Q3 2018 Sales and Revenue Call - Activity Indicators

Company Participants

- Andrew Wallace-Barnett, Head-Investor Relations
- Gérald Harlin, Deputy Chief Executive Officer & Group Chief Financial Officer

Other Participants

- Andrew J. Crean, Analyst
- Andrew Sinclair, Analyst
- Colm Kelly, Analyst
- Farooq Hanif, Analyst
- James A. Shuck, Analyst
- Johnny Vo, Analyst
- Michael Huttner, Analyst
- Niccolo C. Dalla Palma, Analyst
- Nicholas Holmes, Analyst
- Peter D. Eliot, Analyst

MANAGEMENT DISCUSSION SECTION

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Good morning, everybody, and welcome to AXA's Conference Call on our Activity Indicators for the First Nine Months of 2018. I am pleased to welcome Gérald Harlin, our Deputy CEO and Group CFO, who will be taking you through the highlights of the release, and we'll be very happy to take your questions afterwards.

Gérald, I hand over to you.

Gérald Harlin

Thank you, Andrew. Hello and good morning to all. Thank you for joining this call. As you can see, AXA has delivered another strong performance for the first nine months of 2018. Top line growth is accelerating compared to half-year 2018. With total gross revenues up 4% at group level, we grew in all five geographies and across all our business lines.

This overall strong growth was notably driven by our preferred segments with Health revenues up 7%, Protection APE up 10% and P&C Commercial lines revenues up 2%. Our balance sheet remains very strong with a Solvency II ratio at 195% including the impact from the XL acquisition, in line with our guidance of 190% to 200% for full-year 2018 and well within our target range of 170% to 230%.

Let me now take you through the details for each of our geographies. First, in France, we recorded an excellent first nine months with revenues increasing by 5%. APE was up 18%, with a strong performance in Health up 53% and Protection up 7%, both from strong growth in Group business, as well as G/A Savings plus 9% on higher sales of capital-light products, in line with our strategy. P&C revenues in France were slightly down at minus 1%, mostly due to the continued market competition in Personal lines.

In Europe, total revenues grew by 3%. We continued to see the successful business for positioning towards preferred segments with Health revenues plus 4%, Protection APE plus 8%, and P&C Commercial lines plus 3%. Europe APE grew strongly, plus 7%, mainly driven by continued recovery in Italy from higher sales in capital-light General Account Savings and Unit-Linked through our JV with MPS. Protection was also up 8%, notably from higher sales of semi-autonomous products in Switzerland.

Moving to Asia now, we continued to see two major trends in the regions. On the one hand, our Asian current engines are doing very well, with new business strongly up in Japan and in Hong Kong due to successful Protection and G/A Savings product launches effectively in the first quarter of 2018. On the other hand, we are disciplined in improving our business mix in high potentials especially in China. As you know, in China, we are moving away from short-term single premium products and focusing towards more profitable regular premium Protection products, and hence, improving our NBV margin.

In the U.S. now, we recorded a good profitable growth in the first nine months of 2018 in both Life & Savings and at AB. APE was up 6% from higher advisory sales in Mutual Funds and in Protection, plus 9%, combined with a strong recovery in Unit-Linked sales in the third quarter, plus 17%, mostly from higher sales on non-GMxB Variable Annuity.

AB revenues were up 9% from both higher average AUM and higher management fee basis points due to an improved business mix. In International, revenues were up 4%, mainly driven by good performance in P&C, plus 4%, and Health, plus 11%, especially in Mexico.

In AXA IM, revenues were up 4%, driven by higher performance fees and transaction fees. In term of flows, the positive third-party net inflows of €3 billion, despite the loss of large mandate, were more than offset by outflows from Asian JVs, minus €6 billion.

In the third quarter, we closed the acquisition of XL Group, a key milestone for the group. We will be fully consolidating XL Group from October 1 as part of a new segment, named AXA XL, gathering XL Group, AXA CS and AXA Art and AXA Matrix.

As for the whole market, the level of nat cat was significant in Q3 and Q4 to-date and we wanted to bring some transparency about the associated claims at XL and the accounting treatment in the context of the acquisition.

Hurricane Michael occurred in October in the U.S. At this early stage, a preliminary estimate for associated claims is circa €200 million pre-tax and net of reinsurance. We consider the P&L impact of this event as immaterial at group level. The impact corresponds to roughly twice the typical cat charge for the fourth quarter. Since this event occurred in Q4, it will be reflected in AXA Group consolidated P&L in full year 2018.

During the third quarter, several nat cat occurred, including typhoon Mangkhut in Hong Kong, typhoon Jebi in Japan, hurricane Florence in the U.S., typhoon Trami in Japan and a number of convective storms in North America. These events are estimated to result in claims of circa €300 million before tax and net of reinsurance. Here again, this correspond to roughly twice the typical cat charge for a third quarter. Since these events occurred prior to October 1, they will be reflected in shareholders' equity in accordance with purchase GAAP methodology.

Now, moving on to Solvency II ratio which, as I mentioned earlier, was at 195%; this is fully in line with our guidance of being in the 190% to 200% target by the end of the year 2018. The 38 points decrease versus June is driven by the following items: 2 to 3 points from our strong operating return net of accrued dividend, plus 2 to plus 3; circa 6 points on purchase of additional equity hedges; and the remainder mostly from the closing of the acquisition of XL.

So, to conclude, AXA recorded a very strong first nine months of the year, with continued top line growth in all our geographies and lines of business. Our balance sheet remains very modest, with Solvency II ratio at 195%, well within our target range for end 2018 of 190% to 200%.

I'm now ready to take your questions.

Q&A

Operator

We have a first question coming from Colm Kelly from USB (sic) [UBS]. Sir, please go ahead.

Q - Colm Kelly {BIO 19140684 <GO>}

Thank you. Thanks for taking my questions. Three questions, please. Firstly, on the XL loss estimates, can you just detail the market share of industry insured losses that you're assuming or expecting based on those estimates? The market shares appear to look, at least, sort of high than they did for the HIM losses last year. And I know you did take some actions in terms of retrocession to reduce the loss volatility in XL divisions (00:08:18) versus last year. But again, the market shares of these losses appear elevated again. So, maybe can you give some detail on that and any further actions you may be taking vis-à-vis retrocession from here?

On the revenue growth, obviously, good growth in the quarter driven strongly by the U.S. business up 13% year-on-year. Can you give some detail on the underlying drivers of that in terms of the products? How cyclical is the revenue growth in that business? How linked to the S&P? How sustainable is it in terms of future growth?

And then lastly on the U.S. Life business, obviously, the Life mutual fund flows are very strong, but the AB, the Asset Management net flows are quite weak. I appreciate it's not like-for-like, but maybe can you provide detail on why there's a large directional difference between the flows between the Life and the Asset Management business in the U.S. Thank you.

A - Gérald Harlin

Okay. So, starting with your first question, I could say that roughly speaking our market share is 1.5%. And I would say across the board that's roughly what I can say. About the volatility, maybe a few words because I believe it's important just to let you understand as a follow-up of what I presented for half year 2018. At that time, you remember that we said that we presented natural events in excess of normalized events.

And the average nat cat events, cost plus tax, for the whole AXA Group is €1 billion. And what we presented in June was the fact that in 1 in 10 years, negative deviation would be €0.5 billion in 1 in 10 years; in 1 in 50 years €0.8 billion. And you remember that at that time, I compared and we compared it with the – before underwriting action, before these aggregate protections that we bought.

And at that time, it was – before all these measures, the 1 in 10 years deviation was €1 billion and 1 in 50 years was €1.6 billion. So, that means that we significantly decreased this deviation mostly through this aggregates. And just to explain that so long that in Q3 this year, we had €300 million of cat loss and €200 million in Q4 corresponding to Michael, I said that it's roughly twice the norm. That means that the negative deviation is roughly €150 million for Q3 and €100 million for Q4. The total is €250 million and you can see and notice that the €250 million is below the €500 million deviation, which is a kind of gap.

That's just to explain why. Just for your last info, I believe it's important to keep this in mind, last year, in Q3, the total cat amounted to €1.5 billion. So, clearly, the objective of all the measures we took in order to reduce the volatility coming from cat losses was mostly aimed at reducing the maximum loss in case of very severe cat losses. Here, we are, in the case of where we are, below, I would say, the aggregate.That's what I can tell you.

For the last couple of your question, do we take further action? Yes, for sure. And you can imagine that our objective is to get a better balance and to monitor even better our volatility, and you can expect that we'll further discuss this at the IR Day at the end of the present month.

Your second question was relative to the U.S. And what I can tell you is that in the U.S. the third quarter – APE increased by 13% in the third quarter and it's mostly from Unit-Linked. And in Unit-Linked, we are plus 17% quarter-on-quarter, and it's mostly higher sales on non-GMxB Unit-Linked products with more sales in SCS, which is a individual retirement product and also in group retirement. So, it was indeed a very good quarter. And for the time being, you know that there is an acceleration which is quite noticeable of our business.

Q - Colm Kelly {BIO 19140684 <GO>}

Just to follow up in terms of that acceleration. Obviously, the year-on-year growth is 3.7% on a comparable basis. I mean, given the strong Unit-Linked component to the growth in this quarter and given where the linkage to the S&P, I mean how sustainable should we be thinking about that growth beyond this year?

A - Gérald Harlin

No, because in the U.S. it's not only linked to this equity-linked product, it's also linked to Protection. And we made a significant increase in Protection in the U.S. So, I would say that, for sure, we have and we are dependent on the global market, but not over-reliant on these equity markets.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay. Thanks. And then, just lastly to clarify the deviation between the strong U.S. Life flows and the weaker Asset Management flows, I mean AB?

A - Gérald Harlin

Yes. The weaker Asset Management flows, I'm not worried at all by this because, indeed, we dropped in the institutional segments and we increased in the individual, which means that the business mix improved. As you know, we have higher fees on individuals. And this indeed means (14:59) that our business mix is better and that's the reason why we had a strong growth in term of top line. So, I'm not at all worried by this trend, not at all.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay. Thank you.

Operator

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

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

This is Peter. The first one, if I could just follow up a little bit on that XL topic. Gérald, my understanding from what you just said is that the – if you had not taken the steps that you have taken on the Protection, then the deviation would have been about twice as high, i.e. the losses would have been about 50% higher. I was wondering if you could just sort of confirm whether that understanding is correct.

And secondly, your comment on wanting to take further action, just wondering, have the events of sort of Q3 and Q4 caused a slight change of view there, because I sort of was under the impression that most of the actions that you felt you needed to take on Protection had already been taken? I'd be grateful if you could (00:16:13) clarify that.

And then the second area, I just wanted to ask on the solvency ratio. I just wondered if you could help me understand why the purchase of hedges have had such a large impact.

I mean, if I look at your sensitivities to markets, it's now very low. So, I'm just struggling to understand the size of the benefit and also whether there's much more of this sort of thing that you can do in the future. Thank you very much.

A - Gérald Harlin

Okay, Peter. So, let's start by your first question. What I said is not that we would have experienced much bigger losses if we wouldn't have taken these measures that I briefly described. No, because it's an aggregate, which means that an aggregate makes that – as I said, it's a way to cap our cat losses to roughly at the group level €0.5 billion to €0.6 billion (00:17:09). So, it's almost flat between 1 in 10 years and 1 in 50 years.

So, in other words, we are below this threshold. And I took the example of last year because obviously last year, we experienced – XL experienced, in Q3, very strong losses. But for the time being, it's a lot of individual cat events which are quite severe, but the accumulation is below the threshold of €500 million. And again, so €500 million, that's a group level, it's not for XL only. But at the same time, you can see and you are aware that elsewhere in our group, we didn't experience so much cat losses, which is also the beauty of the model because it confirms the strong diversification that it can bring out at our levels.

So, second questions that you raised is about our business and did it lead us to revise the way we manage our perfection (00:18:18) of the business. Not at all. I would say that, we consider that at the group level it will bring some more volatility, but this volatility will be contained. Why? Because this kind of business which is property cat is quite profitable on the cycle and it doesn't change our state of mind. What we can find, of course, is a better balance in term of risk appetite between these different lines of business.

Last is Solvency II. The way I could explain it is the following: you know that we decided two figures, but just for you to understand, and we decided to hedge a bit more than €3 billion of equities with a bit more than two years put with a strike at 85%. The cost of such hedging is roughly €100 million after tax for a bit more than two years, and the amount of equity, the amount of capital corresponding to this 6% is €1.5 billion.

So, if you divide the cost, €100 million for two years, i.e. roughly €50 million – a bit less than €50 million for one year. If I divide this €1.5 billion, it makes a cost of capital which is extremely low because we end up with 4%. Where does it come from? It comes from the fact that the volatility is extremely low and it's exactly the same reason as the one I explained previously in the year. It's a time where the volatility making that the price of option is pretty low, and the expectation of equity market rise (00:20:21) are collectively small. Look, the S&P performed by plus 4% in the beginning of the year, makes that it's quite relevant and quite effective in term of capital management to buy such goods (00:20:35). I hope I'm being clear, but I wanted just to be clear on why we did this.

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

Yeah. No, that's very clear. Thank you.

Operator

Next question comes from James Shuck from Citi. Sir, please go ahead.

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

Hi. Good morning. So, I'm going to go back to XL large losses again, please. Just in terms of the normal run rate, I mean I think you've been quite clear, Gérald, that the normal run rate for both AXA and XL combined is around the €1 billion level, and that's a net of tax number. I think you disclosed that at the half year, but it's based on the 10-year previous averages. And then, obviously, you have the aggregate cover that you just mentioned as well which protects against that.

But it does seem from the comments that you said in Q3 and in Q4 that there's a €500 million or so relating to XL, hasn't actually come down at all. It's still kind of running in line with that previous 10-year average. So, my question really is, I appreciate you protecting against the tail risk events, but do you actually expect that normal run rate to trend down? Are you happy with running that kind of €1 billion total level number? Or is that something you'd like to manage down in the context of the AXA Group it's (00:22:00) about 15% of your total pre-tax earnings which seems quite a large number?

Second question is around the – could you just update a little bit in terms of Q3 man-made large losses? There's been no comment outside of the nat cats. I'm also interested in terms of has there been any prior year reserve development from XL in Q3, because I think Q2 saw negative development on nat cat? So, just interested to see whether nat cat has continued to develop unfavorably, and if you could update also on any casualty trends that we've seen in the quarter, please?

And final question, just a quick one, really is around Asia. I guess two points within this. One is that the Asia High Potentials Asia high potentials Life New Business Value slowed down quite remarkably in Q3. So, New Business Value is up 17% H1, nine months it was only up 4%. So, could you just clarify a bit around that?

And Asia P&C where you've made a number of acquisitions over the years, including HSBC and Tian Ping, and other things, Asia P&C just seems to be keep declining year-after-year and that's continued into the nine-month stage. And the revenue numbers now kind of running below €1 billion and you probably spent €1 billion in acquisitions in that region in Asia P&C. So, if you could just update on what the problem is there, please?

A - Gérald Harlin

Okay. Okay, good. Let's start with your first question. I believe that I already covered it, but anyways, €1 billion. I remind you that the €1 billion average is something which correspond to (00:23:44) we will improve, of course, the mix of business, by roughly 500 bps for AXA, 500 bps (00:23:52) for AXA XL. So, the point is much more to try to – you mentioned that it's a coverage of the tailor risk. It's not so much tailor risk, I would say that limiting the deviation to €500 million is not huge at the scale of our group. So, it's – that's why it's not really the tail risk. We are protecting ourselves beyond this tail risk.

About large losses, you mentioned man-made large losses, nothing material at the group, in isolation or in aggregate. Above the prior year, not significant.

About Asia, what I can tell you is that, in Asia, you should take into account – what you say about the top line is absolutely right. So, meaning that the – in the High Potential, we are suffering from a drop in China. But at the same time, it's – what is important is to notice that the NBV increases by plus 4%, which means that – also we have globally minus 14% APE going down in Asia High Potential, we are plus 4% in NBV. And where it is coming from, it's mostly coming from China.

I remind you that at the beginning of the year, it's been announced a new regulatory requirement, that's been enforced in April. And according to this new regulatory requirement, all the insurers are required not to sell distorted maturity products, meaning, fake, fake long-term products that could be surrendered extremely quickly. And at the same time, it's mandatory now that each product tangible embedded value should be positive. So, all of this is more good news than bad news. So, of course, it has a depressing impact on the top line, but it's extremely good for our profitability.

Last is about Asia P&C. You are right, that means that it's coming from the mature business in Korea. As you know, we have been facing – as you may know, we have been facing tough competition in this market and we have focused our efforts on hiking more profitable long-term products. So that's mostly, nevertheless, I just would like to highlight the fact that in term of top line, it's – Asia High Potential correspond to €113 million out of the total P&C business of €25 billion. So, it's extremely small. This is a drop, but it's – you know that our Korean business is small.

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

Okay. Thank you very much, Gérald.

Operator

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

Q - Andrew Sinclair {BIO 17749036 <GO>}

Good morning, everyone. Thanks. I'm actually going to ask three questions enough with the (00:27:32) XL. So, firstly, on the Unit-Linked sales in France, they've slowed a little bit again on an APE basis. I think they're now down 7% year-on-year on an APE basis. Just wondered if you can give us any color there.

Secondly, Protection sales have been very strong, particularly in Japan with the new product, and France where we've seen a big year-on-year jump. Can you just give us any more color on that in France and how much of the Japan jump do you think are one-off from the new product launch and how much of that will continue?

And thirdly, just kind of again on Asia, could you explain some of the moves that you've seen in Hong Kong. You've seen a bit of a step up from a new G/A savings product, but lower Protection sales, that seems to go against the grain a little bit. Just wondered if you could give us any more detail there. Thanks.

Hello?

A - Gérald Harlin

Can you hear me? Okay. Sorry.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Yes.

A - Gérald Harlin

I said that as far as France is concerned, we have a decline of 7% in Unit-Linked APE, but it's mostly coming from lower Group Pension business. So this business tends to be lumpy in comparison with Individual business. But Unit-Linked APE was up 2%, so, which is relatively good. So, Individual business performed quite well.

And I can say that our Unit-Linked rate remains higher than the market average. We still remain at 41% versus 31% for the rest of the market. So really we performed quite well in Unit-Linked business. And you should not consider that this decline in the Unit-Linked business is a poor sign as far as our Individual business is concerned.

Then, you had a question about Japan. Yes, for sure, in Japan, we did quite well. We had a good Protection business. You know that in Japan, most of our business is in Protection and Health, and it confirms our ability to grow our business even in a country which is considered as a matured country. It's important. And it makes even more relevant our strategy at the group level which states that we should develop Protection, Health and Commercial lines. Here, we are ticking two boxes in Japan, which is an excellent sign for our strategy and for the rest of the group, which, as you know, is a strong foothold in mature markets where the need for Protection and Health are growing and growing.

The last question is about Hong Kong and it's a new product called Harvest. It's a savings product, so maybe you remember that previously we said that this product was lacking and it was important to have a savings product which is attracting our policy holders. It's a way at the same time to cross-sell other products. So yes, we did quite well in Hong Kong and that explains our quite good performance in Hong Kong since we have an APE at plus 5%.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Sorry. Just following up and going back to Japan, again, so you're confident that you can still grow Japan in 2019. We're not going to see a basis effect just from the launch of this product, you're still confident in growing up Protection sales next year?

A - Gérald Harlin

We will see. It's difficult to anticipate. Nevertheless, we should still benefit from this product in 2019, that's what I can tell you.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Absolutely. That's great. Thanks, Gérald.

Operator

Next question comes from Johnny Vo from Goldman Sachs. Sir, please go ahead.

Q - Johnny Vo {BIO 5509843 <GO>}

Yes. Thank you very much. Yeah, just a couple of questions. Just, again, sorry about this, Gérald, just asking about the cover that you have both from a peak and aggregate basis on the XL business. Can you just give us more color, I know you've probably given this before, but more color on the attachment point and how that moves through? That's the first question.

The second question is just in regards to the options that you purchased in Q1, the put options in the holding company. I mean, are they in the money at the moment? And can you tell me the change in value of those options in the holding company?

And the third question is just, can you tell me now with the new options purchased in this quarter, what your net exposure to equities is overall for the group? Thank you.

A - Gérald Harlin

Okay. Let's start with the first part of your question, which is the attachment point. I believe that the best for you is to go back to page 31 (00:32:54) of our June presentation and you can see that indeed, we have roughly – I would say, an average expected loss of €1 billion and the deviation will be limited to €0.4 billion, €0.5 billion in 1 in 10 years and €0.8 billion in 1 in 50 years.

So again, what I explained is that we are below this threshold at the group level, due to the combination of the fact that we were below at the level of (00:33:42) because €150 million plus €100 million deviation means €250 million and €250 million (33:53), taking into account and adding the €250 million to the existing cat losses deviation, which is close to zero at the group level, because at the group level, on Europe and on windstorms and so on, we are quite benign and in line with the expectations, means that (34:12) roughly we are, to make it simple, we are below the €500 million threshold. I hope I'm clear, but that's exactly the way it works.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay.

A - Gérald Harlin

The second question is about the...

Q - Johnny Vo {BIO 5509843 <GO>}

The put option.

A - Gérald Harlin

...equity put option. So, this – we were – at the time we put, you remember that we said that these options were at 80%, 85% put option. We were at €3,500 (00:34:58) at the time of the inception and now we are at €3,200 (00:35:02). So, meaning that we dropped by 10%, which means that roughly speaking, instead of being a 15% out of the money, we should be at 5%, roughly, out of the money. That's more or less what you can keep in mind.

Q - Johnny Vo {BIO 5509843 <GO>}

But what is the change in value of that option?

A - Gérald Harlin

The change in value of that option, we had a decline in the prime value (00:35:32) of money, meaning that, roughly speaking, it's more or less in line with the price we paid at the time of (00:35:42). So, because we gained in term of moneyness (00:35:48) but we lost in terms of time value of money, but we are not speaking from large amounts.

And your last question, sorry, Johnny, I don't – it was...

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. What's the net equity exposure of the group now, given the new hedging you put in place?

A - Gérald Harlin

Yeah. Okay. Roughly speaking the net equity exposure of the group today, taking into account these options, should be roughly €6 billion net, roughly speaking, net.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay.

A - Gérald Harlin

Net exposure.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Brilliant. Okay. Thank you very much.

A - Gérald Harlin

Thanks.

Operator

Next question comes from Michael Huttner from JPMorgan. Sir, please, go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you so much. My questions really are mainly on two things; one the Solvency, and two the nat cat. The nat cat figure, I'm a little bit intrigued by (00:36:51) which is a specialist reinsurance so (36:51) it's a slightly different business, but they raised their estimates or their budget, if you will (00:36:57), for nat cats from 6% to 6.5%. In your presentation, you use a 12-year average of €1 billion for the combined group, which kind of implies that you're kind of thinking, well, actually the world hasn't changed – world's not changing, €1 billion is the right figure. This is the bit which I'm a little bit uncomfortable with particularly given the results we're seeing also from other groups, which are not good. It's not AXA, which is under pressure here, it's just nat cat seems to be accumulating and using an old figure seems to be a little bit – maybe not fully prudent. So, I wondered what's your thoughts on that and whether this is (37:38).

And then, the second is on the aggregate cover, how much more losses do you need to actually hit the point where it's fully capped? And then, the final point on the 195%, the moving parts, as I understand, are 6 points from this equities hedged, slightly better than expected run rate of operating profit and the reduction, as I see it, from the aggregate cover. I just wondered whether you could give us a little bit more of a feel for the aggregate cover benefit in terms of solvency ratio, the fact that you've put that in place, and also maybe a few words or some kind of feeling for the slightly better than expected run rate contribution from normal operating profit in Q3? Thank you.

A - Gérald Harlin

Okay. Yes. On your first question, which is an important one, and which relates to the €1 billion, are we comfortable with the €1 billion? And the answer is yes. And you can imagine that for a company like us, and I'm sure that we will further develop this at the end of the month for the IAFE (00:38:57) you can imagine that it's a figure that has been under strong scrutiny (00:39:06) meaning that, yes, we are comfortable, yes, we consider that €1 billion is quite – is a good level and that €1 billion is sufficient. We don't believe that we should increase this €1 billion level. And all our product and all our insurance product is calibrated around this figure. So yes, we are comfortable.

About the Solvency II ratio, the 2% to 3%, you remember that many times, we said that it could be 8% to 10% net of dividend per year. So, we are 2% to 3%, yes, nothing new I would say on that side.

And your question, the other question is quite interesting. What you said is – if I well understood your question, guys, does (00:40:07) it means that your Solvency II ratio benefit from this program, yes or no? Yes, because, as you know, AXA SA and all the ex-

XL, all are benefiting from the internal model. No, on the other side, because we will consolidate up to most probably the end of 2020, we will consolidate XL, AXA-XL through equivalence (00:40:36) you remember that the point that I made that we made in March when we presented this acquisition, we said starting from March – starting from 2020, end of 2020 most probably we hope, we'll move to internal model, and at that time, you remember that we said that we could expect to have a gain 8 to 10 point profit (00:41:00) So that's my point.

Q - Michael Huttner {BIO 1556863 <GO>}

And how much of the aggregate cover...

A - Gérald Harlin

Sorry, we said that it would be 5 to 10 points. 5 to 10 points.

Q - Michael Huttner {BIO 1556863 <GO>}

5 to 10 points.

A - Gérald Harlin

Yeah, yeah.

Q - Michael Huttner {BIO 1556863 <GO>}

And on the aggregate cover, how much is left before it attaches (00:41:16)? I mean how much more claims you need?

A - Gérald Harlin

No. We are below this level, which means that we are mid-November, so we don't expect to reach this threshold. So that means – and we still have some leeway before we achieve, so that's – you cannot exclude, I would say for the time being to reach this threshold before the end of the year but – because we still have some room left with a few hundred million.

Q - Michael Huttner {BIO 1556863 <GO>}

A few hundred million. Lovely. Thank you so much Gérald (00:42:00).

A - Gérald Harlin

Yes, let's say, I made the calculation €250 million. So €250 million plus the excess for the rest of the group should be less than €100 million. So you can see most probably we should have €150 million, €200 million less (00:42:20) something of this magnitude. I don't have the precise figures but we shouldn't be very far. (00:42:27).

Q - Michael Huttner {BIO 1556863 <GO>}

That's very helpful. Thank you.

Operator

Next question comes from Dina Rosenco (00:42:34) from Goldman Sachs. Madam, please.

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

Hi, there. Dina Rosenco (00:42:43) of Goldman Sachs. Just wanted to follow up on the credit side. If you could provide some color on your capital plans, including the 6.463% bond, which is a dollar bond and there was an issue on Bloomberg in terms of call announcement. I understand that the call announcement has to be made before 1st of December. So, just wondering if you have any color for the investors. Thank you.

A - Gérald Harlin

Okay. So I understand and so, we – obviously, there was an erroneous entry in the U.S. clearing system when the bond was originally issued. And this led to speculation in the market regarding the redemption of the Series 8 fixed to floating rate notes on the first call date which is, as you know, December 14, 2018. As usual, any redemption should be designed to exercise this call would be announced in accordance with the terms and condition of the relevant notes, i.e., at the latest, 15 calendar days before the first call (00:43:54) day, meaning that before November 30, which is not far. And at the same time, I could say that, as you know, such a notice would be published on our website. So I'm very sorry for this, but it was not our fault, but it's really a material mistake coming from the U.S. clearing system.

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

Okay. So, waiting for the notice on the website, then. Thank you so much.

A - Gérald Harlin

Yeah. Exactly. Exactly. That's what I can tell you.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Thank you very much. Good morning. Can I just ask about AXA Investment Managers? You've made an announcement this morning about commercial real estate. Can you talk about your ambitions in the U.S. for growing further AXA Investment Managers?

And just in terms of the Health revenues, which have been very strong across the group, can you talk about the sustainability of its growth rate? Because I realized a lot of this is group business and could be lumpy. So, if could you comment on that as well, please? Thank you.

A - Gérald Harlin

Okay. About the U.S., yes, we have ambition. As you know, real estate is a key component, a main component in term of real estate, a key component of our alternative strategy, I could say. And what you saw this morning is the acquisition of Quadrant. You know that we are quite strong at AXA IM in corporate real estate loans. And – but we were – our strengths was mostly concentrated in Europe. And through this acquisition of Quadrant, it's a way for us to expand it to the U.S.

As you know that it's interesting not only for the U.S. market, but it could be also interesting for the European market. Why? Because through the FX swap, now that the FX swap are a bit more interesting, I would say, in terms of basis risk – basis spread. Means that today's loss interest rate – low interest rate environment, developing ourselves in the real estate loan sector is quite attractive. I remind you that we are number one in terms of real estate in Europe. That's for the first part.

About Health, what I can say relative to Health is the fact that it's quite interesting. If you go to the press release on page 10, it's quite interesting to just have a look at the roughly €10 billion of revenues coming from the Health side. And you can see that it's not – and that makes me quite optimistic because it's not relying on one country, it's across the board. Look, France 12%, Europe 4%, Asia plus 3%, International plus 11%. So, we have only United States, but, as you know, it's very small, it's €40 million.

So, across the board I would say that we have a strategy, which consists in developing new product across the board. Maybe the only exception is Germany and you know why, it's due to last year, in 2017, where we had exceptional new sales in Long-Term Care and it's also due to the political situation in Germany, mostly in the first half.

So, beyond this, I would say that all the countries are faring quite well. We have a competitive advantage because we are much bigger than our immediate competitors like Allianz, Generali, Zurich. So, it's – we have really a good position there and that we develop organically quite actively.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can I just have one follow-up question if you don't mind.

A - Gérald Harlin

Yeah.

Q - Farooq Hanif {BIO 4780978 <GO>}

Did you say earlier in the last question that you will have an 8-point benefit from Solvency II from internal model applied to XL (00:48:42)?

A - Gérald Harlin

I said – no, I corrected it. I'm sorry. I just said that what we said was between 5% and 10%. Between 5% and 10% benefit that will come from the internal models, and at the time we will move from this equivalence to internal model.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much. Thank you.

A - Gérald Harlin

Okay.

Operator

Next question comes from Andrew Crean, Autonomous. Sir please, go ahead.

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

Hi. Good morning, Gérald.

A - Gérald Harlin

Good morning.

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

Just one question. I didn't quite understand why in the third quarter when the stock markets globally went up, you get a 6-point hedge gain. I think markets have gone down about 6% since September. What will be the impact of your hedges on the fourth quarter?

A - Gérald Harlin

You mean in terms of – so, different point there. First of all, I could say that the gain will flow through the net income in term of earnings, first point. Second point, the impact, I could say, in terms of Solvency is, of course, increasing. The calculations that I made just before is – when the option goes into money (00:50:25), by definition, you are increasing the gain in term of Solvency, and you can – when I said the example I took is us, instead of roughly – instead of 40% capital cost in the Solvency II world, when we have an option, we achieve 85%, with a put option at 85% with a maturity of more than one year. In such a case, you get to gain because your cost – your capital would drop from 40% to 15%. By definition, when your option is going in the money and when your option instead gains for example 10%, then you gain the equivalent in term of capital. I hope I'm clear. But the gain in Q3 is because we both hedged in the third quarter and it was in July, and as you can understand, it reduced our SCR. That's a way to – that's exactly what I explained. That means that instead of an SCR of 40%, we have roughly an SCR of 15%, and when the option – and when the market goes down, it could even further reduce. So, you can make your – (00:52:06) I hope I'm clear.

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

All right, thank you.

Operator

Next question comes from Nick Holmes from Société Générale. Sir, please go ahead.

Q - Nicholas Holmes {BIO 21515144 <GO>}

Hi there. A couple of questions, please. Coming back to China, I wonder could you give us a bit more color on the level of top line growth you're targeting over the medium-term once all the single premium stuff is out of the way. And then, second question is can you give us an update on the likely – sorry. Can you tell us what you think of the proposal to postpone IFRS 17 by a year? That's looking quite interesting. Thank you.

A - Gérald Harlin

Okay. As far as China, so you can imagine that for us, it's a – the growth in China is very important. When you have – we can expect normally speaking to have a growth which would be close to two-digits. So, that's what we can expect. So, what I said is that we are in a transition phase, where the top line is going down, but where the profitability is increasing. And as soon as next year, I strongly hope that we will recover.

IFRS 17, as far as IFRS 17 is concerned, the point is that we should – it's important to have a good framework and a good accounting framework. As you know, there are some topics which need still to be refined if we want to have a good framework. I give you a few examples. If in the end, IFRS 17 would lead us to much more non-GAAP indicators, it would be a real figure. And to the fact that we still will have some volatility not for the VFA (00:54:20) approach. So, I believe that the problem is solved for the participating business, but the real issue is for the non-participating business in Life and in P&C.

And as far as this is concerned, it will create a lot of volatility, leading us to introduce non-GAAP figures. And we strongly believe as an industry – it's not only my position, but as an industry, we believe that such a big move, which involves a lot of work for the entity, should lead to a good framework that will help users to better understand our business. And if in the end it gives more complexity and more volatility, which would be unjustified, then it would be a real issue.

So, to make it short, Nick, I don't know exactly by how much it would be postponed. It could be postponed by one year, two years. I don't believe – personally, I don't want to postpone it too much. I believe that it's better to do it more or less in the timeline, even if there is a slight delay. But anyway, I can tell you that we are working actively on it. We believe that it will be helpful for the whole industry so long as it's a good framework, and that's why it's so important to make a few changes compared with the initial (00:55:50).

Q - Nicholas Holmes {BIO 21515144 <GO>}

Okay. Thank you. That's very clear.

Operator

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

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

Hi. Good morning. I'd like to follow up on a couple of questions. You said earlier, I think, to Johnny that at group level, the deviation on large losses is close to zero. Just to avoid any confusion, I wanted to check if this is group excluding XL or group including XL at the nine months. Secondly, as for the Q1 put options, is this both out of the holding? I understand that that's the case, just a confirmation of that. And one last point on the equivalence of XL for Solvency II. Is it true that a part of the available capital that you include in equivalent is senior debt? And does that mean that when you switch to internal model, you will lose this small part of available capital? I think it's around €1 billion, by memory? Thank you.

A - Gérald Harlin

First, on the – your first question was?

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

On the deviation at group level for the large losses that you saw so far. You said it was close to zero.

A - Gérald Harlin

(00:57:31) I believe that it was close to zero. So, we had a slightly higher cat in some countries, but it's not significant. So, no, it's – I believe that it's more or less in line with our average trend, I could say. You remember that in first half, we presented and we said that it was at if I might at (00:58:06) 0.6%. The year before, it was much lower because it was 0.1%, so more or less in line with the global trend that I could – that's what I can tell you.

About the senior debt, you know that we have a deleveraging plan, which means that, to be clear and honest with you, I truly hope that – you remember that (00:58:36) deleveraging plan, and we will – I hope that at the time we will move to internal models, we'll have (00:58:45). So, I don't anticipate any negative impact from it. I have no specific plan yet, and we will update it with you later on within the next months. But I don't have any specific fear from this side.

And look, we have a Solvency II – we are generating a level of Solvency II organic growth which is quite strong. And you remember maybe that – I don't know if you remember, but we said when we presented our plan in 2016 that at that time, it was our intention maybe to reimburse or to refinance some Tier 2 debts with senior. So, no, honestly, it's not a matter of worry for me. It's quite manageable.

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

Okay. Okay, that's clear. And for the put options, they're all both from the holding. Is that correct?

A - Gérald Harlin

Yeah, yeah.

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

Not in the subsidiaries?

A - Gérald Harlin

No, not exactly. The put option, you remember that the last put option is at the holding level and the previous one, the one that I disclosed in Q1, it was 50/50, 50% at holding and 50% in the subsidiaries.

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

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

A - Gérald Harlin

Okay, Niccolo (01:00:12).

Operator

Next question comes from Henry Heathrow from Morningstar (01:00:16). Sir, please go ahead.

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

Morning, all. Thank you for taking my questions. All on P&C, please. Just on Personal Motor in France, it looks like pricing on Personal lines is up 1.5%, revenue is down 2%. I just wanted to inquire as to what's driving that volume decline. And then, on the back of that, what's your average claim size looking like in terms of the trend and how's the pricing and kind of quantum being used to offset any trend on that average claim size?

Then, second question on the P&C side in UK Personal Non-Motor, revenue's down 10%. I was just wondering if you could give me some color on what kind of lines are we talking about in here. And then, third question on the Commercial in the United States, I was wondering if you have any kind of pricing pressure on fleet motor in that business line as well, please.

A - Gérald Harlin

Okay. Your first question about France, the P&C revenues, indeed, they were down 1%. And it was primarily driven by Personal lines. As you know, competition has been quite fierce since the introduction of the (01:01:30) in my view for all our policyholders to lapse, instead of once a year, almost every month, meaning that we continue to aim at the right balance between profitability and volume. And in Q3 2018, net new contracts were slightly positive as a whole if I combine Household and Motor.

So, it's a sign of stabilization. But obviously, the market remains quite tough. And to answer your following question, it's just because we want to keep a strong profitability that we don't dump the market (01:02:14). And we want to keep a strong profitability, and I have no fear on that side. In Commercial lines, revenues were stable and we had some large contracts. So, if I exclude these large contracts, we were up 3%, which means that globally speaking, we have a good momentum in Commercial lines. And for Individual lines in France, it's a reason of a tough market.

Your second question, if I'm right, was about the UK and the lower sales in Personal lines. Obviously, Personal lines were down 4% and mostly driven by Household from the – we had a loss of a large partnership with Marks & Spencer and also we have lower volumes on the back of selective underwriting. I remember – remind you that on the back of Ogden, we had some of our competitors which implicitly revised the Ogden rate, which means that they dropped their price. And that's not what we did, so that explains also why we are – we have been quite selective in terms of underwriting. Last question was?

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

Sorry. Can I just get a clarification...

A - Gérald Harlin

(01:03:40) It was on the U.S., I remember that. Could you may be precise your questions as far as the U.S. is concerned?

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

Well, you answered it partially. But on the U.S., I was particularly interested in fleet motor pricing on Commercial P&C business. And then, just a clarification on question one. I'm also quite interested in what the average claim size within personal liability of Motor has been doing and whether – if that has been trending up quite sharply, whether you have been able to put enough pricing to offset that.

A - Gérald Harlin

Okay. No, for the nine months, we don't comment on the profitability. But I told you that I was quite comfortable. So, that means that I don't fear any kind of worsening of our profitability in France. Yes, you asked also a question on the price effect by country and business lines, and you can refer to page 15 of our press release. And what I can tell you, which is a quite good sign, is that we are at, for Personal lines plus 1.3%, for Commercial lines plus 1.4%, and these compare for the first six months of respectively, 1.2% and 1.3%, which means that we still keep quite strong momentum in terms of price effects.

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

Okay. Thank you.

Operator

We have no more questions.

A - Gérald Harlin

Okay. So, I thank you a lot. Thanks for attending this meeting and be happy to meet you at the IR Day in a few weeks' time on the 28th in London.

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

Indeed. Thanks everybody and see you in London in a couple of weeks. Bye.

A - Gérald Harlin

Thank you and good day. Bye.