, but where there's also much higher upside. And Jac, if you could give some examples of what you have done with real estate, with private equity as very innovative propositions in France.

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

Yes. As you know, we have developed in the past years, let's say, renewal of proposition to our client because we are facing this regular decrease of the yields. And what we have to sell to them is something on one side, which guaranteed, let's say, a part of their investment, but on the other side, which permits them to get opportunities. And on unit-linked for example, we developed successively -- in the year 2008, we developed what we called (inaudible) which is not now something we can develop because of the low interest, but that was the sort of promise of -- at the same time, let's say, guaranteeing their capital, but giving some upside, that was unit-linked.

We are the first one in the French market to develop it. And in the years 2011 or '12, we developed unit-linked on real estate. We are one of the largest player in France, and that is something very interesting because our people believe in real estate. They trust real estate, our customers, and we can make some package very interesting and we reach large success. And now we are working on unit-linked on infrastructure, that's something also very interest.

And with all these initiatives, first, secondly was the training of our people taking into account the profile of our clients and also the duration of their investment. And thanks to Robert also to be, let's say, regular with, what I call, the duty of advice because we -- that's very important. We are able to develop regularly, if you look on the long period, the part of unit-linked in our investment for our customers.

On the other side also, we -- on the marketing side, it's true that we privilege the customers that are ready to take some risk, and we don't look especially to those who want, let's say, guarantee and only guarantee. That's also our marketing policy. All that together that permitted us to develop our business, to develop our profitability on a regular manner. And we have also very prudent reserving in order to face, let's say, longer period of low interest rate, but to give at the same time again, again as we say in France contract to our clients. So it's something we have managed in the past, and we will continue to manage. And we are not -- we trust in the future. We are very, very confident.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Jacques. Let's maybe take another example from Asia. Etienne Bouas-Laurent, who will succeed Gerald Harlin is still currently the CEO of Hong Kong. As you've seen, the numbers in Hong Kong have moved very well and the Asian proposition is a very different one to the French. So what you can tell us?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Yes. So first of all, there was a change in regulation called the N15 [ph] some years ago, which prevented the unit-linked business called ELAS in Hong Kong to work efficiently, because the distribution had no means to be remunerated. And we have started, a few months ago, reinitiated a strong lobbying to the government and the regulator to favor the unit-linked business again in this context of decreasing interest rates. First point.

Second point. We tended to lose market share in the past in Hong Kong because it had become, again a general comp market. So what we have done over the recent months is to revamp completely our product range and to refocus our products on participating products. We have much lower level of guarantees and a higher level of benefits illustration, and you can do that through slightly more aggressive asset allocation. So the NBV margin is slightly higher. The risk is lower, and this is what -- this is this product is kind of product which explains that AXA in Hong Kong is regaining market share, is increasing its agency force again.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Etienne. And Andrew, to your second question, which was around acquisitions Health and Protection SME, our strategy is very clear. We want to focus ourselves on risks that are less focused on financial market risks, so-called technical risks Health and Protection and the commercial space from SME to reinsurance. We have made a significant shift over the last couple of years in this regard. I've just mentioned earlier that if we are ready exclude the remaining ownership of AXA Equitable, we are at 82% of our earnings coming from those technical risks. So the additional journey to go is getting harder and not that much anymore. We will certainly continue to focus our organic efforts in growing significantly higher in the preferred segments, which we have seen consistently in every presentation that we have given.

Nevertheless, we will also always have a look at opportunities in those spaces where we still have wide spaces. You have certainly seen that with the file of AXA Tianping where we have bought the remaining 50% of our P&C operations in China. Nevertheless, I would like to remind you that we are really focused on our three priorities, integration of XL, deleveraging and reducing our stake in AXA Equitable, which should not distract us -- we should not be distracted. So we have to manage this in a good balance.

I guess, we need to go back to the questions that might be in the webcast, Louis?

Operator

Yes. There's one question on the webcast from Rahul Parekh from JPMorgan. He says, given declining interest rates, how are you looking at money allocation in alternative assets and real estate? Do you have any specific targets there?

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. Gerald, you can easily answer that question.

A - Gerald Harlin {BIO 7424807 <GO>}

No problem to answer the question. I believe that I covered this point already. I said that today, we aim at -- we have, roughly speaking, including real estate, EUR100 billion, which are investing in alternatives. But including real estate, we want to increase it progressively maybe by EUR10 million -- EUR10 billion more to give you a flavor per year.

And roughly speaking, again, it means that we will invest 80% in fixed income and 20% in a mix of alternatives. What is important for us is to captures these premiums on alternatives. We can afford it because it's premium corresponding to liquidity. It doesn't mean that we will take much risk in term of taking, I would say, much non-investment grade risk, not at all. But exactly on the way Jac explained that for our own policyholders, we try to capture the premium from infrastructure, from private equity and so on. That exactly what we try to do and to adapt depending on the different portfolios.

So in a nutshell, yes, we will increase, but progressively because again, our job is still to match assets and liabilities. So it can be a part, but marginal part, and we focus much more on alternative credit.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you. Any other questions? No. Any more questions in the room? Last chance. This is not the case, then I would really like to thank you for coming. Thank you for asking your questions. And I wish you a great summer, certainly for those of you who haven't had their summer holidays yet. Thank you very much.