

AXA 1H23 Earnings Transcript

August 3rd, 2023



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HY23 Earnings Presentation

Anu Venkataraman, Head of Investor Relations and Group Strategy, AXA

Good morning, and welcome to AXA's First Half 2023 Results Presentation. Walking through our results today are our Group CEO, Thomas Buberl, Group Deputy CEO, Frédéric de Courtois, and Group CFO, Alban de Mailly Nesle. After the presentation, we will take questions here from the room and then from the webcast.

Just one minor announcement before we start. You know as we progress through the implementation of IFRS 17 and 9, we have made some minor changes to our restated First Half and Full Year 2022 numbers. While the changes are immaterial, for the sake of completeness and accuracy, we've published an updated version of the financial supplement that we shared with you.

So, with that, I'll turn over to Thomas.

Thomas Buberl, Group Chief Executive Officer, AXA

Thank you, Anu. Good morning to all of you. Very happy to be with you and present the First Half 2023 results. Let's start with the overview.

These results show continued strong delivery. We have shifted from financial risk to technical risk, and over many quarters now we have shown that this model works, that this model is producing good underlying earnings, Euro 4.1 billion at the Half Year, which is plus 5%, and I stay in the logic of IFRS 4, because that's the best comparison to previous numbers, and plus 8% when it comes to underlying earnings per share. All of this with a strong return on equity, 16.6%, and, what's very important in times that are not always stable, all of this on a very solid balance sheet. The Solvency II ratio 235%, plus 20 points relative to the Full Year of 2022.

So, we will stay on course of exactly the strategy we've chosen, focused operating model, focused on technical risk, and staying as obsessed on cash that we used to, making sure that for the second half of this year we'll continue that journey, and we are confident to exceed the Euro 7.5 billion underlying earnings in 2023 that we have given as a one-time guidance because of the change to IFRS 17 and IFRS 9. The second half of the year should hopefully progress in the same way.

When you look at our business model today, we are well positioned because it's a simple business model and a well-balanced business model. 50% of our business is now Commercial. We are the global leader and the largest insurer for commercial companies, be it for their physical assets, but also for the human assets. And when you look into the physical assets of those global companies, you see that the dynamic has been quite good. On the one hand, rising prices, but also rising volumes. And when you look and we come to it later, into the numbers of XL, you see that the revenue increase is half price increase, half new business. Secondly, on Employee Benefits, we certainly see a significant increase in demand due to the fact that post-Covid, Health is taking a very different and much more important stance in a company's orientation.

The other 50% is Retail business, mainly focused on strong European positions and Japan and Hong Kong, where we are, on the one hand, strong in Retail P&C, but also strong in Retail Health and Life and Asset Management, making sure that we are focusing primarily on tied agents, because it is obviously much easier to control it, to steer new business, but also to steer retention. And this is very important, obviously, in times that are not always stable.

We are with this model where we want to be, so when we are thinking about the next plan, it will certainly be based on this model and based on how we can expand our footprint in this model. And the announcement that we have added to the good results this morning around the acquisition of Laya Healthcare in Ireland fits very well into this model, because it's on the one hand strengthening our current footprints in Europe, but on the other hand as well strengthening our employee benefits footprint because Laya is also very active in employee benefits.

If we look into detail in this acquisition, Laya is the number two healthcare company, insurance company in Ireland, 28% market share, best practice when it comes to managing digital interactions with their customers, but also when it comes to managing care beyond just paying claims. If you look at their strategies around clinics, this is very leading. And it is a capital-light business which fits very well into our strategy.

We obviously made sure that we looked at this acquisition, which will, by the way, add roughly 5%¹ to our existing footprint in Health, that this acquisition does comply with the standards of capital discipline that we have put forward. And going forward, this will certainly also stay the case. There were some discussions this morning around AXA's ambition or non-ambition in the UK and potential M&A targets. I would like to clarify this straight away, the UK for us is a core market but we are envisioning very much to grow organically in the UK. So if there is a question around concrete M&A targets, I would tell you this is not the case.

When we look at Laya, why is Laya important for us? We are already number one in P&C in Ireland, we will add now a strong number two in Health to this position, which obviously will offer us a lot of cross-selling potential as well. But secondly, Laya is also important for AXA Group. Not only does it add to our Health revenues, but it also gives us access to capability that we don't yet have sufficiently today, both when it comes to the digital interaction with customers, but also when it comes to Health services. So, this is very good news for us.

And I would like to pass at this point on to Frédéric de Courtois, who will give us more details about the numbers.

Frédéric de Courtois, Group Deputy Chief Executive Officer, AXA

Good morning to you all. I'm very pleased with our results. We now have a simple and quality business based, as mentioned by Thomas, on two pillars - so 50% Commercial and 50% Retail.

If you look at the context, we've had pluses and minuses in the environment, and we've been managing these pluses and minuses. The first important topic is that the price momentum remains good, on Commercial lines and on Retail, and we have the ability to pass these higher prices. Now this is an important point.

The second element of context is, of course, higher interest rates and inflation. Higher interest rates means that we are now reinvesting at higher rates, and we will progressively see it. And inflation, I've just mentioned it, and we have the ability to compensate for inflation with prices.

On Cat, you remember that we have a 4% budget on Cat annually, so we've been a bit below this during the first half. We had a 3% Cat experience over the first half, close to 4% in the U.S., around 2% in Europe, so an average of 3%. And on the large loss experience, the large loss experience has been equal to last year. And

¹ 5% additional Gross Written Premiums & Other revenues, based on FY22 Gross Health Written Premiums, as mentioned in slide 7 of Half Year 2023 Presentation to Analysts & Investors.

if you think about this, last year we had a strong claim with Ukraine and we didn't have it this year. So, it means that the large loss experience has been pretty heavy in the first half, and it includes the French riots.

If I look at the right part of the slide (refer to slide 9), you see, even if the reading is always a bit more complex with the IFRS 4 and 17, but the performance of all our engines is good. And you see that we have four engines of about the same size. And I am especially pleased with the performance at AXA XL, both for insurance and reinsurance, which is a big news. So, we had good results on both fronts.

I'd like to add that, you know that AXA has always been very cautious on reserves, and I'd like to make clear that for this Half Year we've been a bit more cautious than usual.

Last comment on this page (refer to slide 9). All this according to us shows that we are able to manage volatility. We're able to manage volatility through prudent reserves. We are able to manage volatility through increased prices. And all this makes us confident that we are going to be able to deliver sustainable and attractive results, whatever the context.

Looking at the next page (refer to slide 10), you've seen in our figures that we had strong results on growth and on the technical results. If I look at the growth, and if I focus on the around 90% of the business we like, we had a 6% growth of the business, which is good, with especially a 7% growth of our P&C business, including a 9% growth of our Commercial line business, so we are pleased with this.

If I look at our technical margins, and I show here our current year claims ratio, so excluding Cat, excluding discount, you see that we've continued to improve our technical ratio by 0.5, especially on the Commercial lines. And we believe that these levels are sustainable. We believe that these levels are sustainable, and we also believe that, to a large extent, we will be able to manage volatility caused by the discount factor. And this makes us confident.

If I look at the right part of the slide (refer to slide 10), you see that the CSM is extremely stable, progressing regularly, and this is all linked to the profitable new business, and this makes part of our P&L extremely predictable.

Last comment, which is not mentioned on the slide, on costs, you know that cost discipline is important for us. It's interesting to note that our cost excluding commission has increased by 1% over the past year. Which is, compared to inflation, I think a good result, and we continue to be focused on this.

Last comment from me on capital. So you've read that our capital position is very strong. You see that our solvency ratio has improved by 20 points. What is important is that this improvement is mostly linked to organic factors and not so much to capital markets related factors. If I look at the own fund, the improved own fund is linked to our good capital generation, linked to the good results in the first half. And the lower capital requirement is linked to two factors. One, which you already know, which is that we have a capital-light business, which regularly improves our capital requirement, and we had an exceptional, if I may say, contribution from what we've done on the duration gap. So, we decided to almost close our duration gap, so our duration gap now is only 0.2². We believe, who knows of course, that we've done it with good timing, and it had a significant impact on our solvency ratio, and it has also a significant impact on our sensitivity to interest rates.

² Duration gap of 0.2, as reported in Half Year 2023 Financial Supplement published on AXA.com website.

At the end, I see three positive points on this slide (refer to slide 11). The first one, which you know, which is that our growth doesn't consume capital. The second one is that we've reduced our market risk capital requirement by Euro 500 million, so about 3% of the total. And we've, as I've said, significantly reduced our sensitivity to interest rates. All of this, of course, is only capital, if I may say, and not cash. But it improves our confidence on remittances, and I can only tell you that we are fully on track on remittances and cash.

Thank you. And I leave the floor to Alban.

Alban de Mailly Nesle, Group Chief Financial Officer, AXA

Thank you, Frédéric. Good morning, all. So, let's go one level deeper in the details and let's add the pleasures of IFRS 17 to that. So, let's start with the P&C revenues.

So, you see that we had very good growth in the first half with 7%. That's driven first by our Commercial line business, both XL and the other AXA entities. And what's very interesting is that it's both volumes and price increases. And on volumes, we see significant demand even though price is increasing. But that's a very positive development. On the price increases, you see that it's 4% overall, it's 4% also for XL, but if you exclude the Financial lines and more specifically the North America Professional lines, we are up 7% on average, which is still above loss trend, and you will see in a couple of slides that, we had told you about the margin expansion that we would have in Commercial lines, and we did have that margin expansion.

On Reinsurance, you know that we drastically reduced our exposure to Nat Cat this year again, but that was almost offset by the price increases we had from Property and Property Cat in reinsurance.

And finally, Personal insurance. So, prices are up 6% and we focus on price, not on volume. We think that those prices are sufficient to offset claims cost inflation, but there is no place yet to increase volumes in our markets. And so, we focus on profitability. That being said, we do see an acceleration in price increases, Q2 over Q1, in Personal lines.

So, the combined ratio that we have, so now that's purely IFRS 17, as you will have understood. The first point I want to focus on is the light blue bar, the 68.2% attritional loss ratio that Frédéric also mentioned, that is key to us because that's the result of our management. And you see that it improves compared to Full Year 2022, compared to 1H last year. It's, as we will see in the next slide, due to the skew we have to Commercial lines, which as you saw represents 2/3 of our P&C business.

The other components, as Frédéric said, we had a benign environment in Cat, I don't come back to that. A significant impact, positive impact of discount with average discount rate being at 3% for the Half Year. And so all in all, we didn't see very significant reasons to release significant PYDs. So, we are at minus 0.6%, which is at the very bottom of our range that goes from 0.5 to 2 points of combined ratio. And to the same extent, we have been also conservative in our loss picks in Commercial lines over this semester.

Now, if we go a level deeper, Commercial lines versus Personal lines and XL Re. So, Commercial lines, you see the 0.6 point improvement. Again, that's the margin expansion I mentioned. Bear in mind that, of course, we had Ukraine last year. We had large losses this semester, including the French riots that are in this attritional part in Commercial lines. And on Personal lines, so the loss ratio, so excluding Nat Cat, excluding discount, is slightly up, 90bps. And that's due to the fact that, although, as I said, our price increases were sufficient to compensate for inflation, in two countries, namely Germany and Ireland, frequency was higher than anticipated. So that needs further pricing actions, and we will take them. But that explains why, despite the pricing action that we took, our attritional loss ratio is slightly up.

Now when we move from ratios to numbers, so you see the very, very strong increase compared to 1H 2022 of our underwriting result. So you will remember that in 1H 2022, there was also the fact that the release of excess reserves was not recognized. But leaving that aside, it shows the significant improvement coming from, growth first, and coming from the improvement in our technical profitability.

Investment income is slightly up. We had told you that there was an elevated level of fund distribution last year that we didn't have in the first half. But we see in some entities, and notably in the UK, which has a short duration, benefits of higher rates. But we also see the impact of the unwind, the insurance financial expenses for Euro 99 million. In total, for the first half those financial expenses are at Euro 300 million. Overall, compared to IFRS 4, P&C results are up by 13%.

Moving to Life and Health. So, Life revenues are roughly stable, minus 1%. We have good performance on the Protection side with plus 4% that comes from Japan, that comes from Hong Kong and Switzerland. On Unit-Linked we're down 16%, mainly France and, most of it, Italy. In France, you need to see that in conjunction with the capital-light growth. When you look at France, which is our main Life carrier, when you look at capital-light, which is Eurocroissance and Unit-linked, we are up 10% over the first half, and there is acceleration in Q2 versus Q1. But overall, so we are down 16% on Unit-linked, plus 11% on capital-light. We are down 11% on Traditional General Account and we see that as good news. And you see also the impact of that in our net flows, Traditional General Account net flows are negative by Euro 4.4 billion. You will see later that it has a positive impact on our solvency. So, we consider this as an in-force transaction, but without paying the price. So that's a positive for us. And you know that we want to be as capital-light as possible, and to the maximum extent possible, to reduce our asset leverage as well. On the Health side, so you will remember the two large contracts that we had in France, and that we canceled at the end of last year. That weighs on our revenue growth, minus 6%. If you exclude those two contracts, we are at plus 7%. So good growth on the Health side.

On the PVEP side, a bit like IFRS 17, the picture is a bit complex because of interest rates, and the decrease that you see in PVEP is entirely attributable to interest rates. Same for the NBV. And so, the NBV margin, which is what matters to us, is up slightly, more stable, from last year to this year, and you see that the new business CSM, pre-tax, is up 2%.

Moving to the stock of CSM, there are quite a few things to say here. The first thing is to look, as we did in May, at the box and to make sure that, on a recurring basis we do create CSM with, on one hand, new business CSM and the underlying return on in-force, on the other hand, the CSM release. So, we have a net creation of Euro 500 million, which is an annualized 3% increase.

Then we have economic variance Euro 1.4 billion. You will see that as well in Solvency II, the equity market was good. Lower interest rate volatility, good spreads, and down partially with lower interest rates. Operating variance, the minus Euro 0.4 billion, that's mainly the impact of the negative flows. But you will see the benefit in terms of capital when we go to solvency. And finally, minus Euro 1 billion, that's the yen that was weak this semester and that obviously weighs on our total CSM number.

Moving to underlying earnings. So obviously, now under IFRS 17, it's driven mostly by the CSM release. And the CSM release is up 3%. So very similar to the growth in the CSM stock itself. The technical and financial results are down. Financial results, again, we had told you about this earlier in the year because, again, we had good fund distribution last year, and less this year. But on the technical side, it's new. It comes from the fact that, well, living in the UK you might have seen, it's simply the very significant increase in frequency on the Health side because of capacity issues with the NHS. And the NHS simply saying to patients that

have private health insurance to go directly to specialists without going through the triage of their own GPs. And so that has an impact. What it means is necessary price increases. Also, better claims management. We probably need to do our own triage on this as well. And it would not be solved now. You will see some impact also in H2 coming from this, because we see that as a change in the UK market. So overall, compared to IFRS 4, Life and Health earnings are down by 4%.

Asset management. So, assets under management are roughly flat. You see negative net flows that come from us at AXA. And that's the reflection of what I said earlier on the negative flows in General Account. That's the direct link with that. Obviously, you can imagine that the assets going out of the main funds are not the ones on which AXA IM has the largest margin. And that was partially compensated by third-party funds, both in the Core platform and the Alts platforms, roughly 50/50, which is also a good signal because you see that despite questions that you may have on the real estate market, we still see investors coming in for investment in real estate. Fees were stable at 18.1bps and underlying earnings are down by 7%, because we didn't reduce cost as a proportion of the revenues decrease, simply because we are investing in the new platform Prime that we told you about.

So, when I summarize all this, underlying earnings are up 5% as was said at the beginning, which translates into an 8% underlying earnings per share growth, thanks to share buybacks. Net income is down 7%, but you will remember that capital gains on equity do not flow through P&L now, but directly to net assets. We had some last year. We don't have any by definition or by construction this semester. And capital gains on real estate, that go through the P&L. We didn't have much in the first half, that's more lumpy, and we will have some in the second half.

So finally, moving to solvency. So, a lot already was said by Frédéric. Normalized capital generation, 16 points. We had told you that the new range would be 25 to 30 this year³, so 16 points is slightly above half the upper end of that range. Bear in mind that, like P&C, there is seasonality in our business. There is seasonality because of Cat. Q3 is generally worse than Q1 and Q2. Seasonality on investment income, because dividends are paid in the first half. And there is a slight seasonality also on the discount effect. So that explains why we have a bit more than half in the first half.

Economic variance, it's exactly what I mentioned for the CSM. You have it here. Operating variance, so that's what I mentioned earlier on the negative cash flows. You see the loss of EOF, but you also see that our solvency capital requirement reduces by Euro 0.2 billion. So, net-net, it's an improvement by one point of our solvency ratio.

And then last, it's the reduction in duration gap that we did. You will probably remember that we did some in Q1 and that we told you that our neutral position would be to be slightly longer assets than liabilities. We're not there yet. Duration gap is at 0.2⁴ year. But the benefit of that is the significant reduction in our financial capital required and the significant reduction in the sensitivity. We are roughly at half where we used to be when it comes to interest rates with 5 points up and 7 points down. And that's again one more proof that we are focusing on our technical risks and that we are reducing our financial risks.

And with that, Thomas, I leave you the floor for the conclusion.

³ 2023 outlook for normalized capital generation is in the range of 25 to 30 points, as reported in AXA's 1Q23 Activity Indicator press release.

⁴ Duration gap of 0.2, as reported in Half Year 2023 Financial Supplement published on AXA.com website.

Thank you, Alban.

Summarizing what we heard this morning and relating it back to our Driving Progress 2023 plan, we have shown again another Half Year of strong execution, which will make us even more confident to deliver the Driving Progress 2023 targets. If I go into detail, the underlying earnings per share, we want to achieve a range between 3% and 7%. With the 8% that we have just shown and the previous period between 2020 and 2022 of 10%, and I hope we can say that we are most likely set to exceed this target range. And this increase in underlying earnings per share is very much driven by the operational changes we made. You might have probably seen that on the P&C side, which represents today 66% of our underlying earnings, we have achieved a 7% top line growth, which really shows that the new platform of AXA and the engine around technical risk is really moving. And if you then look at the current year combined ratio, excluding Nat Cat and excluding the discount factor, you see that it has also been reduced by 0.5 point, which again shows the increase in the operational performance.

When we look at the return on equity, at 16.6%, we will also be well positioned to deliver the range of 13% to 15% by the end of this year.

When you look at Solvency II, we are clearly above the 190% with 235%. And when you go back to what Alban said around having been able to not only increase the solvency significantly, but also reducing the interest rate sensitivity of our balance sheet by half over the last two years, this is really the reflection of our strategy of moving away from financial risk into technical risk and having a balance sheet that is much more stable and much more solid, certainly in times that we are seeing at the moment.

And then lastly on cash remittance, we want to have a cumulative cash remittance of Euro 14 billion given the progress we have made, and we only report on cash remittance at the Full Year, so the next time we'll hear about it in February 2024 for the 2023 numbers. But we can also say that this Euro 14 billion we are probably very well positioned to exceed this target.

And going back to what I said earlier, cash is an absolute focus for us. We are cash-obsessed, and we want to remain cash-obsessed. Because, again, if you go back to where we were in 2016, we made roughly Euro 100 billion revenue. Today, we are making a little bit more on a yearly basis. But in this time, we've increased underlying earnings by roughly 30%, and increased cash contribution of these earnings by 60% to show you where we are coming.

Thank you very much for your attention.

Q&A SESSION

Thomas Buberl | Group CEO, AXA And we are now going to your questions. Let's start with Peter at the back.

Peter Eliot | Kepler Cheuvreux Thank you very much. Peter Eliot from Kepler Cheuvreux. If I could start with three, please. First of all, on this morning's acquisition, I'm just wondering if you can talk a little bit about why it makes sense for you to capture the full underwriting, whereas that hasn't been the case traditionally. And maybe just touch on the assumptions that you've made to get to the 11x P/E. Very helpful.

Second thing on Health, you've talked a lot about the UK. Is there anything else in the European Health segment, or is that basically the full story there?

And then thirdly, on the old accounting, you gave us guidance on what to expect on realized capital gains on an ongoing basis. I'm just wondering if you can give us any more help on how we should think about sort of a normal walk from underlying earnings to net income going forward. Thank you very much.

Thomas Buberl | Group CEO, AXA Thank you, Peter. I suggest I will cover question one or the half of question one and question two, and Alban if you could talk about the 11x P/E multiple and the question around realized capital gains.

So, why is Laya important for us? As I said, we are confronted with a market in Ireland with very few players, and Laya being the number two player with 28% market share, with a very good customer interaction, very high customer retention in a market that still has growth potential. So, this is really an ideal case for us that fits perfectly into our geographic strategy, meaning how can we increase through bolt-ons and consolidate our market position. We are today number one on the P&C in Ireland. And we want to grow there because it's a great market. And secondly, because Laya has also a significant amount of employee benefits business as one of the segments that we want to push. Because we don't only look at Laya as how can it help us in Ireland, but also how can it help us beyond Ireland in the Group to get further around this question around Health services as a core component of our offering.

When it comes to the European Health markets, we don't see the same phenomenon that we see with the NHS in the UK. But look, every difficulty also has its opportunity. If you look at the NHS challenges and what it means for the average British customer, it means that he or she needs to think how they can have a better and faster access to healthcare. Because most likely, the NHS issues will not be resolved within the next six months. This is probably a more structural problem around demographics of the healthcare workers in the NHS system. And also, the question, how do you get more staff into the system. And so, this topic leads us to believe, and we've seen initial customer reactions to it, that the inflow into private healthcare in the UK will certainly increase over time. And so, what we are going to do beyond what Alban said on the pricing side, on the claim-steering side, but also on the question on how we can change and evolve our offering, both in more modular products but also in mirroring the general practitioner approach that the NHS has traditionally taken, we will certainly go into that direction and we'll also reap the benefits on the growth side.

The same is true in Europe. You don't have the issues being apparent now in the social security system, but if you look into the French budget, you also see that the costs are significantly increasing for that healthcare system. And at some point, the topic will be very similar to say, look, how can the private sector take over more of the potential that traditionally has been solved in the public sector. This was also one of the

reasons why we said from very early on, we need to position ourselves as the leading Health insurance in Europe to benefit from that.

Alban, on the two questions, 11x multiple and realized capital gains.

Alban de Mailly Nesle | Group CFO, AXA So, thank you, Peter. On the P/E, so it's a P/E that obviously compares the price we pay to the total earnings, so not only the MGA part but also the insurance part. So why 11x? I think, first, it's a very established business with a very strong brand, digital platform, extremely high customer satisfaction and recurring profitability. And it is capital-light, to give you an idea the amount of capital to premiums is around 5%, that's low. So that as such between the stability of the profitability, the capital-lightness, plus the fact that it is a market, the Health market, that is developing and growing regularly, that deserves such a P/E. When I talk about the P/E, obviously we have incorporated some cost synergies by the fact that we are rather creating at a lower cost the underwriting margin, there is no revenue synergy in this. And we think that between our very strong motor franchise and this very strong Health franchise there can be revenue synergies.

On the capital gains, to give you a large range, and that's for this year. We will come back to you next year with the plan, having between Euro 200 million and Euro 300 million of realized capital gains coming from real estate and, therefore in P&L, is relatively safe.

Thomas Buberl | Group CEO, AXA Farooq?

Farooq Hanif | JP Morgan Hi. Thank you very much. Two questions please. So, my first question is very general. So, you have a CSM recurring growth rate of 3%, very good revenue growth, which it seems in half is pricing delivered in P&C. So, when we look forward, clearly your kind of underlying cross cycle growth rate here is potentially sub 5%. I'm just thinking how do you get back to the same level of earnings growth rate in your mind that you've delivered historically? So, what are the levers that we should expect organically, inorganically? I know it's a wide question, but it'd just be good since we're going to update our numbers and just thinking about that.

So, second question is, the moving and the restructuring of the Group, with Greater China for example and European and Health markets and the change of the management structure. What does this mean for those businesses in Asia? For example, you have moved to International. I mean that traditionally we have seen as a kind of "maintain or withdraw capital from" type of business units. What's your messaging around that? I am thinking India, Indonesia, these kinds of businesses? Thank you.

Thomas Buberl | Group CEO, AXA Thank you, Farooq. Frédéric, if you can answer the first question, and I will go on the second one and do it straight away.

So, the restructuring does not at all have in mind to think about decoupling these businesses or not looking at them in a very active way. On the contrary, what we have realized is that we have businesses of different nature in Asia and also of different demands. After having focused our footprint, we see today that we have a Japan business which is thriving very well, which is growing very well, but which probably follows more the rules of our European businesses. And then you have Greater China with Hong Kong, China Life with ICBC, Tianping and the asset management that again is growing more together and is also big enough to be on its own feet. And therefore, we said look the two big markets need to be managed actively in a separate way, clearly with a growth ambition, in particular in Japan. And then you have Southeast Asia - Philippines, Indonesia and Thailand. In these markets, we are in joint venture structures with banks. I've just been visiting those countries two weeks ago, and where we clearly laid out our growth plan country-

by-country in order to benefit from these countries new uprise. Because when you think about how the world is dividing or re-dividing in terms of allocation of global supply chains, you see that Mexico is one of the beneficiaries. We are number two in Mexico. You see that a lot is happening in Africa around energy. We are very strong in Africa. And you see it happening in Southeast Asia, in the three countries I've just mentioned. So, for us, it is very much a more focused approach to manage and develop these countries.

Frédéric, on the first question.

Frédéric de Courtois | **Group Deputy CEO, AXA** So on the first one and then maybe I'll complement the second one on International.

So, at the end the first one, your first question is important, is where will the growth come from? So obviously you will see it in our next plan, but I can give you a few hints. We believe that there is some more to do on the technical excellence, and this is why we created this Chief Underwriting Officer role. And we are going to very much leverage data and technology. And I think here each basis point is important. And we want to make sure that we continue to improve our technical margins now that we are a very technical company.

Then we believe that there is some more to do on productivity, and when I've said that we've increased our cost by 1%⁵ in an inflationary context, that's important. And here again you will see in our next plan that we invest a lot in technology and automation and AI, and I'm convinced that there is some more to gain here.

Then on revenues. So first you're right. At the end, the Life result will grow at 3% to 4%. The good news is that this is extremely predictable. The bad news is that this is a bit low. I'm convinced that we have good potential on P&C and Health. All studies show that the P&C business around the world and the needs on the P&C side are growing a lot. So, I believe that we can have higher growth on the P&C side than on the Life business. And based on the figures that we have on the Health business, and this is why we are very keen on the Health business, there is strong demand on the Health business, be it individual business or EB. So, at the end, the earning growth will come from a mix of all of this.

If I look at, I come back to your question on the reorganization, so we've created this International business unit dedicated to emerging markets. As Thomas mentioned, so we believe that Greater China, mostly with Hong Kong and Japan, are mature markets, so they can report directly to the Group. Emerging markets need a specific support. And we've selected about 12 emerging markets. And we are top three, top five in each of these emerging markets.

These emerging markets over the past years have delivered 15% growth of earnings and premium. That's a call on the growth of these markets. That's an option. We believe that if well managed, if focused enough, we will have higher growth of earnings and premium in these markets. This is 5% today. Then you can dream, if you look at the population figures and so on, that it will be much higher in the future. But that's a small option we have to accelerate growth.

Thomas Buberl | **Group CEO, AXA** Michael?

Michael Huttner | **Berenberg** Thank you. I had three questions. One is on PFAS, the other one is related, which is on reserves, and the last one is a bit of a niggly question, I'm afraid, on Laya.

⁵ Referring to the Group non-commission expenses

So, on PFAS, the forever chemicals, I did kind of try and prepare the grounds a little bit. And I think I got an answer, but I'd like a better answer. How much have you set aside or how do you see this issue? To just recap, 3M I think, announced Euro 3 billion settlement, bits of the DuPont empire are now also announcing settlements, and our chemicals analysts were thinking, well, maybe in total it'll cost the industry Euro 120 billion, but nobody knows how much the insurers will pay.

On the reserving, you said you added more, which is great, but on the slide it only goes from 198% to 199%, and I just wonder if you can give a little bit more color on the reserving strength. I'm sure you've got lots of data you could share.

And on the Laya numbers, it's a bit niggly, but Euro 650 million only buys you the shell, if you like, so there are no premiums in there. If you add in the premiums, how much extra capital do you have to put to work? Sorry. Thank you.

Thomas Buberl | **Group CEO, AXA** Thank you, Michael. I suggest Alban, you answer those three questions

Alban de Mailly Nesle | **Group CFO, AXA** So on the capital for Laya, as I said, it's roughly 5% of the net premiums. So that tells you directly there's roughly Euro 800 million premiums, so that's Euro 40-50 million capital on top.

On PFAS, that's something which is obviously something that we're monitoring very, very closely. It will take very long. And so, I don't have a number for you, and I'm very sorry for that, on how much it represents for the industry and for us in particular. I just want to highlight, and I know it's not a very satisfactory answer. But we know it will take long. I just want to highlight, again, the adverse development cover that we have for 2019 and before, on XL.

And on reserves, the beauty of IFRS 17 is that there is no specific excess reserve. But as you saw, we've been prudent in our reserve release at 0.6 point. And we've been also prudent in our loss pick for the Commercial lines. But there's not more that I can tell you. I'm sorry. I'm probably a bit disappointing here.

Thomas Buberl | **Group CEO, AXA** James?

James Shuck | **Citi** Thank you. It's James Shuck from Citi. On the P&C attritional underlying loss ratio, ex-discounting, ex-Nat Cat. You showed a 50 basis point improvement year-on-year. Obviously, there's French riots in there. You mentioned some large losses. In the first instance, I'm keen to get an understanding of what the "underlying-underlying" is actually doing? I know we can extract everything, but I want to get a feel for what the actual margin is trending?

And then you mentioned the sustainability of that loss ratio, which I find a little bit surprising because you're also talking about rate increases and excess of loss inflation in Commercial. You're talking about rate increases accelerating in Personal. So why shouldn't we expect that number actually to get better going forward, subject to the caveats that Frédéric just mentioned.

Next question was on the acquisition. I suppose, you talk about expanding footprint. In the first instance, I just want to be clear that it's only bolt-on M&A that you're looking at. Obviously, you've made a big bet in the past and there might be a tendency given the solvency position to move up in terms of that materiality.

And then on the actual price paid, so it's a P/E of 11x. Alban, you've been very clear that the hurdle for acquisition should be measured against share buybacks. And you know your shares are trading on around

8x. So there seems to be a divergence from that. If you could just clarify whether that's a change in your approach, please. Thank you.

Thomas Buberl | Group CEO, AXA So I suggest that Alban, you take the first and the third question. And Frédéric, you work on the sustainability of the loss ratio. Is it sustainable or getting better?

Maybe one comment in advance around the question of expansion of footprint. Yes, as we said earlier, we have gone through a very tough transformation with big bets. We are where we are now, in a good spirit. The platform is delivering well. We have the intention of further developing the platform but organically and with bolt-on. We don't need another revolution or big deal.

Alban, on question one and the second half of question three, and then Frédéric on the second one.

Alban de Mailly Nesle | Group CFO, AXA So on the “attritional-attritional”, that's how I understand your question. That would be the same improvement, because large loss including Ukraine last year and large loss including French riots are the same amount between 2022 and 2023. Is that the answer you were...?

Okay. Then on the pricing versus share buyback, yes, you're right, that's above the 8x. Now, when you have a company with all the features I mentioned earlier in terms of quality, franchise and so on, it deserves a slightly higher P/E. And as I said, you don't have the revenue synergy in this. So, net of the revenue synergies, I'm not sure we'd be at 8x, I agree with that, but we'll probably be lower than 11x. And I think we need to have that kind of flexibility, small one, for bolt-on acquisitions in markets where we want to strengthen our presence and for businesses that we like.

Frédéric de Courtois | Group Deputy CEO, AXA Just to complement what Alban said, it doesn't absolutely change our policy and our criteria, so bolt-on, share buyback comparison, with share buyback important for us. Then, will we miss a very good opportunity because we are not at 8x tomorrow morning but at 9x? No. So if we believe that we have a lot of synergies, if we believe that we have the management, if we believe that as in Ireland that there is growth potential, as Alban said, we have a bit of flexibility around the 8x.

On the sustainability, I said it's sustainable because we have, and not only us, but everybody has a lot of question on the fact that combined ratios are very good. Is it sustainable? So, my answer is, it is sustainable. Doesn't mean that it cannot improve. First, I've just said that we are going to be, for the next plan, even more focused than before on technical excellence, which means that we have in mind that there is potential here to further increase the technical excellence.

Then if I look at the various segments, if I look at the first half, we've very much improved the technical result at AXA XL Re, and it will continue. We've slightly improved in the first half the technical margins at AXA XL Insurance. We are confident that it can continue, and we've seen slightly decreasing margins on Retail. As Alban mentioned, we've been able to compensate for inflation. The increase of frequency in Germany and Ireland has been higher than expected. All of this makes us confident that it's at least sustainable. I add “at least”, to make it clear, that we have the ambition to continue to improve on this.

Thomas Buberl | Group CEO, AXA Dominic?

Dominic O'Mahony | BNP Paribas Exane Thank you. Dom O'Mahony, BNP Paribas Exane. So, three questions, if that's all right. First, just a clarification. Alban, in reference to the P&C investment income, you noted that last year you had the benefit from the sort of elevated realizations, but actually you were still

basically in line in this half. Is this half a sustainable number or is there anything else that you'd call out in terms of what was in the 1H P&C investment income? Perhaps it was much stronger than I was expecting.

Second, on back book capital release. The Eurovita events have meant that, there were some questions in the press about whether that market is going to change, whether there might be a higher hurdle for certain sponsors participating there. I wonder if you could share your latest thoughts on progress on the back book release topic.

Then third, judging by the flows, it looks like there isn't anything really noteworthy to say on lapse. I'd just like to ask if there's any new news you wanted to share there. Thank you.

Thomas Buberl | Group CEO, AXA So I suggest, Alban, you do the first question, Frédéric the second, and I'll do the third one.

Alban de Mailly Nesle | Group CFO, AXA Okay. So, on investment income, yes, fundamentally it is a sustainable level, and you may have seen if you had time to go through the appendix that we are investing at 4.1% in P&C in the first half on average. That also gives you a view on how it should develop.

Frédéric de Courtois | Group Deputy CEO, AXA On the back book, so first we confirm that we will reach the Euro 30 billion to Euro 50 billion. We will probably close the German deal only in Q1 next year. We were hoping to close it by year-end. It's progressing well, but tons of questions from the regulators, so best estimate now is Q1 next year. We have a couple of in-force deals that we believe we will announce by year-end. I will not say more. And in-force has been the priority over this plan. It doesn't mean that it will stop at the end of 2023. We will be opportunistic over the next plan. And there may be some more opportunities over the next plan. Saying that, it is true, to come back to your point, that the story with Cinven and Eurovita doesn't help. Regulators, especially in Italy, have become more, how can I say, picky...

Alban de Mailly Nesle | Group CFO, AXA Prudent.

Frédéric de Courtois | Group Deputy CEO, AXA Prudent. We know that the Italian regulator and the German regulator are talking on Cinven. So, they have created a mood which makes the regulators a bit more cautious. Will it stop the trend? I don't believe so. And again, I confirm all what I've said, we will achieve our targets. We have a few good deals in the pipeline.

Thomas Buberl | Group CEO, AXA On lapse, Dominic, no news to be mentioned. I mean, we had a few higher lapses than we normally had, mainly focused on France and Italy. And as I said earlier, mainly focused on intermediated channels. So, in our Asian channels, we do not see that phenomenon at all, and it's also to a certain degree understandable. If you look into Italy, if an advisor is confronted with a three-year BTP at north of 4% and Life insurance for 10, 15 years at lower investment yield, it's clear what to take. Given that we are very focused on agents, given that we are focused on retirement solutions as opposed to saving or investment solutions, we haven't seen a lot of lapses and it's certainly not worrying us. And going back to what Alban said, when you look who and what is lapsing, you could also see that this is a relatively affordable in-force measure.

Will?

Will Hardcastle | UBS Thank you. Will Hardcastle, UBS. The solvency print was big. I guess we now need to try and work out the cash component to it. Any comment you can make on what subsidiaries that a lot of

that was coming in? And are there any constraints about how much that will be converted into cash? And perhaps just on that point, if there's any comment you want to make on leverage in that regard.

Secondly, just thinking about those inflationary pressures in Personal motor in Germany and Ireland. Is what you're saying that inflation accelerated in H1 in those countries, or it's just not reduced as much as you expected? And at what point, I guess, do we expect margin, earned margin, to start improving in Personal motor, perhaps on those countries, and more of a general point. Because I know pricing is now in line with inflation, but it's whether it has been previously as well. Thank you.

Thomas Buberl | Group CEO, AXA I suggest, Alban, you take the first one on solvency, and Frédéric the second one around inflation. And I think we have to not mix frequency increase and inflation.

Alban de Mailly Nesle | Group CFO, AXA So, thank you, Will. On solvency and cash, allow me a few details. First, the move we made was also, and perhaps first and foremost, a risk management move, in the sense that we wanted to take advantage of the higher rates to reduce the duration gap, and to reduce the sensitivity to interest rates. That has a positive impact in a number of countries in Europe, and notably France Life business, because that's one of the places we have done that.

When you think about cash, it's not the only way to think about it, and you know that we have three entities in particular, which are XL, Hong Kong and Japan, for which we are working further on increasing the remittance. And that has, in fact, little to do with the lengthening of the duration. And for instance, we have not lengthened the duration in Japan because we are hoping that one day interest rates will be higher in Japan. So, you see that it really depends country-by-country, so it's a mix of working on specifics locally, doing some in-force transactions, and also release capital, and that ALM that we changed. That's the mix. And so, we had Euro 5.5 billion cash remittance last year. We want to grow that this year. And we are in good shape. And to further grow that in the next years, putting all this together.

Frédéric de Courtois | Group Deputy CEO, AXA I would only add, Alban, to your excellent comment, is that on XL, Japan, and Hong Kong, we are progressing well.

On inflation, so first what we've said on Germany and Ireland is not linked to inflation, because we had globally price increases in line with inflation. It is purely a subject of frequency, which has increased more than what we expected. And to be fair with you, that we struggle to explain at this stage. So, nothing very serious and very focused on these two markets.

If I look globally at the motor business, and you know that the motor business is about 10% of our business. But this is an important business for us because our agents need motor to cross-sell and so on. So, I don't want to diminish the importance of the motor business. But globally the motor business is doing okay in most markets. The big issue we had up to now was the UK market, but the UK market is doing much better. And, for the first time in a long time, the business we write in Q2 in the UK on motor is profitable. Every word is important. Meaning it's profitable technically, so combined ratio below 100%. So, there is more to do in the UK, but the trend is fine.

Then, we are making money because this is something we monitor, and we have our famous economic combined ratio looking at everything including the cost of capital, we are making money in all our markets. Italy and Spain probably remain the most competitive or tensed apart from the UK, but again there is no specific issue on the motor business globally.

Thomas Buberl | Group CEO, AXA Hadley?

Hadley Cohen | Deutsche Bank Thanks very much. Hadley Cohen, Deutsche Bank. First question is around the Life flows, and sort of in relation to a couple of questions and a couple of comments you've already made. But how important is it to get those flows positive again? And when do you anticipate that will be the case, given the current macro backdrop and what have you? I appreciate the whole de-emphasis of capital-intensive business versus capital-light, but I'm thinking in terms of longer term cash flows and cash generation for the Life business.

And second question is just, I guess, more of a point of clarification. Alban, I think in the first quarter when you came up with the 25 to 30 points of cap generation, I think you sort of suggested it would be more towards the lower end of that for the Full Year. But as you say, there is seasonality. We've already done 16 points, so I'm just trying to understand how much seasonality we can sort of expect for the second half of the year, and whether we should still be expecting towards the lower end for this year. Yes. Thank you.

Thomas Buberl | Group CEO, AXA Thank you. Frédéric, first question. Alban, second.

Frédéric de Courtois | Group Deputy CEO, AXA So Life flows and how important is it at the end? So first, even if with the CSM the results are very stable, if you want to improve this mid-to-long term you need to have positive flows, so this is important. We're very much focused on the quality of the flows, so that's why we are happy to have positive flows in the business we like and negative flows in the business we don't like. But we are not happy to have negative flows globally, based on my first comments. More specifically on General Account, where you need to look at, as Thomas mentioned, we absolutely have no issue. But in theory, especially in a period of high interest rates, you need to make sure that you have the liquidity not to be forced to sell assets with unrealized capital loss. Because at the end, the issue for an insurance company is not the liquidity. We have tons of liquidity. The issue is that you may be forced to sell assets in unrealized loss position. So you need to balance your ALM right. So, we are absolutely fine with our minus Euro 5 billion on General Account. We absolutely have no issue. But of course, this is something we monitor to make sure that we have no issue and that we are never in the position to be forced to sell assets in an unrealized loss position.

Then, my last comment on this is that you will see in the next plan that Savings is still an important business for us. And that we believe that we have potential, especially in four countries, Belgium, Germany, Switzerland, and Japan. We have more potential. And we have more potential to have positive flows in these four countries. Today, we very much rely on France. These four countries and given Japan is mainly a Health and Protection company, Switzerland had almost stopped Savings for IT issues, and we are not very much focused on Savings, Belgium had almost stopped Savings, we believe that now we have the teams, we have the systems, and so on to be more ambitious on the Savings business in a few countries.

Alban de Mailly Nesle | Group CFO, AXA And on the capital generation, I don't remember saying that we will be at the lower end. So, 25 to 30 is the range for this year, and it still holds true.

Frédéric de Courtois | Group Deputy CEO, AXA And we will see more in the next plan.

Alban de Mailly Nesle | Group CFO, AXA Yes. Absolutely, that's for this year

Frédéric de Courtois | Group Deputy CEO, AXA We will see in the next plan.

Alban de Mailly Nesle | Group CFO, AXA Yes.

Thomas Buberl | Group CEO, AXA And we have time for one more last question. I would say, Ashik, it's you because Andy will have an opportunity later on to ask his question in my one-on-one. Go ahead.

Ashik Musaddi | Morgan Stanley Thank you. Ashik Musaddi from Morgan Stanley. Just a couple of questions. First of all, duration, I mean, you have done a phenomenal job on lowering the duration and helping the solvency ratio. Can you give us some color if it is, say, permanent in nature or have you done it through some short-term derivatives, i.e., if it's a bit more shorter-term benefit which would unwind over some time or is it just longer-term, it's here to stay. I'm just trying to gauge if this interest rate benefit you have just locked in for good. So that's great news, I would say.

The second question is around XL Reinsurance. I mean, a couple of parts of this question. First of all, I'm not sure if you have anything to add to the speculation that we heard about you looking to exit XL Reinsurance. I mean, it fits with the Group strategy of reducing volatility. But again, I mean, XL Reinsurance is delivering amazing numbers, and we are in a hard market for reinsurance. Anything to say on that? And just related to that, I mean, you have reduced volumes by about 13% in XL Reinsurance in first half. Is there more to go or are we now in more or less a steady state on XL Reinsurance if the business stays with AXA? Thank you.

Thomas Buberl | Group CEO, AXA Alban, I suggest you take the first question. I'll do the second question.

Alban de Mailly Nesle | Group CFO, AXA So on the lower duration gap, we're happy with that level. As I said, we could, under some conditions and notably on the yen part, further reduce it or lengthen some assets. So, you should consider it as a normal state going forward. But that's something that we permanently need to manage to get there as we have maturities and so on. But, yes, that's something we're happy with.

Thomas Buberl | Group CEO, AXA So I think on AXA XL Re, you've more or less given yourself the answer, because you're absolutely right. So, AXA XL Re is performing very well. It has made a profit in the first half of roughly Euro 200 million, a combined ratio of 81%⁶. So, we are successful with the turnaround strategy. We have, over two years now, reduced the natural catastrophe exposure by 35% each year. And I think even last year was 40%. And so, the model is working and we are continuing this journey, making sure that we are remaining on this lower exposure to natural catastrophes, but also making sure that in some selected areas we are also growing the franchise again, because, as you rightly say, the market is a hard market and it's an interesting market. So, continuing the restructuring and growing selectively in areas where we would like to see more.

Excellent. I'm afraid we have to end here. Thank you very much for being here. Thank you to everybody on the webcast for participating. And I wish you a great rest of the day, and hope to see you soon. Thank you.

*** END OF THE TRANSCRIPT ***

⁶ AXA XL Re's All Year Combined Ratio of 80.8% as of Half Year 2023, as reported in AXA's Financial Supplement for Half Year 2023.