Q1 2015 Sales and Revenue Call - Activity Report

Company Participants

- Andrew Wallace-Barnett, Senior Vice President & Head-Investor Relations
- Gérald Harlin, Group Chief Financial Officer

Other Participants

- Blair T. Stewart, Analyst
- Farooq Hanif, Analyst
- Jon M. Hocking, Analyst
- Lance M. Burbidge, Analyst
- Michael I. Huttner, Analyst
- Niccolo C. Dalla Palma, Analyst
- Nick Holmes, Analyst
- Paul C. De'Ath, Analyst
- Peter D. Eliot, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

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

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Thank you very much and good morning, everyone, and welcome to the AXA conference call on our activity indicators for the first quarter of 2015. Gérald Harlin is here, our Group CFO, and would like to give you a quick overview of the main figures included in the press release, which we issued yesterday evening and which you can find on our website.

I know there are a lot of results releases and calls today in this morning, so Gérald will take you through the highlights with a little more detail than usual in order to enable you to catch up on and digest our numbers. And then following that, of course, Gérald would be very happy to answer your questions.

So Gérald, I hand over to you.

Gérald Harlin

Hello. Good morning and thank you, Andrew. Indeed, before moving to Q&A session, let's take you through an overview of the main figures for the three months' period.

We have continued to see growth across all business lines, with total revenues up 2% on a comparable basis and 10% on a reported basis to €31.5 billion. The higher level of reported numbers is coming from the strengthening of all major currency versus the euro. It's interesting to note that our businesses in the U.S., in Switzerland, in Hong Kong represent circa 30% of the group revenues. The reported growth in the quarter illustrates the benefits of the geographical diversification of the group.

On Life & Savings, gross momentum continued with a 4% APE growth and the strong increase in net inflows at €3.1 billion...

Andrew Wallace-Barnett {BIO 18671460 <GO>}

€3.9 billion.

Gérald Harlin

€3.9 billion versus €1.8 billion in the first quarter last year. The headwind from the continued Group Life business mix repositioning strategy in Switzerland was more than compensated by the strong performance in other geographies. As you would remember, we started repositioning our Group Life business mix towards more profitable semi-autonomous schemes in Switzerland in 2014, and we continue to implement this strategy this year. So there is, of course, a negative impact on APE this quarter. I would like to remind you that full protection schemes in Switzerland are mostly renewed at the start of the year.

Elsewhere, there was good growth in Protection & Health coming from Southeast Asia, India and China region. Good performance in Unit-Linked, primarily due to the continued success of our hybrid products in Continental Europe and an increase in client appetite for Unit-Linked products following the improvement in equity markets. In General Account Savings, sales went down, in line with the strategic focus on Protection & Health and Unit-Linked products.

Also, there was an increase in Mutual funds & other line, mainly following an exceptional sale of a large contract in France. The NBV margin remained healthy at 33%. The key impacts were less favorable business mix and the negative impact of lower interest rates on U.S. VA GMxB products, partly offset by a positive impact from an improved country mix and lower unit costs.

Life & Savings net flows for the quarter were at €3.9 billion. We saw strong inflows in Protection & Health and Unit-Linked business and outflows in General Account Savings in line with our strategy.

P&C revenues. Now, P&C revenue growth gained momentum compared to last year and recorded a plus 2% growth. The increase was mainly driven by the price increases in mature markets where we continue to maintain our leadership positions, as well as strong recovery in Mexico and Turkey

We saw growth in both Personal and Commercial lines. Asset Management business had strong net inflows at €19 billion with €14 billion net inflows at AXA IM and €5 billion at AB. Along with the net inflows, positive forex impact and market appreciation also contributed to the increase in assets under management, which drove the 7% revenue increase versus the first quarter last year. I would like to remind you that it was a 10th consecutive successive quarter of positive inflows in our Asset Management business.

Our economic solvency ratio is estimated at 190% at the end of the first quarter. The 11-point decrease versus the year-end was mostly due to a spike in the spot level of implied interest rate volatility, which has an impact of minus 9 points. The ratio was also impacted by a lower level of interest rates and, of course, positively by operating return.

As you would know, the implied volatility level has come down recently from its unusually high level at the end of the quarter. And this reduction would be expected to have a significant positive impact on our economic solvency ratio compared to the level at the end of the quarter. In other words, a combination of increased rates and reduced interest rates volatility since the end of Q1 would mean we wouldn't be far from 2014 level, in the present 2014 economic solvency level today. So, our economic solvency ratio remains resilient, and I would say at a comfortable level even in the context of the exceptional market conditions we saw at the end of March.

I would like to take this opportunity to remind you that we plan to share with you our capital management framework at the beginning of December this year. We affixed the date for the 3rd of December, and the presentation will be held in the afternoon at our London office.

So, I propose you to move to Q&A now.

Q&A

Operator

We have our first question from Peter Eliot, Berenberg. Sir, please go ahead.

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

Thank you very much. Two quick questions, please. First of all, on the repositioning that's ongoing in Switzerland, I wonder if you could comment on how long we should expect that trend to continue for, how much more there is to go in that repositioning.

And then, secondly, you showed very strong growth in Protection & Health in China. I was wondering if you could comment on the outlook there and how sustainable that was. Thank you very much.

A - Gérald Harlin

Okay. So, as far as Switzerland is concerned, it will be spread over some time. We cannot say we started last year. That's the second year in a row. Let's say that it will last us some time and some more years, maybe a couple of years, something like this.

So that means that as you know, our strategy now is we still are selling some full protection but we are reducing this full protection. We still have some net inflows on the existing contracts in full protection, but we are much more focusing on the semi-autonomous contracts.

So yes, to answer your question, it will still last some time and it's something which is progressive. As I told you many times, it's extremely positive in term of profitability and in term of return on capital.

On your second question as far as China is concerned, yes, we benefited from a strong increase in China. Taking China, the total EP is €35 million for the first quarter which is a significant growth of 160%. In term of profitability, it's mostly protection. In fact, it's savings with protection and the profitability, that 13%, that means the NBV margin is at 13%.

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

Thank you.

Operator

We have a next question from Jon Hocking, Morgan Stanley. Sir, please go ahead.

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

Morning, everybody. I've got three questions, please. I just wondered, Gérald, whether you could comment on how sustainable the flows are in your mature Asset Management businesses because we've seen a big uptick, particularly the €8 billion in recent quarter, just wondering if you could comment on that.

Secondly, in France as well in the Life & Savings business, the net flows number was pretty strong in Q1. I think you mentioned the one-off but it does sound like it was in the Mutual Fund business rather than the Life business. I'm wondering if you could talk a little bit about the products which are driving that.

And then finally, just if you can give an update on where you are with your Solvency II discussions with the regulator. Thank you.

A - Gérald Harlin

Okay. So, many questions. Sorry, I go back to the previous question. It was €68 million. What I mentioned was the improvement but it's in China, it's €68 million of EP. Sorry for this.

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

And it was up €35 million.

A - Gérald Harlin

And up €35 million. Exactly, up €35 million. Sorry for the confusion.

So, as far – your question is on the net inflows in France. And we could say that uniquely, as far as France as a whole has a present net inflow of €1.1 billion, of which we have Unit-Linked representing €0.5 billion. So, you can see that our strategy is still good. That means that we are still increasing in Unit-Linked. What we sell in France is mostly hybrid products and now, as a percentage of savings in Unit-Linked is roughly 42%, whereas the rest of the market is at 22% to 23%. So, we are still ahead of the market, and our strategy is doing quite well. As far as G/A Savings, we are negative in G/A Savings in France by minus 0.2%.

So, pretty in line with what we told you in the previous meetings and it's going quite well. And you can imagine that the perspective of the relatively low interest rates going forward and this combined with an outlook on the equity market, which is better, helps us in order to improve our mix.

The last part of your question, I believe, was about the discussion with the regulator.

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

Yeah and also the Asset Management flows.

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

Asset Management flows.

A - Gérald Harlin

Asset Management flows. Asset Management flows, it's – so we are improving our net inflows. Our net inflows, I would say, boasts a significant part, as far as AXA IM is concerned, it is in Asia. It's €8 billion in Asia, and then it's in Europe and also in the U.S. We have close to €1 billion net inflows coming from the U.S. from our short-duration, high-yield product mostly.

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

So, is there anything which is obviously sort of lumpy or one-off nature? This is obviously a big step-up but, presumably, we shouldn't be annualizing those sort of numbers for the rest of the year.

A - Gérald Harlin

It's always extremely difficult at the beginning of the year and after three months to give you an outlook on what could be the rest of the year. But what I can tell you is that, looking at the figures from April, I don't see any kind of one-off in the first three months' figures.

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

In the €8 billion you mentioned that Asia but, again, there's not a particularly lumpy nature to that, but fairly broadly based.

A - Gérald Harlin

I would say that it's – no, it's – of course, there are much more fluctuation and we can expect to have more fluctuation going forward, but I would not qualify these amounts as one-offs.

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

Okay. Thank you. And just following on the Solvency II question?

A - Gérald Harlin

Yeah, the Solvency II question. I could say that, as you know, we will apply for our internal models at the end of the present month. So far so good, I would say. So we won't have any – we are expecting to have the final framework at the end of November. And that's why we will present you the whole target capital scheme and with the details of the Solvency II internal models at the beginning of December. But I could say so far, so good.

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

Okay. Thank you very much.

Operator

We have our next question from Nick Holmes, Société Générale. Sir, please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hello. Hi there. Good morning, Gérald. Three quick questions.

A - Gérald Harlin

Good morning.

Q - Nick Holmes {BIO 3387435 <GO>}

First one is could you give us an idea of which countries contributed most of the volatility hit? First question.

Second question is on direct selling. I noticed your P&C direct slowed a bit to 4% growth. Could you elaborate a little bit on that and comment on your expectation for the future?

And then finally, just in the U.S., wondered if you could update us on the GMxB hedge program. How did that fare in Q1? Are you expecting anything material in the way of losses in IFRS earnings? Thank you.

A - Gérald Harlin

Okay. What I could say, Nick, about the volatility. As you know, the volatility, I don't believe that the key element or the key criteria is in which country. The point is that, as you know, the volatility is a part of the embedded options just like NAV. And indeed, the volatility was roughly, on average, at 40% at the end of December 2014. At the end of March, it went as high as 100%. And now we are back these days. That means yesterday we were back slightly above 50%. That gives you a good outlook.

And that's why I mentioned in my introduction that, more or less, it's most – I said that the volatility and the move from 40% to 100% explained – and this, combined with the interest rates move because interest rates went down between the end of December and the end of March, this explains roughly minus 9 points for volatility and interest rates. It should be minus – it should be, more or less, in line without the sensitivity that we shared with you in December.

In the meantime, that means between the 31st of March and now, things have changed because interest rates went up by 50 bps, first; and second, because the volatility went down sharply. And that's why I'm quite relaxed to tell you that if we would do the same calculation today, we wouldn't be far from the 201% that we published at the end of December.

Your second – yeah, go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Sorry, Gérald. No. Thank you very much for that. I mean, that's very clear and I fully understand that. I just wondered if it's correct that it's countries like Germany and Switzerland where most of the sensitivity lies.

A - Gérald Harlin

No. It's not in Switzerland, so that's quite obvious. And in Germany, if you – that's – in Germany, not so much. Why? Because first of all, in Germany, like in other countries, we don't have any specific ALM mismatch. That means that if you refer to the fact that in Germany, there are guarantee, great. In Germany, we have a good coverage. That means that we have a mismatch between assets and liabilities, which is more or less one year.

So, I don't have any specific fear relative to our German business. It's throughout the business and we are consistent through all our businesses with the General Account. We have a one year, half year duration mismatch. So that's Europe. So that's why we'll not make a specific focus in it's coming from such and such countries.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Understood. Thank you.

A - Gérald Harlin

Okay. Your question is about Direct.

Q - Nick Holmes {BIO 3387435 <GO>}

Yes.

A - Gérald Harlin

I would say that the competitive position, we have – the Direct business went slightly down in France because we had 1% growth in the first quarter in Direct in France because there was some competitions, especially coming from mutuals and from the banking trends. That's what I can tell you and that explains the fact that we are at 4%. But our business is doing extremely well in other countries. In Asia, for example, it's doing well in Japan, in Korea. And it's improving also in Spain. Also in Spain, it's not at the level we could expect but it's improving.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Very good.

A - Gérald Harlin

There's still question...

Q - Nick Holmes {BIO 3387435 <GO>}

Yeah.

A - Gérald Harlin

Go ahead. Go ahead, Nick.

Q - Nick Holmes {BIO 3387435 <GO>}

No, no, no. Sorry, I was just saying, yes, on the last question on the U.S. GMxB.

A - Gérald Harlin

Okay. On your last question relative to the U.S. GMxB, I could say that the present environment is quite good. That means that we have been – you know that the most important driver of our business in the U.S. is the level of equity markets. And it's good because we are not very far from 2,100 on the S&P 500.

The second is the volatility and the realized volatility, and we shouldn't make any confusion between realized and implied. The realized volatility has been half year 13%, so that's good. So, I would say that what happened in 2014, more or less, it's not very different. It's not very different for the start of the year.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. That's very clear. Thank you very much, indeed.

Operator

We have the next question from Paul De'Ath, RBC. Sir, please go ahead.

Q - Paul C. De'Ath

Hi there. Good morning. A couple of questions, if I can, on kind of products and stuff like that. So, the hybrid products that you've been in serving in France have obviously been going well. I believe you're also selling hybrids into Germany and Italy. I just wondered if there's any kind of significant difference between – per the shape of those products in the different markets. I think you said in France around 43% is unit-linked and the rest is savings. Do you have a higher savings down in Germany, for example, in order to get the business sold? And some color on that would be great.

And then the second point was just on the P&C side and just whether or not you could give any comment on the performance of Tian Ping during the quarter because, obviously that's not included within the numbers. That would be great. Thanks.

A - Gérald Harlin

Okay. So I could say that as far as the first part of your question is concerned and about the hybrid products, yes, more or less, I would say that the hybrid products are more or less the same, but it depends on the market. I would say that by far, it's in France that we sell the most hybrid products, the most important number and volume of hybrid products.

In Italy, for example, what we have been doing in Italy is that we have been selling more unit-linked products at, for example, in MPS. So it's not hybrid products, but it was directly unit-linked products.

The example in Germany, yes, in Germany, we are growing pure unit-linked quite significantly. And so, it depends on the countries, but the logic is always the same. The logic is always to sell more unit-linked products and that's what we do.

And to give you an example, in Germany, we have been – although we have an EP which is, as a whole, at plus 2%, we have our unit-linked in Germany which is at plus 56%. So, we are starting from a level which is not very high. Because in the end, it's an increase of €10 million in APE, but that's quite significant.

In other countries like in Belgium, we didn't hesitate, and that's the reason why we have a negative APE move in Belgium. It's because we decided to stop the traditional G/A products. So always in the same strategy and depending on the countries, it could be pure unit-linked or hybrid products.

The second part of your question was about P&C and on Direct in which countries? In Germany.

Q - Paul C. De'Ath

Tian Ping, yeah.

A - Gérald Harlin

And I will give you the figure on P&C. Tian Ping was up 20%...

...and 65% in Direct.

Q - Paul C. De'Ath

Okay. Great.

A - Gérald Harlin

Okay.

Q - Paul C. De'Ath

Thanks very much.

Operator

We have the next question from Niccolo Dalla Palma, Exane BNP Paribas. Sir, please go ahead.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Hi. Good morning and, first of all, let me say congratulations for the new hire on the IR team. And moving on to the questions, I'd be curious, on the Solvency II side, to hear your views on two topics. First, the fact that EIOPA now clearly indicate that sovereign risk should be charged for in internal models. What is your interpretation of their statement exactly?

And secondly, the now very clear positioning of the Dutch regulator regarding their comments on the UFR and the fact that they should not be used when setting dividend policies. What do you think the stands will be of other key regulators in Europe on this topic? Thank you.

A - Gérald Harlin

Okay. As far as your first question is concerned, I believe and many times I mentioned in this call that using internal models, we are post income capital in front of sovereign risk. And so, that's it. I don't believe that there will be any questions around this, which is not the case for the second topic.

I would say that UFR is part of the – it's in the framework. It's in the logic of Solvency II. You know that UFR concerns very long business, businesses between 20 years and up to 80, 90 years. And maybe there could be an individual position from the Dutch regulator. As you know, you are not – we have no business in the Netherlands, but I don't expect UFR – to change the concept of UFR is very important. And I'm personally, extremely surprised to see that at the time where some countries are thinking about using transitional measures and so on and so forth, at the same time, it would be a nonsense to push companies to use transitional and to withdraw the UFR. It would be a nonsense. And I believe that it's a position which is common to most of the companies in Europe these days.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Very clear. Thank you very much.

Operator

We have our next question from Michael Huttner, JPMorgan. Sir, please go ahead.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Fantastic. Thank you. Just two questions. On the volatility, what index did you use? You cited a figure above 50% or so. I couldn't recognize that. I saw a figure of 46%. I'd be interested what index (27:57).

And then, the question Nick Holmes asked, and forgive me because I haven't been following AXA very long and it is very complex group. But if the total volatility impact is minus 9% and you say Europe is actually very small because there's only one year duration gap and the U.S., of course, doesn't enter into the equation. Where is the impact? I don't understand. Maybe I'm completely out. These would be my two questions. Thank you.

A - Gérald Harlin

Okay. The point on the implied value, it's because we are dealing with its – you should not miss the fact that there is the effect of the volatility adjuster and the figures that I'm quoting are net figures, so after all these adjustments. And that's the reason why you don't find exactly your – and there is also the liquidity premium impact. So, that's, today, the liquidity premium to be clear. We are using the liquidity premium and not exactly the volatility adjuster, and that explains why we have such an adjustment.

And your second question was?

Q - Michael I. Huttner {BIO 1556863 <GO>}

Well, you replied to Nick Holmes' question saying, the 9%, which is a big move for the volatility change, didn't come mainly from Europe. It obviously didn't come from the U.S. because that's a completely different solvency system. So, where did it come from? I'm puzzled. Actually, I'm confused.

A - Gérald Harlin

No, no, no. I said it was coming from – I'm sorry. Maybe I've not been clear, but it's mostly coming from Europe. You are absolutely clear. You are absolutely right saying that it's not coming from the U.S. because we are using equivalence. It's not coming from Asia because, as you know, in Asia, it's mostly Unit-Linked business. So, it's coming from Europe. I'm very sorry if I've not been clear.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay. And in Europe, you said not Switzerland, and the other countries, all of them?

A - Gérald Harlin

No. I didn't say it's not Switzerland, but I said that, in Switzerland, we have mostly – a significant part of our business is Protection. So, I said that, on a relative basis, Switzerland was not so high. That's what I wanted to precise.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay.

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

Yeah. And if I can jump in, Michael, as well just to clarify on the volatility. We can send it to you, but you can find it on Bloomberg by looking, for example, at the swaption 1010 at the ticker – like, we can e-mail you the ticker or anybody who wants the ticker.

When you do that, that's where you will see roughly equivalent to the 40% that Gérald spoke about earlier, the 100% at the end of the quarter and 50% as of yesterday. You'd be able to read those numbers pretty much directly, but it's a mixture of maturities. But we'll send you the tickers that we're looking at and so you'd be able to see those numbers directly.

A - Gérald Harlin

And in the calculations, there is the adjustment that I mentioned to you.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Yeah. Very clear. So, just to understand this 9% move, it is mainly from Europe. It is linked to the one-year duration gap, and the one-year duration gap is roughly across all geographies the same?

A - Gérald Harlin

Right.

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

Yes.

A - Gérald Harlin

Right.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay. So, it's roughly – so it would be split according to the total funds you have in each country, basically?

A - Gérald Harlin

Correct.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay. Thank you. That's very clear. Thanks a lot.

Operator

We have the next question from Farooq Hanif, Citigroup. Sir, please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thanks for taking my questions. I was interested in the revenue growth in the U.S. business. On a comparable basis, obviously, it's just 2%. And I got the impression that your kind of growth outlook there was looking a lot better in terms of actual top line, not just margin. I was wondering if you could give me some more guidance on when you think your actual overall top line growth is going to start to be more positive there given that a lot of other companies seem to be having some good opportunities in certain products where there's been a lot of consolidation. That's question one.

And secondly, going back to some of the questions on net inflows, obviously, you had a big one-off in the Life & Savings business in mutual funds. But even if you strip that out, you're roughly €3.5 billion of net inflows, and that's sort of materially higher number than you've been experiencing. So I was wondering whether we could see this kind of level going forward or is that seasonality. Just for the sake of forecasting, what would you recommend I do my model? Thank you.

A - Gérald Harlin

Okay. Maybe I can start with the latter part of your question, Farooq. I would say that you cannot consider – first of all, you cannot consider the French product as a one-off because it's part of our business and it's in line with our strategy consisting in avoiding, taking risk. And that's the reason why when you have a kind of back-to-back type of agreement, we have a margin fee and we have a fee corresponding to the service we provide. We start taking (33:23).

What I can tell you relative to the – to your much broader question relative to the net inflow, I would say that, for net inflows, you have the gross inflows and you have the surrender and lapses, outflows. And more or less, outflows didn't move significantly. So what does it mean? It means that the inflows are directly linked to our top line business. So, I cannot give you any outlook for the rest of the year, but it's important for you to understand that it's not coming, for example, from a decline in the surrenders which could be temporary, okay?

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay.

A - Gérald Harlin

The first question was? I'm sorry, Farooq. I missed the first question.

Q - Farooq Hanif {BIO 4780978 <GO>}

Yeah. So, in the U.S., I've kind of been waiting for better growth. I mean, I know the margin has been good and that's been very – give you some change and adapt it to the new environment. But the growth – top-line growth just seems to be lagging some other companies that we look at. And I'm just wondering when you're going to be – or if you're going to be a little bit more proactive in the U.S. market?

A - Gérald Harlin

No. That means that in the U.S. sale, we had – we experienced an increase in sales in Life which is good. And because we launched a new product, and this was partly offset by slightly lower sales on our annuity business and it was mostly explained. And this drop in the annuity business mostly explained by the decrease in sales in Retirement Cornerstone because we will refresh our products quite soon and we can expect to recover. That's what I can tell you.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

We have a last question from Lance Burbidge, Autonomous. Sir, Please go ahead.

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Good morning. Yeah. Just a couple of quick questions. Firstly, you said, Gérald, several times about the ALM matching, particularly in Germany, I'm interested because EIOPA in its study says that on average it's about a 10-year mismatch. So I wonder how your business is quite so different from the average.

And then on the VNB margin, perhaps you could give some idea as to how much the impact of interest rates falling in the first quarter might have on business in Germany and Italy.

A - Gérald Harlin

First question on the German business, I don't believe that we could say that there is – that the market is a 10-year ALM mismatch. I believe that it's exaggerated. And I can comment only on my own business. What I can tell you is that we have been always consistent in matching assets with liabilities. The problem, where is it coming from? It's coming from the fact that a lot of business, as you know, and you can have a look at the – all the disclosure that we made at the end of 2014, and you can see that, on average, on top of my head, we have a guarantee of 3.4% in Germany on the Inforce book of business.

And for sure, at some time, companies stopped hedging considering that tomorrow will be better and that they will catch up higher rates. And we never did it. So that's the main difference. That's quite simple. That means that we have been consistent always hedging our existing risks. I cannot be more clear. So, it doesn't mean that we have a great margin in Germany. But the risk is quite remote. On top of this, I remind you that our German business is relatively small.

I just want to remind you that, as a whole, (37:42) contribution of Germany was €130 million last year for Life excluding Health to be compared with €5 billion and €60 million of underlying earnings for the group. So, first it's relatively small; and second, we have been quite consistent. That's what I can say. And we don't intend to change this strategy.

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

And, Lance, did you have a second question as well?

Q - Lance M. Burbidge {BIO 3978332 <GO>}

I would guess it was just if you had some idea as to what the falling interest rates that we saw in the first quarter might have done to the German margin. I'm sorry to persist on Germany, but your margin is very high there at 42%. I just wondered what it might be if we restated it.

A - Gérald Harlin

Yes. First of all, we don't update the rates at the end of interim indicators. So, that means that we – except for some specific business which is the VA business, because the VA business is hedged on a dynamic basis. So that's what I can say.

But for the rest, you have the sensitivity and the best for you is to go back to the sensitivity of our EV presentation. And there you will have the sensitivity of the NBV country by country. And we can comment it offline with you. But, first, the sensitivity of NBV – we can anyway. It will be – well, I propose you to take it offline and to go with you – and the IR team will go with you through the NBV presentation.

Q - Lance M. Burbidge {BIO 3978332 <GO>}

That's perfect. Thanks.

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

We can call you, Lance, this morning on that.

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Yeah. Thanks.

Operator

We have our next question from Cliff Stewart, Bank of America Merrill Lynch. Sir, please go ahead.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Yeah. I've heard some descriptions in pronunciations of my name in the past, but that's a cracker. Good morning, Gérald.

A - Gérald Harlin

Good morning.

Q - Blair T. Stewart {BIO 4191309 <GO>}

It's Blair here.

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

Good morning, Blair.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Two questions, if I may. Firstly, could you perhaps update us given where interest rate covers have gone on the new money rates that you're able to invest and invest at at the moment, please?

And, secondly, I wonder if you could comment on some of the proposals at the European level to make it perhaps easier for insurance companies to invest in infrastructure assets and structured credit as well. Is that something that is likely to lead that change in your asset allocation over time? Thank you.

A - Gérald Harlin

Okay. Blair. First of all, you remember that, at the end of December, it was – no, it was based on the end of December, but it was on the 25th of February, I shared with you a few figures about the investment level, plans for 2015 up to – you remember that we said 2% on average. And 2% on average, what I can tell you is that we are at 2%. We stick to this 2% for the first three months.

Can I – I would say that, on a marginal basis, a few weeks ago, at the end of December, I would have told you that the investment would have been more at 1.8% for the future assuming the level but with the recent rise of 50 bps, I believe that the 2% is still relevant, and the 2% is mixed and for the euro is roughly 1.5%. So, as of today's condition, I'm comfortable with the 1.5%.

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

For Europe and the two overall.

A - Gérald Harlin

The second question is on infrastructure. As you know, we are investing in infrastructure and mostly in infrastructure debt. And at the end of last year, we had a level of a bit less than €2 billion. We committed to invest €10 billion over five years. That's something that we will do and we are working hard, and we have a team at AXA IM which is dedicated to this business. Yes, we are quite active, and we are – like some of our peers, we are quite active saying that, if we want the Juncker Plan of €315 billion to come alive, it's quite important to invest in infrastructure. And we were speaking about ALM matching, and infrastructure is a good instrument in order to achieve ALM matching.

So, yes, as far as we are concerned, we are using internal models. So that means that, of course, anything that could help the global industry would be good. As far as we are concerned, we are using already the internal model. So that means that, for us, infrastructure is a good use – a good investment already.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Okay. I guess €10 billion for a company or a balance sheet of your size is still quite modest, Gérald. I just wonder if there's upside to that number.

A - Gérald Harlin

Yes. Of course, there will be, but it depends. Look at the Juncker Plan, €315 billion, and it's in the end of the European Investment Bank and nothing complete emerged yet. So, of course, if it's in force, you can imagine that we'll be the first one to be interested in it, and we do everything we can.

You remember that last time I told you that we've been diversifying ourselves in less liquid assets including loans, including mortgages, infrastructure, ABS. So, we are applying the plan we shared with you a couple of months ago. So, that's it. And if we can do more, of course, we will do more in infrastructure. You can imagine because the spreads are quite nice.

And I summarized this diversification saying that we were ready to sell and to – we were ready to give up on liquidity but that we wouldn't give up on the quality of assets. And this is part of this plan. And the much we can do in infrastructure, the best.

Q - Blair T. Stewart {BIO 4191309 <GO>}

Very good. Thank you very much.

Operator

We have a last question from Farooq Hanif, Citigroup. Sir, please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thanks for taking my question again. Just wanted to ask if we exclude the U.S. business, where obviously you have dynamic hedging, do you normally increase interest rate hedging when vol goes up and interest rates go down? So, are you following a clever dynamic process also in your European business?

A - Gérald Harlin

We have a small – we have a very small – you mean in term of VAs?

Q - Farooq Hanif {BIO 4780978 <GO>}

No. I mean – not the VAs. So, the rest of your business, do you – I mean, is there an argument to say that (46:16) generally has increased its interest rate hedging in Q1? And what's your own experience not including VAs?

A - Gérald Harlin

No. We don't in itself, we don't hedge the volatility because, as you know, it's something relatively expensive and we can consider that the present period that we live is a bit extraordinary.

What we do is that we have, of course, the fact that we have some embedded options in our General Account products makes that we have some options and that we are naturally – for example, many times I explained that we are protecting ourselves against rise of the interest rates, buying swaptions, when you have – we are long swaptions, and in itself, being long swaptions means that you are long volatility.

So, that's it, but it's not in order in itself to hedge. I want to be clear. It's not in order to hedge the volatility impact on the solvency ratio, but it's just to manage the risk, and it's good risk management to protect ourselves against moves like the rise of interest rates. I hope I'm clear.

Q - Farooq Hanif {BIO 4780978 <GO>}

My question was more, did you change your hedging or increased hedging in Q1?

A - Gérald Harlin

Yeah. We didn't change the hedging in Q1. We keep exactly the same stance, and we keep the same philosophy. And of course, these days, we are also taking the opportunity of the low interest rates in order to slightly increase – to increase our hedges.

In case rates would go up, but we don't have any specific program, and it's for us, it's business as usual. It's another way to explain it. I didn't take in the first quarter any specific hedge in order to have a direct impact, if you want, on the solvency level.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. That's great. Thanks.

A - Gérald Harlin

Did I answer your question, Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Yes, you did. Thank you.

A - Gérald Harlin

Okay.

Operator

We have a last question from Michael Huttner, JPMorgan. Sir, please go ahead.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Thank you. Thanks very much for this opportunity. (48:49) and the first question is I spoke with Unica yesterday. They actually report both the standard and the internal model, and the point they made is that reporting both allows more comparability between companies and I just wondered what your view is on that.

And the other is there seems to be almost like competition between insurers. Competition is always healthy, but it's – it kind of produces interesting effects. Zurich, Allianz, AXA today and yesterday published their solvency updates. How do you see that? I mean, is there – what is the outcome of all this? Are you married to a figure of 200% or do you think 150% is fine? I mean, just stepping back a little bit. Thank you.

A - Gérald Harlin

Okay. On the – no, we are using internal model. To answer your first question, we are using internal model and we'll always report on internal models. And the way we – excluding the U.S., which was the question, we are using internal models. So we are not using the standard formula, if it was your question. And we don't intend to do so. And all the work we have been doing over the last years, we see French Supervisory is – as I told you, we are in the last phase of getting our models approved. So we are using internal models and we'll go on using internal models.

And as you may know, there is absolutely no recommendation or any kind of obligation to report on a standard formula because it's – again, it would be contrary to the global framework and to the spirit of Solvency II because that standard formula, the internal model are here in order to get a good – better matching between assets and liabilities.

Your last question was about Solvency II. I'm not sure. Clearly, what was the – I'm sorry but, Michael, but could you repeat your last question?

Q - Michael I. Huttner {BIO 1556863 <GO>}

Yes. Zurich, you and Allianz in the past two days, you reported your solvency numbers. And clearly, there's competition between you guys in reporting this number. So, I understand how you look at this kind of metric. What is actually your target, what do you think is the right number?

A - Gérald Harlin

Let's be clear. And I want to be clear, there is no competition. The figures that we publish is the right figure. There is no competition. That means that we have a model that we explained to you many times, I believe, in detail. And we will be even much more clear and vocal at the beginning of December. And we have a model which is based on, I would say, a consistent limitation of the mismatch, and that's the reason why.

I believe I gave you – I believe most of you were expecting that due to the rise in volatility, due to the drop of interest rates, there would be a drop, and I've been quite clear telling you that under today's condition, we would be back not very far from the 201% that we had at the end of last year. So, it's not a problem from competition. What I can tell you is that I consider that we have a solid balance sheet, that we have a solvency which is good, and which has proven in this extreme market condition to be extremely resilient.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Good. Thank you very much.

Operator

We have no other question.

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

Okay. And, guys, we thank you all very much for joining and wish you a very good day.

A - Gérald Harlin

Thanks a lot and have a good day. Bye-bye.

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

Bye-bye.

Operator

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