Q1 2016 Sales and Revenue Call - Activities Report

Company Participants

- Andrew Wallace-Barnett
- Gérald Harlin

Other Participants

- Andrew J. Crean
- Blair Stewart
- Farooq Hanif
- James A. Shuck
- Jon M. Hocking
- Michael I. Huttner
- Niccolò Dalla Palma
- Nick Holmes
- Paul De'Ath
- Peter D. Eliot
- Ralph Hebgen

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the AXA 1Q 2016 Conference Call. I now hand over to Andrew Wallace-Barnett. Sir, please go ahead.

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Thank you and good morning, everyone. And welcome to the AXA conference call on our activity indicators for the first quarter of 2016. Gérald Harlin, Group CFO would like to give you a quick overview of the main figures included in the press release which we issued yesterday evening and of course make some comments on the announcements we made about UK transactions this morning. You can find both of these press releases on our website. Following that Gérald will be happy to answer your questions.

Gérald, I hand over to you.

Gérald Harlin

Hello, good morning and thank you, Andrew. So let me begin by making some remarks about the UK transactions that we have announced and then give you an overview of the main figures for the first quarter of the year before moving, of course, to the Q&A.

So as you noticed AXA announced today that following a strategic review conducted by AXA UK of the UK Life & Savings market, it has agreed to sell its wrap platform business, Elevate, to Standard Life plc. This transaction follows the announcement made on April 28 for the disposal of its UK offshore investment bond business which is called AXA Isle of Man.

AXA also confirms that it is engaged in discussions for the disposal of its remaining UK Life & Savings assets i.e. its direct protection business called SunLife. AXA UK P&C, Health i.e. PPP and asset management related operations, Architas, are not included and remain key businesses for us.

We expect total proceeds from this transaction at around €800 million and to generate an exceptional negative P&L impact of circa minus €0.4 billion accounted for in net income. As previously communicated we also expect to realize an exceptional gain of circa €1 billion after tax on the disposal of the two real properties in the U.S. which will be accounted for in net income during the first half of 2016.

So now let me move to an overview of the figures of the first quarter. We had continued to see growth in revenue this quarter with total revenues up 1% on a comparable basis to €32 billion. On Life & Savings, we recorded a plus 16% APE growth and this growth includes higher corporate pension scheme sales in the UK of €0.3 billion if we excluded UK Life sales then the overall APE growth would have been flat.

The high Unit-Linked sales in the UK were offset by Hong Kong due to the non repeat of the exceptional sale of large contracts and high carryover sales in Q1 2015 in anticipation of the change in regulation implemented in 2015.

Also worth noting are the high sales of G/A Savings single premium business in China as part of the Chinese New Year marketing campaign. These seasonal sales were higher than last year for (3:41) the remainder of the year we expect to sell the higher margin regular premium business in China and we would expect the overall NBV margin for the year for China to be somewhere between 10% and 15% similar to last year.

The NBV margin at 29% remains high. The decline compared to the first quarter 2015 reflects for the most part the higher corporate pension scheme sales in the UK in the quarter which have a slower NBV – a lower NBV margin. If we restated the numbers to exclude the UK Life & Savings business then the NBV margin for the group would have been around 36%.

Life & Savings net inflows for the quarter were at €3 billion and this includes around €0.5 billion outflows from the most recent GMxB buyout in the U.S. which operates from December 2015 to March 2016.

P&C revenue, P&C revenues were up 3% mainly driven by a positive pricing effect of 3.4% on average. In mature markets, revenues increased by 1% driven by the UK, Ireland, Germany, with higher volume and prices.

In high-growth markets, revenues were up 9%. This was driven by Turkey where we significantly increased pricing from April 2015 to restore the profitability of our portfolio and business growth in Mexico and Malaysia. Excluding Turkey, revenue growth in the high-growth markets was 4%. Direct revenues grew at 7% driven by Japan, the UK and France.

Let's speak now from asset management. Asset management business total inflows were €10 billion with AXA IM at €8 billion mainly from Asian JVs and AB at €2 billion mainly from institutional clients. Average AUM dropped 4% driven by the withdrawal of assets from Friends Life in 2015 explaining roughly 3% drop in AUM.

And revenues dropped 9% due to lower asset under management first and the decrease in average management fees linked to a higher share of fixed income products following weak equity markets in the first two months of the year.

Our economic solvency ratio is estimated at 200%, down 5 points versus December (6:30) 2015. The impact of adverse market condition was partially offset by a positive operating return and the issuance of a €1.5 billion subordinated debt. As disclosed in full year 2015 results, our Solvency II ratio now includes an estimated dividend accrual for the period estimated based on one-fourth of last year dividend.

I would like to take this opportunity to remind you that we plan to share with you our new strategy plan during our IR Day in Paris on June 21st.

I'm now happy to answer your questions.

Q&A

Operator

And we have a – our first question from Peter Eliot from Kepler Cheuvreux. Please go ahead, sir.

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

Thank you very much. First question, I want to ask, I guess now that we've had the detail (7:29) from the Department of Labor, I was wondering if you can give us an update on your view of the impact that that will have. And perhaps also, on the U.S. now that the sort of the mark to the second phase of the buyouts are over, just wondering if you could share, whether you have any intentions to do anything else there?

And then finally just on the Southeast Asia, India and China you said that the margin was down due to the business mix and high Chinese sales, but I guess that the value of new business was also down quite a lot. So I'm just wondering if it was something other than just an extra of (8:11) the high volume of low margin business. Can you comment a little bit more on that? Thank you very much.

A - Gérald Harlin

Yes, Peter. So let's start with DOL. So it's quite obvious and I believe that most U.S. players noticed that DOL was slightly better than we could fear. Remember that we mentioned at the last presentation of the accounts at the end of February that it would be between 10% and 30%. So we could say roughly speaking that the impact on the U.S. new business might be 20%. So, a slightly better than again than we could fear. And I believe that we'll give you more detail about the U.S. and the impact on the U.S. on 21 of June.

The buyout, do we intend to do other buyouts? I believe that we can expect now that it's difficult for me to tell you. I don't expect in the foreseeable future to have other buyouts but I believe that we'll present it more globally with our U.S. strategy.

About China, so it's true and quite obvious that in the first three months, we had a strong growth and a strong production in China and which was clearly in General Account business and with an NBV margin which was negative. It was an NBV margin of minus 6%. Why? Because you know in the way – first of all in China in the, for the first three months, that means that around the Chinese New Year like we did in the past but this year it's more important the massive marketing campaigns and which are quite important in order for ICBC to increase its market base.

And that's what we did and that's the reason why we had a quite attractive product in the first part of the year. But I can tell you that in April we had we produced new products with an NBV margin between 15% and 20%. And on a cumulative basis at the end of April, we are positive in term of global NBV. So it's absolutely in line with what we explained to you which is that, in the first three months we have a General Accounts production which is flows to zero or even negative which is the case today, first.

And second, for the rest of the year, we can expect to produce other type of products which are not pure (10:57) savings product but which are much more whole life products with higher margin. And as a whole, we can expect to have a margin for the whole year between 10% and 15%. So again, these figures are reflect this very strong marketing campaign that we did. I can tell you that in the end we didn't pay any goodwill for our business in China. And for us, being the number 10 so quickly in China in Life is a good success. So that means that it's something which was expected and it's a good news for us because it's a way for us to increase our footprint in China.

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

Okay. Thanks a lot.

Operator

So we have another question from Paul De'Ath from RBC.

Q - Paul De'Ath

Yeah, hi. Good morning. Couple of questions if I can on the UK transaction. And I think firstly I guess just looking at it thoughtfully outside on the face of it the UK Life market should be one that fits well with the sort of AXA strategy of selling more Unit-Linked and less guaranteed products and that kind of thing. So I'm just interested to know kind of what it was within the strategic review that made you think that that actually the UK wasn't the place that you want to grow the business.

And secondly on linked to that point just looking at the Q1 sales, so the institutional Pensions business that you sold in the UK, where does that fit within the Life and Pensions businesses that you're selling or indeed is it part of the asset management business that you're holding on to and probably get back (13:02)?

A - Gérald Harlin

Okay. Let's start with the first part of your question on the UK. First of all, we don't take scale (13:14) and that's very important in the business. If I take the two examples, Isle of Man that means Isle of Man (13:23), it was €9.4 billion AUM. Take Elevate, Elevate is €10 billion.

Second just have a look at – you have these figures of course, but just have a look at the MD&A from last year and you will notice that in Life, in underlying earnings contribution for sure was 75 (13:47) in Life. But a lot of this was corresponding to tax one-offs.

Just have a look at the pre-tax, underlying earnings contribution. In 2015, it was €30 million (13:58). So you can understand that we were small on one side. Second we believe that we have other opportunities to redeploy this €800 million of corresponding to the disposal.

So it's a no-brainer. Again, it's a matter of scale. I truly believe we view (14:19) that in term of products, Unit-Linked and so on, it was inline. But you know that the UK Life market is extremely competitive and in other countries we can do Unit-Linked business at much bigger scale and with much bigger profitability. On the second part of your questions was...

Q - Paul De'Ath

(14:43)

A - Gérald Harlin

Yes as a cooperative arc in (14:45) – first of all they are in Unit-Linked business. If your question is where is it in the net inflows, in the net inflows it was a regular premium which means that it's only part of the total APE impact that flows through the net inflows for the first quarter.

Q - Paul De'Ath

Okay, it was more a question of whether or not that business was also part of the UK Life businesses that you sold, if it's part of the transaction (15:19).

A - Gérald Harlin

Yes, it is part of the transaction. I'm sorry, the sign was obvious (15:25) for me. I'm sorry.

Q - Paul De'Ath

Okay, great. Thanks.

Operator

We have another question from Nick Holmes from Société Générale. Please go ahead, sir.

Q - Nick Holmes {BIO 21515144 <GO>}

Hi, Gérald. Thank you very much. Couple of questions, first is any comment on the Turkish repricing policy. I'm wondering whether you're confident that you're getting the situation under control.

Second, any comments on the situation in Hong Kong and I'm thinking here of the sale of G/A products to replace the Unit-Linked, could you update us how that is going? Thanks very much.

A - Gérald Harlin

Okay. As far as the Turkey situation is concerned, yes, you remember that following the reinforcement of reserves that we did last year. We decided at the same time to significantly increase more than double the price of NPPL (16:22). That's what we did. And so that's perfectly in line with what we could expect.

The second point is maybe you noticed that there will be an evolution in the legislation in Turkey relative to NPPL (16:40) and we are just studying it and it might be I would say an improvement going forward. You know that the real problem over there is that due to this – due to the bodily injury in the mitigation (16:58) which are extremely high. This led to very high price increase and the government trying to fight and to find solution more than find – find (17:10) solution in order to stop this price increase. So it could be a good evolution. We will really (17:16) discuss it in later on in the year. And I will update you on this but I could say so far so good.

About the Hong Kong yes you noticed that in Hong Kong we increased significantly the APE due to this – due to the to the fact that we had a change in the legislation and progressively we are increasing the Life business the traditional G/A business. But it's what we call – I could call capital light and at the same time as we can see here we have an NBV margin which is – which is quite good.

So yes, we are progressing but we still – we are not there. That means that we have to compensate the Unit-Linked business which means that in Hong Kong we still have a 17% drop in APEs. And we are expecting to recover over time and at the same time you can notice (18:21) that our NBV margin is still pretty high at 53%. So, it's not a matter of worry but we have to ramp up our new generation of products. That's presently what we are doing.

Q - Nick Holmes {BIO 21515144 <GO>}

Thanks. Just a very quick follow-up so would you say that in Hong Kong you do want to grow a significantly the G/A Savings business? I mean that is your strategy rather than just say, be in Protection because you're very strong in Protection aren't you?

A - Gérald Harlin

Yeah exactly but the Savings part you know first of all it's not pure Savings products. It's products with some Protection in it. Second, it's capital light. To be clear, the way we are – the way we are designing these products makes that you don't have – you have almost no guarantee. You don't have a yearly guarantee. We have a lot of surrender feel (19:15) in the first years which means that in case there would be a surrender then we don't have an LM raise (19:21) because we would be indemnified through this surrender premium. So the way we design these products makes that it's easy (19:28) and clearly the generation of capital light products.

Q - Nick Holmes {BIO 21515144 <GO>}

Okay. Thank you very much.

Operator

We have another question from James Shuck from UBS. Please go ahead, sir.

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

Good morning. Thanks for taking my question. I have two questions please. Once again just on Hong Kong, I'm just interested here about your sales into Mainland China. Obviously you're rebasing down the level of sales following the changes on the Unit-Linked but most of the companies that I look at I think they gear (20:02) increases from sales into Mainland China and I'm just wondering why we're not seeing that with you whether that is actually part of your plan or whether that's something you just decided not to sell.

Secondly in more general terms, could you just kind of outline where you are in terms of new product designs in Europe in particular and how they're adapting to the low bond yield environment, low-return environment. I am particularly interested in the new generation products. You talked about something in Japan in terms of new generation Savings products there. But I'm interested in Europe in terms of kind of fee structures, commissions, surrenders and whether Q1 is the start of something that's going to evolve over the coming years or whether you're already where you need to be in terms of those new product designs. Thank you.

A - Gérald Harlin

Okay. Sales in Mainland China, no, we roughly we have 50% of our sales coming from Mainland China in Hong Kong. What I explained before were the drop compared with beginning of last year in Unit-Linked products. It's true for both the Mainland Chinese and the Hong Kong customers. So that's it. But we didn't have any decline and I believe that the comments made by the other competitors its true for us. So that means that we didn't have any decline of the Mainland Chinese due to the change in the regulation of cash payments – of payments.

Second, the new product design. You mentioned Japan, indeed in Japan what we did is that we – initially you remember that we were selling VA products that VA products had improved (21:51) margin. On top of this, it was – it created some volatility as you know due to the hedging in line with our policy to hedge VA products.

And we decided to sell another style of the Savings product which is an Australian dollar denominated product and with quite high margin. So that's an example and of Savings products where the profitability (22:20) is pretty high on top of my head, we should be close to 40% in terms of profitability.

The second part of your question was about Europe. Yes, in Europe we are obviously working on – we don't give up selling Unit-Linked products. I should tell you that although we had some decline in the Savings product due to the turbulence on the market in France in the first two months.

Nevertheless we are still selling 41% of Unit-Linked products in our Savings products. So that's quite good. That means that we don't give up. It's not because we – the markets are difficult that we give up on the percentage of Unit-Linked business, point number one.

Point number two, we are working on more attractive General Account products. You all heard about Euro Croissance (23:15) and we have good news because Euro Croissance (23:18) is a product that should be or should benefit, it's not completely done yet but should benefit from part of the capital gains from the General Account portfolio. And the way Euro Croissance (23:33) will work is that you don't – you won't have a yearly guarantee, but a guarantee after ages (23:39) which means (23:40) that it will be clearly a capital light type of products.

We are doing the same in other countries. Take Germany, in Germany we have (23:49) products which are products with General Account and with Unit-Linked but again it's a capital light type of products. And we have the same in Hong Kong. I just described we have the same in Hong Kong I just described it. And almost everywhere you can expect that we will develop General Account products but anyway with capital light type of structure, but anyway there is no mystery in the present interest rate environment. We cannot expect to make very attractive products so it should be analyzed as a complement to Unit-Linked products.

Last but not least in some countries as well, we can develop some structured products with guarantees which are not at 100% but at 80%, 85%. Why? Because in such a low interest rate environment it could prove to be attractive to propose to our client a structured product which is a Unit-Linked product with a guarantee which is below 100%.

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

Okay. Thank you very much.

Operator

We have another question from Farooq Hanif from Citigroup. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there I was wondering if you could comment on implications for AXA investment management (25:12) in the UK from Elevate and then also the sale of the other UK Life & Savings business. What proportion of the assets are managed and what could be at risk?

Secondly, returning to Property & Casualty following up slightly on Nick's question, is Turkey going to be going back to underwriting profit? And generally speaking when you look at the price increases that you're putting through particularly in personal lines, it seems to me to be towards the upper end of the range of claims inflation. Will we see an improvement in underlying loss ratios there particularly in the direct area where you're obviously looking for scale but roughly hasn't been growing (26:01)? So if you could just comment on profitability in P&C given your activity (26:05)? Thank you.

A - Gérald Harlin

Okay. First of all on AXA IM I would say that a lot after our (26:10) business was open architecture and it was done mostly through Architas and you know that we keep Architas today. Architas it should be €20 billion roughly. And Architas is kept within our group (26:26) because it's a – it's not a tool only for our UK business but it's a tool also for the other European companies to sell Unit-Linked business especially for high net worth (26:39) individuals where open architecture is key.

On the second part of your question is on the Casualty business. So it's a – I would say that if your question is about the loss ratio, it's a bit early to give you any indication, Farooq. I would say that for the time being what I can say that the weather conditions are quite fair and good. But beyond I cannot go, and let's wait until end of June in order to comment on this.

I can say, that even you were mentioning direct, yes in direct we are at plus 7%. It doesn't mean (27:27) – so it's quite a success. You know that in direct we are benefiting for example from the (27:35) in France where we had much more surrenders which means we benefit from this situation. It's a negative part of France (27:41). It's a positive for direct but we don't give up on our traditional rules of profitability, so that's for sure.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thanks so much.

Operator

We have another question Jon Hocking from Morgan Stanley. Please go ahead, sir.

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

Good morning, everyone. Just to clarify – are you – just want to make sure that you're committed to the group Pensions business in the UK. That hasn't changed as a result of any of these transactions?

A - Gérald Harlin

No, that means – no that's quite clear that the group Pension, the group Pension business is something that we won't – we won't run any more Life business in the UK, let's be clear. And it's except the asset management part of Architas that I've just described before. So that means that all the Life business – is will be sold. We already announced the disposal of first Isle of Man which is indeed the offshore investment bond business €10 billion of AUM (28:58) – €9.4 billion AUM. Second this morning we announced the disposal of Elevate which is a wrap platform and its €10 billion of asset under management.

The last part which is not sold yet but with our intention to sell is SunLife business and SunLife business is protection business. And we have also the traditional investment and pension business what we call Embassy (29:31) which will be sold as well. So that means that in the end, with these three transactions out of which two have been announced yet, we will get rid of all our Life business in the UK except the asset management because we'll keep Architas.

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

Okay. So you have P&C, so you have the Health business, you have Architas, you have asset management and you have a – you still have a corporate pension platform there yeah? Or not so (30:03)?

A - Gérald Harlin

No, no, no, no, no because Elevate, because Elevate and the traditional investment and pension business will be sold. So no, no that's quite clear. We will keep P&C, you are right. We will keep asset management, PPP but we won't have any more Life business.

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

Okay, thank you very much.

A - Gérald Harlin

Okay, thank you.

Operator

We have another question from Stewart Blair from Bank of America Merrill Lynch. Please go ahead, sir.

Q - Blair Stewart {BIO 4191309 <GO>}

Good morning, good morning. I've got three questions. I think the first one, can you comment, Gérald on the ongoing P&L effects of the UK disposals? That would be useful.

And secondly, can you talk – you've talked about 3.4% price increases in P&C, what would be the price increase if we exclude the impact of the Turkish price change?

And thirdly, you've announced that you expect to raise €800 million from the UK disposals you raised I think €1 billion or so from the U.S. real estate disposal. That's quite a lot of money, what do you intend to do with those proceeds?

A - Gérald Harlin

Okay. So first of all, relative to your first question on the P&L effect, so its – I said that and we announced this morning that we could expect to have a €400 million net income impact, so it's a book value. We had a book value which was higher so we take a lot selling at €800 million. So the book value was roughly at €1.2 billion.

I wanted to tell you at the same time that you should keep in mind that we have a significant – we should have a significant capital gain from the disposal of the two building as I said in my introduction. So that means that anyway we believe first that it was a good decision taking into account as I said before the book profitability of this business, our books scale. And second yes there will be an impact in term of P&L but this impact will be more than offset by other operations.

Q - Blair Stewart {BIO 4191309 <GO>}

Gérald, the question was what is the ongoing impact on the P&L from selling these businesses, the ongoing effect?

A - Gérald Harlin

The ongoing effect, I think that we can expect there will be relatively – there will be relatively few impacts I would say there will be some trending (33:08) costs that will remain. But very quickly we'll take the right measures in order to offset them. So, don't expect significant negative impacts on the P&C business. I see your question but you can imagine at the same time that we'll take the right decision in order to offset it.

We have a nice business in the UK. Our P&C business and PPP in Health is doing extremely well. We have a strong growth so that means that this strong growth makes that we will absorb it and very quickly. And I don't have any specific fear on that side.

On the second question which is the price increase, you can go to the press release and you will notice that in P&C that on page six that you have a price increase in mature markets which is 1.3%, high growth markets which is 15.2%. I don't have the exact figures but I can expect that most of the (34:29) is coming from Turkey, so it's by far the main impact.

I just wanted to tell you that we have a 9% growth in revenues. We said that excluding Turkey, we would have been at 4%. But it would have been more 5% because as you know we have some companies which are accounted under the equity methods. If we take this into consideration and for example with China (35:05) then we would be more towards 5% to 6%, so it's something that needs to be kept in mind.

Your last question is about the cash, so that means that the cash of this, we will roughly speaking we will upstream, I believe nothing is decided yet. Out of the €800 million, we might upstream €400 million maybe from the UK the rest staying locally because we will have some needs for the pensions fund and so on and protecting (35:43) the organic growth.

So that it. Yes, we will – this year we can expect to have a good level of cash that will be upstreamed to the holding company. But nothing will change. That means that we will keep the same policy meaning that we will – that will be a way for us to fund our – you remember also at the last, you remember at that was in December that I mentioned that we could slightly decrease the Tier 1 debt because it was not efficient.

So it could be a way for us to marginally decrease also our Tier 1 debt which is not part of it – which is not so efficient. So that's it. But I believe that we will have also the opportunities as usual to develop our business through organic growth and external growth.

As we said, we took the example of €1 billion of acquisitions (36:57), so that's something that on average over the next years is something that you could keep in mind. But it's not – it's not our intention. At the same time, you know that our solvency is at 200%. It's a good level and it's just within our range so no intention for us to go to the top up to 30 (37:18).

Q - Blair Stewart {BIO 4191309 <GO>}

And what about the proceeds from the U.S. disposal Gérald, how much of that will you upstream?

A - Gérald Harlin

Well we will upstream – we should upstream – I said that usually we have €600 million coming from the U.S. You remember I'm sure this figure. So we could have this year a bit more that means that it could be €700 million, €800 million more coming from the U.S. But there are plus and minuses at the book level.

So that's – it's a bit early to tell you okay. What will it mean (37:52) because it's your – it's your question. What will it mean, how will it translate into your payout ratio – your remittance ratio.

So the remittance ratio should be – last year we were in the high-end. So we can expect due to this to be in the high-end. But it's too early to give you a more precise answer relative to this.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you very much indeed.

Operator

We have another question from Niccolò Dalla Palma from Exane BNP Paribas. Please go ahead, sir.

Q - Niccolò Dalla Palma

Yes, good morning. I just wanted to check on the disposal of the two real estate properties in the U.S. was this gain – did this gain impact solvency at all or were the buildings already mark-to-market in your Solvency II calculation?

A - Gérald Harlin

They are already in solvency – they are already mark-to-market, point number one. Point number two it's in the U.S. so it's a whole by the equivalence (38:50).

Q - Niccolò Dalla Palma

Okay. So it's completely neutral.

A - Gérald Harlin

Don't expect – this will have a cash impact as explained by Blair. This will have a net income impact but no Solvency II impact.

Q - Niccolò Dalla Palma

Okay. Very clear. Thank you.

Operator

And we have another question from Michael Huttner from JPMorgan. Please go ahead, sir.

Q - Michael I. Huttner {BIO 21417183 <GO>}

This is very boring (39:12). Can you – just walk us through the solvency from 200% – from 205% to 200%, so the – between how much the bond contributed, the operating profit and the stresses (39:27) from markets. That would be very helpful.

And then just to be clear, so from what I understand from the previous points you explained on the U.S. and UK, the benefit to solvency will then – is there only (39:41) the

UK disposals? Can you give us a figure maybe? Thank you.

A - Gérald Harlin

Okay. As far as your first question is concerned, so we were starting from 205%. So we have the normal impact of the underlying growth and profit and which means that let's say it's always between 204% and 205% (40:08). So it's absolutely in line with our sensitivities. Keep in mind that at the same times that we were at 190% and we were not at 190% I gave you the indications that at the end of February on the 25 of February (40:22) that we were at 190%.

So that means that we if I try to explain what happened in March, first of all we had a bit more of operating profit maybe 1 to 2 points. We increase by 5 points the solvency due to the €1.5 billion of subordinated debt increase. Hence at the same time we have the dividend and so and we have a market impact that was a bit more or less benign starting from the 205%, to be more clear. That means that 205% operating profit plus 5% sub debt that we issued plus 5% dividend minus 2% and the market effect minus 8% (41:18) then you have 200% (41:19). That's roughly the goal (41:20) forward.

Q - Michael I. Huttner {BIO 21417183 <GO>}

That's really good. Thank you.

A - Gérald Harlin

The second – I missed the second part of your question.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Just the UK deals, how much do they add to solvency?

A - Gérald Harlin

1 point.

Q - Michael I. Huttner {BIO 21417183 <GO>}

1 point (41:33).

A - Gérald Harlin

1 point.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Cool. Thank you very much.

Operator

And we have another question from Andrew Crean from Autonomous. Please go ahead, sir.

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

Good morning, all. I just have (41:49) two questions if I can. Firstly on Japan represents about one-fifth of the overall new business profits and the margins there are about 3.5 times the average margin to over 100%. Can you just talk a little bit in the medium term about whether those very high margins are sustainable?

And then secondly on European Life, I know on the G/A Savings you've taken out the guarantees but with interest rates at current levels, offering a return premium promise is actually quite generous when you think about the expenses, the capital charges and the default risk charges. Could you talk a little bit about whether the economics of that kind of return of premium promise on G/A Savings?

A - Gérald Harlin

Okay. As far as Japan is concerned Andrew, so yes Japan is consistently being a country where we have a high profitability. Take into consideration also that the NBV margin is not the IRR. In other words, keep in mind that the extremely low level of interest rates makes (43:06) the NBV margin is pretty high, presently we are at 100%, 101%. In terms of IRR which is excellent, we should be at the 15% on top of my head, which is good, when rates are at zero. Well, our success is due to the fact that 70% of our business is Protection and Health and also some Protection with Savings business. The pure Savings part we – I described it before it's one-third, so it's relatively small.

Second keep in mind that although we have 2.5% market share only, it's captive – we have captive clients through the CCI. And in each CCI in Japan we have operators in from AXA which makes that it's an excellent network through the SME business and where we can approach the owners of these SMEs and also the employees. So that's what makes our business extremely profitable and we don't expect, in the foreseeable future, a decline in the profitability.

The second part of your question was about the General Account products and how do we do in order to have an attractive return. So that's again the last – take the example of all the countries – or countries like AXA France. Last year we paid – we paid something which was close to 2.5% (44:50). So we can expect that this is extremely attractive in the present environment.

We didn't at all reduce our margin this year and in the foreseeable future we don't expect to reduce our own margin. But the fact that we have been managing eight years duration helps us.

At the same time, we are extremely cautious not to dilute this – these – the margins. So on an – take the new business is invested these days roughly around 2% to 2.2% (45:29) on average. And we have an inforce (45:34) which is roughly at 3.5% (45:36). So all combined makes that you can still propose to our client a guarantee even for new products which is positive, which is let's say even between 1% and 2% (45:51) and still being attractive. And it will help us sell more Unit-Linked business. That's our strategy. That's what we want to do.

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

Gérald, can I just follow-up on that. If you're – on new business if you're investing at 2.2% you have expenses, you have to put capital up against credit defaults and if you're offering sort of what you're saying crediting rates of 1% to 2%, I can't see how the economics work for the shareholder?

A - Gérald Harlin

Well, but, let's put (46:19) – first of all, there is no defaults. That means that when you invest in BBB the default is extremely, extremely low. And its – these days it's 0%. At the same time keep in mind that you have no guarantees. That means that there is no product that we sell today with any type of guarantee. On average we have a 90 basis – on average we have a – on top of my head, 90 basis points margin on such type of products.

So let's say just below 100 basis points. And you still even at 2.1% you have – if you keep 0.9% for you, you still have the capacity to pay 1% to the clients. So it's not really a big issue and this doesn't take into account the fact that you have inforce business with people going out. And you have a big U.S. cash flow, positive cash flow coming from the inforce book of business.

I hope I'm clear, but no, it's not something which – of course if we would invest, if rates would go further down, it would be different. But in the present environment, I'm not so worried about keeping a high level of profitability on traditional business in G/A.

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

But you presumably do reserve against corporate bond defaults in BBB, don't you? Even if you currently have no default rates (47:55).

A - Gérald Harlin

First of all we are not ruled (47:58) by IFRS 9 new rules. And second I can tell you, but I could go when we'll have time together I could go into more detail. But I can – you can trust me the defaults is extremely low. As I explained on at the end of February, we – in order to avoid such type of default we have strict guidelines. We don't invest in BBB- or we spread scarcity (48:26). Second, we limit the duration when investing in BBB- or in BBB so we have a team which is really working on – that's what we call the Group Credit Team in my own team, which is giving guidelines to the investment managers which are AXA IM and AB in order to significantly limit this type of issue.

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

Okay. Thank you.

Operator

So we have no other question sir. We have a question please introduce yourself and ask your question.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Hi. Sorry guys. It's a Ralph Hebgen from KBW. Just one thing, Gérald, you mentioned that you will be able to conduct Unit-Linked business both in higher volume and also in higher profitability outside the UK. Would you be able to comment on what the focus is in your group? Which are these markets where you're hoping to focus your activities in Unit-Linked? Thank you.

A - Gérald Harlin

You know the big Unit-Linked markets for us. They are the U.S., France and that's already a significant part of it. And of course Asia, Asia with countries like Indonesia for example.

So what we do is that we – I can give you, Ralph, an example. These days, since the beginning of the year, we have been quite successful in selling in France non-equities (50:27) and the reason why we had been relatively successful, it's because we sold some real estate type of Unit-Linked products. And these type of products is quite successful because it's relatively good return. So the point is to adapt yourself to the present needs and to avoid and to have a balanced portfolio which means that our clients don't suffer too much from volatility. That's what we try to do, and it's working quite well.

You know that AXA Investment Managers is extremely successful in real estate. AXA IM – Real Assets, that its name, is the number one in Europe and so meaning that we are quite successful with a very strong team and with excellent performance. So we try to balance these businesses.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Thank you very much.

A - Gérald Harlin

These Unit-Linked exposures.

Operator

We have another question from Stewart Blair from Bank of America Merrill Lynch. (51:38).

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks. Just one follow-up, Gérald. Just coming back to the Chinese product that you sell in Q1. Can you give us just a little bit more detail on what that product looks like, what's the guarantee, what's the expected – the duration (51:53), the ALM et cetera? Thank you.

A - Gérald Harlin

Okay, so it's traditional short-term products. So that means that it's a products with an expected duration between one and five years so that's mostly it. And but again we try to limit it. And it's not ideal from an ALM point of view to be clear. And that's the reason why we limit this type of products and we for the rest its maybe – it will represent maybe one-fifth of the global production of the year. And for the rest it will be much more traditional products with some Protection in it and so on and so forth. So that's it.

You can imagine that we are – I mentioned that we have an NBV margin. This NBV margin is negative because there are some option – option to lapse for example from the clients and – but the other products have much more attractive terms for us in terms of income or profitability as I've said. Just another point in terms of earnings we don't expect NBV margin is negative, but we on – I would say not on a market consistent basis but in the real world, these products are not loss making. That's an important point.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. So you're able to make a positive spread in the real world.

A - Gérald Harlin

Yeah but I would not say that it's a great spread. I don't want to – no, no, but I want to be clear, Blair. But nevertheless it's a positive spread and we will make money on the other type of products. That's it and that's what is important.

Last element that I wanted to mention but is that there have been (54:01) a change in the regulation in China which means that for the time being, these type of products are more or less stopped in China. Because the regulator with the new capital rules especially (54:18) will reinforce the level of capital that will be sold with this type of products. So we can expect that it will bring a bit more discipline within the market and that in the end we'll benefit from it.

But again, it's not something which is unexpected in our development in China. I take the opportunity, I'm sorry of – to go back to Michael's (54:46) questions, that means that I was not exactly right I believe in (54:51) on the evolution of Solvency II. So we started from 205%, operational is 5% debt – sub debt is plus 5%, but the market is minus 13% and dividend is minus 2%. I was wrong I said that the market was minus 8%, I'm sorry for that.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you, Gérald.

Operator

So we have no other questions, sir.

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

Okay. Well thank you very much everyone and of course we have to see on June 21.

A - Gérald Harlin

Thank you. Have a good day.

Operator

Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.
