AXA 9M16 conference call transcript

November 4, 2016

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Andrew Wallace-Barnett, Head of Investor Relations, AXA

Thank you very much, and good morning, everybody. Welcome to the AXA conference call on our activity indicators for the first 9 months of 2016. Gérald Harlin, our Group CFO, would like to give you a quick overview of the main figures included in the press release, which we issued yesterday evening. And if you haven't found it already, you can find on our website. And following that, Gérald would be very happy to answer your questions.

Gérald, I hand over to you.

Gérald Harlin, Group CFO, AXA

Thank you, Andrew. Good morning to all. So let me begin by giving you an overview of the main figures for the third quarter of the year and then we'll move, as said by Andrew, to the Q&A.

So first, total revenues were up 0.4% on a comparable basis to €75.7 billion. On Life & Savings, APE growth improved in the third quarter with a 3.4% growth over the quarter, ahead of market expectations. For the 9-month period, APE remained stable as compared to the previous year. Protection and Health APE grew by 4%, driven primarily by higher sales of Group business in France, in Hong Kong, and in Switzerland.

G/A Savings grew by 23% mainly from good momentum in China, the continued success of G/A capital light products in Japan, and the recovery of sales in Hong Kong, including successful launch of a G/A capital light product in Hong Kong.

You will remember the high Chinese New Year single premium sales in the first quarter. In the subsequent quarters sales in China have been driven by relatively higher margin whole life savings products.

The growth in Protection & Health and G/A Savings APE were however offset by the adverse impact of the volatile financial market conditions in Continental Europe on our Unit-Linked business and lower mutual funds and others, driven primarily by the non-repeat of an exceptional sale of a large contract in France. NBV margin remained high at 38%, indicating that along with the growth in the third quarter, we continued to successfully focus on the profitability of the business.

Life & Savings net flows were strong at +€4.9 billion with Protection & Health at €4.7 billion, Unit-Linked at €1.1 billion, and G/A capital light at +€2.7 billion, partly offset by net flows at -€3.6 billion in traditional G/A, in line with our strategy. This includes €0.6 billion of traditional G/A outflows related to the successful Crest 20 buyout program in Belgium. This buyout program was opened from August 24 to October 21. And so we may expect to see further outflows recorded in Q4.

P&C revenues were up 3.4%, with strong growth in both personal and commercial lines, driven by a positive price effect of 3.4% overall. It is to be noted that the slight reduction in growth rate in P&C gross written premium as compared to first half 2016 was expected due to

the dissipation of the Turkey pricing impact. Excluding Turkey, the revenue growth for the first 9 months was 2.5%, in line with half year 2016.

In mature markets, revenues increased 2%, mostly driven by tariff increases notably in U.K. and Ireland. In high growth market revenues were up 10%. This was primarily driven by Turkey pricing impact and business growth in Mexico, mostly from the health business. Excluding Turkey, revenue growth in high growth markets was 5%. Direct revenues grew by 6%, driven by Japan, the U.K., France, and Poland.

Asset management business now: Net inflows in Asset Management were at +€18 billion in the first 9 months. Strong inflows in AXA IM, including some good flows into our Asian JV were partially offset by outflows in AB following the loss of two large mandates in the institutional channel.

Average AUM dropped 2% driven by an unfavorable foreign exchange impact and the withdrawal of first tranche of assets from Friends Life in Q4 2015. Revenues in asset management dropped 6% due to lower management fees, mainly driven by lower average assets under management at AXA IM and the decrease in average management fees at AB linked to higher share of fixed income products.

Solvency II now: Solvency II ratio was at 191%, down 6 points versus first half 2016. As the change in EIOPA reference portfolio, which was -6 points, together with the impact of adverse market conditions and estimated dividend accrual were partially offset by a positive operating return.

I would also like to remind you that on October 27, S&P upgraded its long-term financial strength rating of AXA's core operating subsidiaries to AA- with a stable outlook from A+ with a positive outlook. This is recognition to our continued balance sheet strength and resilience in face of the current rate context. Overall, I could say that the 9 month-numbers reflect our strong and continued discipline and resilience in this challenging macroeconomic environment.

I'm now happy to answer your questions.

Q&A session

Peter Eliot, Kepler Cheuvreux

Many thanks. I guess the first thing I wanted to ask about was a sort of the regulatory landscape and update, like I said, in particular in France. I mean you mentioned the Hamon law in your release. And perhaps you could talk through the impact you're seeing on a net basis there.

But also I appreciate the irony of worrying about interest rate rises in the current environment. But could you also comment on the Sapin II amendment, which allows the regulator to restrict

withdrawals from the funds in euros, which – and if that happens. And perhaps you could share with us the scale of the issue as you see it and the level of protection you have there from unrealized gains in that portfolio.

And then the second area I wanted to ask on was just perhaps some general comments on the business mix. I know it's a very positive development in the capital light G/A Savings, but the non-capital light G/A Savings are also still growing significantly. I was wondering if you could just give us your thoughts on that.

And also on the growth rate of the high-growth markets in P&C; I guess if you exclude the price effect there, the growth is sort of fairly flat there. So I was just – yeah. Just wonder if you could have some general comments on those.

Thank you very much.

Gérald Harlin, Group CFO, AXA

Okay. So, Peter, let's first start with the regulatory evolution and the points that you made about France. What I can tell you is that there is also the ACPR, which is the French supervisor already has a possibility to limit the surrenders. So it's nothing new. To be honest with you, this has been not very well managed from a communication point of view. So honestly, in September we had a drop in the sales in both General Account and Unit-Linked. And since then it recovered. So that means that October is better. So I believe that it's not – it shouldn't be in the end a big issue. And most people didn't understand that the objective indeed of this measure is in case there would be – as you said, in case there would be a sharp rise of interest rates, then there would be some unrealized losses and this would avoid these companies to realize losses. As far as we are concerned, we have a quite high – the level of capital gains in France is pretty high. So that means that we are, roughly speaking, in France, on top of my head, we should have a running yield which is close to 3.5%. On top of this maybe remember in the past I told you that we had in case of a sharp rise of interest rates, that we had some options, swaptions. And we still have these swaptions. So that means that for me, it's not at all a matter of worry. And I would say that the fact that there is a recovery in October was quite a good sign.

Your second question was about the business mix. And I would say that the fact that – what I can tell you is that on the APE side, we had an average growth of – your question was about the G/A investment and savings. And on average we were at 23%. So we had a strong – a quite strong recovery coming from Hong Kong, coming as well from South-East Asia, where you were focusing on the capital light versus capital non-light. But indeed the capital non-light is mostly coming from China. But on that side, it's good news, because you remember that in the first quarter I told you that we were in the negative NBV territory. Since then we recovered. NBV margin from China for the first 9 months is back at +8%. And I'm still expecting it to be in this territory. So that's quite good news. So, yes, we have a strong growth in both capital light and non-capital light, but with a strong recovery in non-capital light of our profitability.

Peter Eliot, Kepler Cheuvreux

Okay. Thanks very much. I guess the only other point I mentioned was the high growth markets in P&C where – so if you exclude the price effect, there's not a lot of growth coming through at the moment.

Gérald Harlin, Group CFO, AXA

Yeah. That means that it's excluding the price effect in the high growth countries, we should be more or less flat. That's what I can tell you. But anyway the fact that we have a strong price effect coming from Turkey means that it explains why we are in such a situation. Keep in mind that in Turkey we increased, on top of my head, we increased our prices by 145%.

Peter Eliot, Kepler Cheuvreux

Yeah. Yeah. So thanks very much.

Jon Hocking, Morgan Stanley

Morning everybody. I've just got one question, please. Just on the Life margins. I just wonder whether you could talk a little bit about the mix impacts on the margins? And what would the interest rate impact be for you to update for current assumptions on the European margins? Thank you.

Gérald Harlin, Group CFO, AXA

Okay. So, first, a general remark. We have a strong margin at 38%, Jon. And as you know, this is based on the interest rates of last year. So when updated with today's interest rate, we should be at 34%-35%. So it doesn't change fundamentally the fact that we have a strong margin and that we keep a strong margin. So that's the first point.

As far as going into a bit more details, we could say that we still have an NBV margin which is pretty strong. In Hong Kong it is 78%, in South-East Asia, we are still at 24%, although we had a strong growth in China. In France we still have an NBV margin at 25%, which is quite flat. In the U.S. – and this is in France; sorry, your question was about the business mix. And the business mix is still quite strong, because we still improved in Protection & Health. So we had an increase in our NBV margin by almost 4 points in France. We had this decline in the savings product. But an important point is to mention that we still have roughly 40% of our savings which are in Unit-Linked products. So that's mostly it.

In the United States we have an NBV margin at 21%, which was slightly down 3.5 points. But again we won't suffer in the U.S. from this decline and adjustment of interest rate, because as you know for the VA business, it's adjusted throughout the year, and that's mostly it. In Japan we still have a pretty high NBV margin, 105%, and we were quite stable compared to last year, because we were at the same level last year. In countries like Germany, Switzerland, we slightly increased our NBV margin. We are at 39% in Germany, 56% in Switzerland.

So I will say that across the board, we have a global stabilization or improvement, and we have this dilution effect coming from China. That's what I could tell you. But positive again in China, which is great news.

Jon Hocking, Morgan Stanley

Excellent. Thank you very much.

Paul De'Ath, RBC

Hi. Good morning. A couple of questions, please. Just on the growth in Hong Kong. It was obviously very strong in the quarter. And I was just wondering if you see going forward any impact from China getting tougher on Mainland Chinese going to Hong Kong and buying life insurance products?

And then the other question was just on the asset management business. And so you've obviously lost a couple of institutional mandates out of AllianceBernstein towards the end of the quarter. And would you be able to elaborate slightly on those mandates? So kind of why did you lose them? And also were they; high margin/low margin? Actually, what's the impact going forward on revenues from those? Thanks.

Gérald Harlin, Group CFO, AXA

Morning. Okay. First, what I could say about Hong Kong, and your question is relative to Union Pay. What I can tell you is that – a few comments. First of all, I should say that 98% of our regular premiums are below US$50,000. And second, I could say that if I give you a sensitivity, because I cannot be more precise – nobody knows exactly how it will end up – but I'll give you a new business sensitivity. That means that if we would have a decrease of APE by 10% or 20%, it means that our earnings; the calculation I made is that our impact on earnings would be between -0.2% and -0.4%. So it's extremely small at the scale of the Group. Of course it's important news, but compared to some of our peers, it's much, much smaller on our balance sheet and P&L.

The second question is about asset management. Yes, you are right. So we lost two contracts and the impact of these contracts is quite significant. It's contracts with relatively small fees, because in basis points it was something around 7 basis points. And this explains most of the decline of AB. As far as AXA IM is concerned, it's different. It's coming from Friends Life. And as far as Friends Life is concerned, we had a drop. And excluding the impact of Friends Life, which was expected, which was already announced, we would have been roughly flat in terms of revenues.

Paul De'Ath, RBC

Okay. Thanks.

Andy Hughes, Macquarie

Hello. Hi. I wonder could you talk me through the 3Q-on-3Q price changes of P&C, because I'm not really following the point about the price declines being due to MedLA. Because when I look at the [Slide] A24 from the half year, on personal lines, you had 6% increase in prices over the first half of the year. That went to 4.2% over the first 9 months. And to get that math, I have to have price declines 3Q-on-3Q across most of the regions. And is that actually what's happening? Are you cutting P&C prices to try and stimulate growth? Or maybe you could explain the trend? I mean I can see the MedLA price rises were 19.5% here for the first half year. But how does that get to 10% for 9 months, unless prices have gone down Q3-on-Q3? Same in France, other regions, please?

Gérald Harlin, Group CFO, AXA

I believe, Andy, that the most important factor is coming from Turkey, because the Turkey increase on a relative basis was much more important in the first part of the year, because it's diluted, I could say, over the 9 months. Which explains why you – on the figures you are right. But in fact, if you exclude Turkey, we don't have such an element.

Andy Hughes, Macquarie

So just to be correct, even if I take out Turkey, Turkey prices must have gone down on personal lines to get you from 19.5% down to 9.7%? And even if we exclude Turkey, France was up +0.7% in the first half year and went to +0.4% for the 9 months, which suggests Q3 had price falls for personal lines to get to that weighted average of 0.4%. Have you changed the methodologies or...

Gérald Harlin, Group CFO, AXA

Excluding Turkey, we have a +2% price effect, +2% price effect excluding Turkey.

Andy Hughes, Macquarie

For the third quarter?

Gérald Harlin, Group CFO, AXA

For the first 9 months. And on top of my head, it was more or less the same for the first 6 months. That explains why I told you that it's mostly due to Turkey.

Andy Hughes, Macquarie

Okay. Then maybe we can take it offline, because I'm kind of a little bit confused on that one. And then can you update on the reinvestment rate, please, for the Life business, which was 2% at the half year? Is there any chance you could give an update on that number? That'd be great.

Gérald Harlin, Group CFO, AXA

You remember that last time, beginning of August I told you that presently we were likely to invest between 1.6% and 1.7%. It's presently the case. And under today's conditions, that's more or less the rate at which we invest; 1.6% roughly.

Andy Hughes, Macquarie

Okay. Thank you.

Gérald Harlin, Group CFO, AXA

On average. So in other words it's in line with what we thought. It's in line with our plan. And so no worry on that side.

Andy Hughes, Macquarie

Okay. Thanks so much.

James Shuck, UBS

Hi, good morning. I have a few questions from my side, please, Gérald. So firstly, just looking at the net flows in the third quarter for NORCEE and MedLA, moved to outflows in the third quarter, I was just wondering if you could just comment on what was going on there, please.

Secondly, in terms of the new business value as opposed to the APE, South-East Asia and China still declining in the third quarter. Obviously, you're piling on volume in China, but I'm just surprised to see that South-East Asia and China new business value is not actually growing. Can you comment on that?

And then thirdly, just returning to your point around the NAIC proposals in the U.S. So I was wondering could you give us an update on what your latest RBC ratio in the U.S. is? I think you've previously given a number for 2015. And where you want to actually manage that level to? I think you rely on voluntary reserves to some extent, which is boosting that number to around about a 600% level. So a 400% kind of guidance is probably not strictly appropriate, given the reliance on the voluntary reserves. And then if you could just do a kind of update on how you see the NAIC proposals affecting that number? And any potential risk of recapitalization over time, please?

And then finally, if you are able to comment on this one, great. I thought I'd have a go anyway. But there's some kind of talk around the EIOPA revisiting the calculation of the dynamic VA. I was just wondering, could you tell me – I mean there's a 6-point negative impact in your Solvency II bridge from half year to now from a change in the reference portfolio. What would happen if you were to move from a dynamic VA to a static VA, please?

Gérald Harlin, Group CFO, AXA

Morning. No. There is – I'll start with this point. Yes, you are right, the VA has been updated. And as we said and as we told you, it's a bit of a mystery, because it's quite complicated and this adjustment wasn't expected, as you know. It's due to the revisions; there is a yearly revision, so there will be one within a year. The static VA is not at all something which is under consideration. Keep in mind that there are still some companies which are using the VA with their own portfolio and not with the reference portfolio. So we are miles away for companies using their internal models. We are miles away from a situation where we would move to a static VA. And it's not at all the spirit of Solvency II. I remind you that the VA was a basic principle of Solvency II. And last but not least, keep in mind that it wouldn't be consistent with, in the U.K., the matching adjustment. Because in the U.K., the matching adjustment is quite favorable, because it's linked to the assets, it's not the reference portfolio. And, of course the matching adjustment is something which is not under threat. So I have no fear on that side. I can tell you that we never discuss this with our own supervisor. So it's not a threat for me.

As far as the NAIC is concerned, which was your other question, the RBC ratio we don't give the figure for the quarterly account. But the RBC ratio is still pretty high in the U.S. Last time, at the end of June, we were around 600%, so we are pretty at a very high level. As far as the NAIC is concerned, there is nothing new. As you know we are just in the process now – we are in a testing phase, I would say. And we'll get news mid next year. I don't expect to get news before.

About your questions relative to does it mean that we could be in a situation to recapitalize our U.S. business; without any figure, without any new rules, it's difficult for me to tell you how it will work. Nevertheless, I could say that we are quite well reserved. Keep in mind that including the excess reserves, we are in the CT 98, so in the high 90s%. So very good level of capital. And last but not least, as I told you already, I believe that I got a question at the end of June. From a Solvency II point of view, we are using, as you know – with the equivalence we are using the RBC ratio. But we are using a 300% CAL as a requirement, which is pretty high, as you know, that we are by far the highest one. So in case there would be a revision, a global revision of the NAIC capital requirement, most probably there will be also an adjustment on the way we analyze it, because 300% of a low requirement has nothing to do with a higher requirement. So that's for this point.

You had also questions on NORCEE and MedLA, and it's coming from two elements. First of all, it's coming from Belgium. Because in Belgium, we have an APE drop of 55%, which is – on the flows, sorry. It's from the flows and I was answering on APE. On the flows, we have a €500 million – a bit more than €536 million – €760 million outflows in Belgium, most of it, €600 million, is coming from Crest 20. As I said in my initial comment. Why? Because it's a way for us – it's in-force management. It's pure in-force management, because it was a traditional G/A

business with very high guarantees. And it's quite interesting for us, because it's a way to get rid of high guarantees under excellent condition.

As far as MedLA is concerned, it's -€200 million in terms of outflows. And it's mostly coming from the Unit-Linked business and linked with MPS and the global situation of the bank. Nevertheless, as far as MPS is concerned, I just wanted to flag one element, which is important, which is at the end of October, on the 24th, the bank presented its plan. And it was clearly said – and you can go back to the presentation – it was clearly explained that they were relying on the growth and the strength of our partnership as far as Savings, Protection, and P&C is concerned. So we can expect to have quite an improved environment on that side.

James Shuck, UBS

And the final point was just on the South-East Asia new business value in the third quarter, in the 9-month stage?

Gérald Harlin, Group CFO, AXA

New business value in South-East Asia: Yes, it was 24%, -10 points. But it's the -10 points is explained by 80% due to investment and savings. And investment and savings, again, it's mostly linked to China, which means that roughly speaking, we have in South-East Asia we have an NBV margin at 24%, and it was 21% in first half. So that's – and that's globally speaking, the improvement that I mentioned to you.

James Shuck, UBS

Okay. Thanks so much Gérald.

Nick Holmes, Société Générale

Hi, there. Two questions, please. Coming back on the U.S., wondered if you could update us on the DOL reform, your latest thoughts. I think you were expecting 10% sales reduction. I wondered if that is still true. Also you've been growing very strongly in the non-GMxB variable annuities and I wondered if you could give us a bit more color on that.

And second question is on the capital light G/A Savings product. I wondered basically if you can give us more color on what sort of products these are? Are they hybrid or/and do they have interest rate guarantees? And if so, at what sort of level? Thank you very much.

Gérald Harlin, Group CFO, AXA

Okay. Thank you, Nick. First of all, about the DOL, no news. We confirm the -10%. So I don't change on that side, but no specific news. Maybe we'll have some news beginning of next year. On the non-GMxB in the U.S., it's mostly due to a product which is a Unit-Linked type of product, which is SCS. And that's a product which is Unit-Linked with some protections, and these protections are through options, where the client is protected on a limited decline, and

they give up in exchange some part of the upside. So that's the first point. SCS means less capital, and it's a slightly lower NBV margin. But on the net return on capital, it's excellent.

As far as the capital light, your question about what type of products did you sell. Look, the best example is in some countries we don't give anymore a yearly guarantee. And that's what will happen in France. I'm sure, Nick, that you heard about Eurocroissance and Eurocroissance has a guarantee in the end, 100% after 8 years only, which means that you can change the asset allocation, you have much more flexibility. In some countries as well, we are selling products with guarantees below 100%.

In the present interest rate environment, that's what we will do. And we are not the only one to move in that direction. It's a global move of the market, which is good news.

Nick Holmes, Société Générale

That's great, Gérald. Just a little bit more color on the Hong Kong capital light G/A Savings product. I think that this is a new product, isn't it?

Gérald Harlin, Group CFO, AXA

Yes. It's a completely new product. In Hong Kong we still have some very low guarantee. But on top we have high surrender premiums, surrender margin, surrender fees in the first year. So that explains why we are capital light.

I mentioned that capital light is when the numerator, the AFR, is above the SCR. So that means that it's accretive in terms of capital and Solvency II capital. So almost everywhere, presently, at the same time we still want to have a strong percentage of our sales which are in Unit-Linked products, but at the same time in order to sell more, even in conditions which are not very favorable for Unit-Linked business, it's important to have these capital light products, which even in a very low interest or close to 0% interest rate environment, allows us to sell products with a high return on capital.

Nick Holmes, Société Générale

That's great. Thank you very much.

Farooq Hanif, Crédit Suisse

Hi, everybody. It's Farooq Hanif from Credit Suisse. Just wanted to go back on the EIOPA reference portfolio. Can you explain if there are going to be any asset allocation shifts? My understanding is that the whole philosophy behind how they calculate the reference portfolio has changed to include Unit-Linked. So if you could just explain what happens.

Gérald Harlin, Group CFO, AXA

Yeah. It's no problem to discuss this topic. There are two. Again I'm not absolutely sure. My own guess is that it's coming from Unit-Linked. So that means that they included Unit-Linked and then they excluded Unit-Linked which by definition reduced the ratio. That's the first assumption. That's the first possibility. And the second one is also the fact that they don't take into account the part which is swapped. In other words, imagine that in the portfolio, in the European portfolios, we would have some U.S. dollar denominated bonds swapped into euros, apparently, they don't take this into account. But this is what I believe, but I'm not 100% sure. But I cannot tell you more. So that's – and even when we discuss with them, they are not 100% clear. So that's it.

But from now on, I don't expect any further adjustment. Maybe it could be a pure, I would say, mistake that they made at the beginning, possibly. I don't know. I cannot be more precise.

Farooq Hanif, Crédit Suisse

But doesn't it encourage you to take more kind of foreign bond risk, so to buy U.S. corporate bonds…

Gérald Harlin, Group CFO, AXA

No, no, no, no. Let's be clear. Let me explain to you that, yes, we are using some U.S. dollar bonds, but they are swapped into Euro. So that means that we don't, from an ALM perspective – and in order to optimize our capital, our Solvency requirement, it's important for us to hedge and not to take an open FX risk. We have some, but it's extremely limited.

So that means that because for us it would represent a significant risk, that would immediately translate into higher capital requirement. I don't think I'm clear, but – which means that, yes, we are using plenty of different bonds, even denominated in other currencies, but they are swapped back into the balance sheet currency of the underlying company.

We do the same in Switzerland. That's another example. In Switzerland, as you know, there is a scarcity of paper. And today, globally speaking, in Europe it's also starting to be the case due to the QE. But nevertheless, we have this capacity. We have plenty of – the market, the U.S. market, the bond U.S. market is very deep. But anyway when we invest, then we swap it back into Swiss franc for Switzerland or into Euro for Europe. It's clear?

Farooq Hanif, Crédit Suisse

Yes, it is. Can I ask one quick question, another one? What happened to Unit-Linked since 30th of September? Has there been any recovery, in terms of sales and net flows?

Gérald Harlin, Group CFO, AXA

I told you that it was slightly better in France. October has been a bit better. But I don't have sufficient, I would say, vision in order to tell you. But France, which is one of our biggest market, apparently recovered. That's in line with the – but in France when I said it recovered, the Savings business recovered. But we are still around 40%. So we still sell 60% of General Account and 40% of Unit-Linked roughly speaking.

Farooq Hanif, Crédit Suisse

Okay. Thank you very much.

Michael Huttner, JP Morgan

Thank you. I just have two questions. One is the 191%. I just wondered if you could give more granularity on that. Consensus and I was at 192%. And you might say, well, it was only 1%, but given you had flagged the 6% change so well, I just wonder if there's a moving part I'm missing here? I don't know what it would be. So it's an open question.

And the other one, of the – you mentioned the S&P review. In there, there was only one negative. And I'm sorry I'm mentioning a negative, the rest was brilliant. So it's a very good job, well done. And the negative was that they said they downgraded your ERM factor, because they said you were subject to multiple something or other. And I just wondered if you could explain their thinking? What it could mean for you? Thank you.

Gérald Harlin, Group CFO, AXA

Yes. May I start with the last question? Yes, it was great news for us, because it's a strong recognition of our strength – balance sheet strength. And so it's great. You are right. That means that we have been downgraded. We are still good, but we are not at the top of the ERM. Why? It's coming from the fact – and if you go into details in their comments, it's coming from the fact that, as I said, that in the U.S., we have two different frameworks. We have one framework, which is the equivalence, and we have another one, which is Solvency II.

As you know and many times I repeated it today. The way we manage our products, the way we price our products is completely linked to Solvency II. Although we'll benefit from the equivalence, it's driven by Solvency II. But the fact that the U.S. represent a large part of our business makes that this discrepancy between two different frameworks is something that they considered as justifying a slight penalization. But as far, I insist on this on that is a point on which we have been always crystal clear, the way we manage our business including in the U.S., including for pricing our VAs and so on, is a pure Solvency II type of approach with the Solvency II requirement.

The first question – your first question was about the Solvency II...

Michael Huttner, JP Morgan

191%. The 191%.

Gérald Harlin, Group CFO, AXA

Yes, 191%. So let's – we have been discussing, there were many questions on the reference portfolio. So starting from 197%, which was the Q2 2016 Solvency; operating return, it's roughly 4%, dividend it's roughly 2%. I remind you that we are using as usual the dividend of the previous year. And then we have a marketing part excluding FX, that means that it's -3%. And then the remaining part is roughly -5%, of which -6% are the reference portfolio. So that's mostly it.

If we would do it today, maybe we would be slightly better on the market impact. That's what I could say. But it's fluctuating by definition.

Michael Huttner, JP Morgan

And on that thing I was discussing with your really helpful colleague yesterday, and he was explaining that when – I'm going to get this wrong, so don't – when the corporate bond spreads narrow, the impact on you, because of the way the volatility adjustor works, is actually negative. So now corporate bond spreads, which I always think is positive because the bond values go up, is actually not great, because there's a bigger impact on the way you value the liabilities. Have I got it right? For my kind of...

Gérald Harlin, Group CFO, AXA

Well, no. I believe that it's relatively marginal. The fluctuation, today's fluctuation in the spreads, we know it's small, because it's 1-2 points. So I would not flag this event as an indicator of a change in the Solvency ratio. I could say on the reverse that compared with the situation of August – July-August, the recent rise of interest rates of 20 basis points roughly, because in Germany, we are at 15. It's a good news, because it's an improvement, which will translate into our future earnings marginally, but nevertheless, it's important and in the Solvency as well. So that's it. But, no, I would say it's a secondary factor.

Michael Huttner, JP Morgan

Secondary factor. Okay. Thank you so much. Thank you.

Andrew Crean, Autonomous

Good morning. Three questions if I can. Can I come back on James Shuck's question and just ask the numeric answer to what the impact on your Solvency II coverage would be if you moved to a static VA? I understand you don't think it's on the table, but it would be interesting to know.

Secondly, I just wanted to understand the consumer proposition of offering guarantees below 100% on general account products. I mean you can probably guarantee to give somebody's

money back if you put the money under the bed. So doesn't look that promising to give less than that.

And then thirdly, a more generic question. I'm still – looking back over 5 years, the profitability of the Protection & Health business hasn't moved at all. Every quarterly update, we get figures from you saying that there's strong net flows and good sales and high margins in General Account Protection & Health. I just wonder why that's not flowing through to the IFRS profit.

Gérald Harlin, Group CFO, AXA

Morning. Okay. Let's start with the last part of your questions. I believe that, your question is that, yes, I hope and I expect it to flow over time in the IFRS profit. And I can refer to what I said in the presentation of the plan at the end of June. You remember that at that time, I said that I was expecting the Protection & Health combined[1] ratio to go down between 93% and 94% from a level of 95.4% at the end of 2015. And I can tell you that we are doing everything. And even if we have some one-off events in the past that made that, you are right, our profitability in terms of Protection & Health was not – improvement in profitability was not obvious. I'm still expecting it. And I'm doing – and we are doing everything in order it to flow into the earnings. So it's, yes, I'm expecting it. I repeat what I said at the end of June.

Your other question about the 100% and the guarantee. The point is that it's a way – look, it's a way for people, it's a way for investors to have a part invested a higher part invested in equities or in hedge funds or in more volatile instruments without running the risk to be below their guarantees. And I can tell you that even if – in Italy, for example, we sell products which are below 100%, and with guarantees below 100%. People prefer to have, in a period where rates are close to 0%, they accept – and it confirms the maturity of our clients – they accept to take a bit more risk while at the same time giving up part of their guarantees. So that's something that more and more appears, and in different markets.

Andrew Crean, Autonomous

But, Gérald, what is the money invested? What proportion is in equities or hedge funds versus bonds?

Gérald Harlin, Group CFO, AXA

Today, let's say that with a traditional product at 100%, you have let's say 5% roughly invested in equity. And with this if you have a guarantee, take my first example of guarantee after 8 years. Then in such a case, you could have a more – a more important part invested in equity. In other words, today, I have one figure in mind. If you make some projections today with guarantee, if you invest today in a traditional portfolio with a guarantee at 100%, every year you can expect to have 1.5%, whereas at the end of the 8 years, it should be 2.5%. That's roughly what we can expect. In term of percentage of equity, that means in such a case, we would move to 10%, maybe 15%.

1. During the call, “loss ratio” was mentioned instead of ”combined ratio”. This has been corrected here in the transcript , in line with targets announced during the June,21 2016 Investor Day

Andrew Crean, Autonomous

Okay, thanks. And the static VA question?

Gérald Harlin, Group CFO, AXA

Yeah. We don't – honestly, that's something that we don't publish – and I don't have the figure.

Andrew Crean, Autonomous

Okay, thanks.

David Barma, Exane BNP Paribas

Thank you. Hi. Good morning. I just have one question on the French business. So recently, Mr. Peretti in an interview gave us some color on the organizational changes in France with the creation of three divisions namely. Is there any additional details you could provide us on this? And more specifically, will there be I guess an integration between the online business of Direct insurance and the traditional multi-channel business? Or will the direct remain a separate platform? Thank you.

Gérald Harlin, Group CFO, AXA

Okay. So relative to your first question on France, I would say that since 2003, that means over the last 13 years, we had an organization which was by market. By market means that you had an organization with first, a line of business for individuals and next, for the commercial. And we believe today that at a time where there is much more interaction between both, it makes more sense, and in term of efficiency, it's better to have the networks dedicated to both. I remind you that in France, our strength is mostly on the SME and mid-market. And that's why it's – I would say that it's much more efficient. You can go to the – there is a press article that was issued yesterday, and which is an interview from Jacques de Peretti, the Head of AXA France. And you will have all the details concerning this restructuring. At the same time, what we are expecting is much more efficiency, and I would say that it would be part of our €2.1 billion plan. And we can expect that France will contribute significantly to it.

David Barma, Exane BNP Paribas

Thank you.

Blair Stewart, Bank of America Merrill Lynch

Hi. Good morning, everyone. It's Blair Stewart from BofA. Just one follow up on the U.S., please, Gérald, with regards to the DOL. We've had some of the distributors come over and

talk about whether they're going to move to fee or go down the best interest clause exemption route. I just wonder if there's any update from the AXA perspective.

And then secondly, on your 10% guidance. Is that something that you feel is appropriate for this year and then have a gradual increase in sales thereafter? Or how do you see the medium-term picture for the U.S. business for you? Thank you.

Gérald Harlin, Group CFO, AXA

Yeah. We will have a gradual improvement after. So that means that we consider that it will be 10% but that after and normally within a reasonable period of time, we should recover. So it's not -10% for the next 5 years. And, Blair, it's an important point. As I told before, as far as DOL is concerned, we don't have so much experience. And it will be next year, so it's I cannot give you any more insight. But we are preparing ourselves. And I would say that we consider that it will be temporary, and this will be a temporary decline.

Blair Stewart, Bank of America Merrill Lynch

Okay. Thank you, Gérald.

Operator

We have no other questions. Sir, back to you for the conclusion.

Gérald Harlin, Group CFO, AXA

Yes. So I thank you all for attending this call. And I believe that, first of all, this confirms, as I said, the strength of our business. And next time, I believe it will be for the full year earnings. So speak to you soon. Have a good day and thanks for attending this call.

Operator

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

End of the call