Half year 2023 earnings

Press conference, August 3, 2023

Agenda

Introduction

Thomas BUBERL

Group CEO

Hello everyone, and welcome to the presentation of AXA's half-year earnings. The members of the management committee and myself are delighted to discuss them with you today.

The first half of 2023 was marked by a geopolitical and economic environment that remains uncertain. Despite this uncertainty, AXA once again generated sound results that reflect the relevance of our strategic choices, the solidity of our model, and the commitment of our employees.

Gross written premiums grew by 2%, reaching 55.7 billion euros. This high-quality growth demonstrates our balanced business mix and the sound performances of our business lines. I am thinking about the P&C segment, but also Protection and Savings. Group underlying earnings reached the excellent level of 4.1 billion euros. The IFRS17 and IFRS9 accounting standards led to some changes in our reporting processes, which you can see in the observed variations. Our underlying earnings rose by +5% compared with the first half of 2022 under IFRS4 and by +18% under IFRS17. This increase attests to the very good technical profitability of our businesses and markets, especially in France and in Europe.

Underlying earnings per share rose strongly, by +8%. This performance surpasses the objective stated in our strategic plan, which calls for an increase of between +3% and +7% over the duration of the plan.

Our Solvency II ratio reached 235%, up by 20 points compared with year-end 2022. This very good level is well above our target of 190%.

I will now go into the details of the performance of our markets.

In the first six months of 2023, we generated a very sound underlying performance thanks to our key markets. In France, under the new accounting standards, underlying earnings reached 1 billion euros, an increase of 20%. In Europe, earnings exceeded 1.5 billion euros, an increase of 18%. In Asia, the Middle East, South America and Africa, earnings surpassed 800 million euros, an increase of +8%. These growth levels are very satisfactory.

In our transversal markets, underlying earnings for AXA IM decreased by 7%, to 0.2 billion euros, due to very difficult market conditions for asset management.

I want to highlight the excellent performance of AXA XL, up by 35%. It generated underlying earnings of more than 900 million euros in the first half of 2023. This result is virtually the equivalent of France. AXA XL is once again very well positioned to exceed its underlying earnings target for the year of 1.2 billion euros.

AXA has a very balanced model, with around 50% of our business in commercial lines and 50% in retail lines.

Concerning the commercial lines, P&C represents around 40% of our gross written premiums. Frédéric de Courtois will be going into more detail about the excellent performance of this business line, driven by AXA XL and Europe. The positive pricing environment and our organic growth allowed us to obtain excellent technical results. Health and commercial Protection represent 10% of our activity. This segment, which we would like to develop, meets a very strong demand from employers, for whom better access and high-quality healthcare services is a major factor in attracting and maintaining talent.

On the retail side, P&C business accounts for 20% of our global premium income. We have successfully maintained our technical margins while at the same time earning the great satisfaction of our clients.

The rest of our business activity involves Life and Retail Health and Asset Management. This mix owes its quality to our strong distribution networks and our diversified offering in asset management, in particular our alternative investment platform, the first in Europe.

We are pursuing the investment logic we have developed in our key markets. We have just announced the completion of our acquisition of the Groupe Assurances of Crédit Mutuel in Spain. With this acquisition, we move up from 6th to 4th place in the Spanish market. Today we announce the acquisition of Laya Healthcare in Ireland, which will allow us to become one of the two biggest players in that country's healthcare segment. This is an important acquisition for AXA because it enables us to diversify in a market where we are leaders and already well-established in Motor. Laya is perfectly aligned with our strategy of targeted growth in health care. Today, Laya Healthcare has 600,000 clients and a market share of 28% in Ireland. We are very proud to be able to announce this acquisition today – an acquisition that we hope will be implemented by the end of the year, after all regulatory approvals are obtained.

Our success is not just financial. We have also progressed in employee and customer satisfaction.

Our employees are the driving force behind AXA in more than 50 countries. First, I would like to highlight our progress in the areas of gender diversity and inclusion, issues that are very dear to me. More than 40% of our management teams are comprised of women, and our global inclusion indicator is at a record high of 40 points. Through our employee share ownership plan, we are proud to involve our employees in the Group's strategic decisions. For 30 years now, thanks to this plan, nearly 30% of our employees are AXA shareholders. In 2022, we recruited nearly 16 000 people and invested 85 million euros in training our employees. This year, we have also officialized the rollout of our long-term Smart Working policy. Lastly, we are developing a very innovative global policy around health and well-being, a policy that has been benefiting all our employees since 2021. All these initiatives help to build to a very strong level of commitment and a very high level of employee satisfaction. Today, our Employee Net Promotor Score (eNPS) is at the excellent level of 37 points, an increase of 2 points compared with 2022.

Our clients are also at the heart of our transformation. Last year, AXA paid out nearly 50 billion euros in compensation of customer claims and 5.9 billion euros in interest to our savings clients. To improve customer satisfaction, we have implemented action plans designed to enhance their experience of AXA across various interactions and channels of distribution. We are constantly seeking ways to perfect our offers, our services, and our claims management process. We measure our Net Promoter Score (NPS) in 34 of our business activities and countries around the world. Six years ago, only half of our indicators were either equal to or better than the market. Today, all our countries boast indicators that are equal to or better than those of the market.

We are continuing our efforts in climate change with great determination. A few weeks ago, we published new intermediary decarbonization targets for 2030 for our investment portfolios and also, for the first time, for our insurance portfolios.

As for insurance, between now and 2030 our objective is threefold: to reduce by 30% the absolute emissions of our largest corporate clients, to reduce by 20% the carbon intensity of other clients, and to reduce by 20% the carbon intensity of our personal Motor portfolio. In parallel, between now and 2026, we will be developing our offers and services dedicated to insuring the ecological transition. I am thinking of the development of renewable energies and green claims. Furthermore, we will continue our effort to reduce by 50% the carbon footprint of the assets in our general account between 2019 and 2030. We are also well-positioned to achieve our objective of 26 billion euros in green investments by the end of this year. We already reached the level of 25.1 billion euros in 2022. And this year, we became the first European insurer to sign a Virtual Power Purchase Agreement, a contract that commits us to buying the electricity generated by a solar farm in Spain for ten years. The volume equates to all the electricity used by our buildings and data centers in Europe. As responsible insurers, we are also participating in building up the renewable energies used in the European electricity mix.

To conclude my introduction, I want to revisit the key objectives of our strategic plan that will be completed at the end of 2023.

Underlying earnings per share are up by +8%. We are well on track to exceed our target, set between +3 and +7% over the total duration of the plan.

Our Solvency II ratio stands at 235%, well above our target of 190%.

Return on equity is 16.6%. We are well positioned to exceed our objective, which is situated between 13% and 15% over the plan period.

Lastly, we are very confident in our ability to exceed our goal of cash return objective of 14 billion euros over the period of our strategic plan. Our excellent performance reflects the success of our transformation. It is driven by the sound results of our businesses across all our markets. This means we are very confident that we will achieve our underlying earnings target for 2023, given that the initial objective announced in May was 7.5 billion euros.

Business lines

Frédéric de COURTOIS

Group Deputy CEO

I will begin by commenting on our earnings by business line, beginning with P&C, our main business line. Gross written premiums for P&C grew by a strong 7%. For commercial lines, premium growth was around 9%, driven by high demand from policyholders and by a general context of higher prices.

In reinsurance, which is a smaller business for us, revenues fell by -3%. We substantially reduced our exposure to natural catastrophes and restructured the reinsurance portfolio in a context of higher prices. The decrease in our exposure was in large part offset by higher prices, leading us to globally stable revenues.

Written premiums for personal lines rose by 5%. Higher pricing was implemented to counter inflation, which varied depending on the markets in Europe. We recorded good sales momentum with positive net money for Motor lines in France and in Europe.

Our technical profitability, as measured by the combined ratio, was high at 90.9%. As a reminder, the way it is calculated is slightly different under IFRS17. We showed discipline in both underwriting and cost control. The nat cat level was a little below the typical trend and a little below the level observed in 2022. As a reminder, our nat cat budget is 4% of premiums per year. Our nat cat business is in line with the budget in the United States and below budget in most of Europe. We are ending the first six months of the year with a nat cat load that represents 3% of our premiums.

Serious claims, on the other hand, are at a rather high level, slightly above our expectations. They are stable compared with 2022, which included a substantial loss related to Ukraine. Despite the absence of this loss in the current year, the level of serious claims remains stable. The cost of the riots in France was incorporated in the first half-year.

Underlying earnings for P&C insurance reached 2.717 billion euros, a rather significant increase that is primarily due to a higher underwriting result, with investment income slightly down following higher rates of reinvestment in the bond portfolio and a lower dividend payout from our private equity funds.

In Life and Health, gross written premiums fell by 1%. The second quarter was better than the first in terms of momentum, which suggests that currently sales momentum is trending positively. Trends are nonetheless variable, with a strong showing from Protection, slightly slower sales for unit-linked business due to high market volatility, a strong dynamic in the general account business, which has low capital consumption, notably contracts with a guaranteed rate at maturity (Eurocroissance in France), and slower sales in line with our strategy for traditional general account business.

In Health insurance, gross written premiums were down by 6%. At the end of 2022,we terminated two very major reinsurance contracts for a total amount of around 2 billion euros. This decision adversely impacted revenues for the period. Aside from this one-off impact, gross written premiums in Health rose by 6%, in line with our objectives. The new business margin is up slightly. New money is very slightly negative, with a rather strong decrease in general account traditional savings sales, positive sales in Protection and in Health, and just about balanced sales in unit-linked products and in capital light general funds.

Overall, underlying earnings are down by 13% in Life and Health, mainly due to difficulties with health insurance business in the United Kingdom. The challenges faced by the National Health Service (NHS) in meeting demand are leading to a strong increase in the use of the private system, which is impacting our claims level. This explains the decrease in our technical result of 137 million euros. We are managing this development: we booked the loss in the first half and have gradually begun raising prices to take the situation into account. Over the medium term, it's mostly positive that UK consumers are turning to the private system, but in the short run this phenomenon will mean an increase in claims.

Financial results are also down due to higher reinvestment rates in the bond portfolio and lower dividend payouts from private equity funds.

As for the asset management business, it has been resilient. Although obviously adversely impacted by market volatility and client behavior, assets under management are virtually unchanged. In addition, net inflow is very close to breakeven. It reflects a good level of business with our third-party clients, for both core and alternative asset management business. Conversely, we have observed a net outflow for the AXA general account funds whose assets are high consumers of capital.

The decline in underlying earnings is attributable to the items indicated above, but also to the investments we are making to support our businesses, whose positive impacts you will start to see in the years ahead.

Financial performance

Alban de MAILLY NESLE

Group CFO

Our underlying earning are up by 5%. With the share buybacks we have completed in the last few years (+3%), growth in underlying earnings per share is +8% for the first six months, a sign of our capacity to deliver steady earnings growth regardless of the context.

Net earnings fell slightly, by 7%. Under IFRS17, capital gains on share investments are directly credited to own funds without passing through the profit and loss account. This means that only real estate capital gains are included, and they are, by definition, less spread out over the year. We will certainly see a higher total in the second half of the year.

Our solvency II ratio has reached an extremely high level, 235%, which illustrates the robustness of our balance sheet. We are creating 20 to 35 points of solvency a year before dividends, but in the first six months of 2023 alone we created 16 points of solvency. We are achieving this growth without the need for more shareholders' equity. The markets had a positive impact of 4 points on our solvency. Lastly, it is worth noting that we have further reduced our duration gap, which is to say that we are less sensitive to interest rate movements. A 50-basis point movement up or down has an impact on solvency of +5 points or -7 points, but these thresholds were twice as big two years ago. So, our balance sheet is robust, but we are also creating significant solvency, while also reducing our sensitivity to the financial markets.

Our business model allows us to generate steady growth in our earnings with strong capital generation and low capital requirements. We see it in P&C insurance and in Health, where capital requirements are rather limited, but also in Life Insurance, where we are progressing towards our goal of selling products that are capital light. This observation gives us confidence in our ability to return cash via dividends from our various subsidiaries.

Conclusion

Thomas BUBERL
Group CEO

In an environment that remains difficult, the Group can count on its resilience and its sound position. AXA turned in a very good half-year performance that reflects excellent implementation of the Group's strategy as well as the very strong level of commitment of our employees.

Our growth level is satisfactory. Our underlying earnings are progressing significantly, driven specifically by our P&C business and by strong technical profitability. I would like to highlight once again the excellent performance of AXA XL. The Group's Solvency II ratio is 235%, well above our initial objective. We are therefore very confident in our ability to exceed some of the objectives in the Driving Progress 2023 plan and to reach our underlying earnings target of 7.5 billion euros.

All these factors make us optimistic about the future.

Thank you for your attention. We are now available to answer your questions.

Q & A session

Anna MESSIA, *Milano Finanza*

My questions concern Italy. How are your Life and P&C businesses performing? How do you see the evolution of MPS, and do you think there could be a change in controlling interest? Are you considering any new acquisitions in Italy? Are you looking at taking over Tua Assicurazioni, which Generali seems to be leaning toward selling?

Patrick COHEN

We are very satisfied with the momentum we're seeing in our P&C operations in Italy. We are seeing growth in both commercial and personal lines. Growth is steady, which allows us to further strengthen operations in these two lines.

For savings, the situation was more challenging over the first six months of the year, due to high volatility in the markets, a slowdown in unit-linked sales, and competition from sovereign bonds. The team is nonetheless very tenacious and very supportive of innovation to jump start growth.

MPS is a long-term strategic partner for AXA. Our have a very good relationship with the local executive leadership team and we fully support the bank's strategic plan. We are innovating with new products. We are committed to a spirit of partnership within a virtuous dynamic.

As for our development, Italy is one of the Group's strategic markets. Our presence in this market is strong. We will continue to be very attentive to any opportunities that may present themselves there.

Ronan McCarthy, *Insurance ERM Publications*

Was the implementation of IFRS17 a challenge for the AXA Group? Has the new standard changed your earnings and their presentation in any way? Are there additional projects that remain to be completed internally to complete the introduction of this new accounting standard?

Alban de MAILLY NESLE

The introduction of IFRS17 is part of a long-term project that required system adaptations costing around 200 million euros. Overall, IFRS17 does not change our cash flow position and has no impact on our earnings or equity. The presentation of our financial statements in compliance with IFRS17 leads to the introduction of new components and additional complexity. However, these accounting changes do not have any impact on our business or profitability.

Thomas BUBERL

We are very proud to be the first big company to publish our earnings in compliance with IFRS17. Obviously, it's not a race, but it is a source of pride.

Danièle GUINOT, *Le Figaro*

Should we be worried about the decline in life insurance inflows/life insurance outflows in France? What do you think is going on?

Guillaume BORIE

For life insurance in France, the first quarter of 2023 was rather difficult, whereas the second quarter that followed it was much better. We are seeing a trend that is close to what the Group is experiencing, with a net outflow for our euro funds and a net inflow for the first half of the year in both unit-linked products and Eurocroissance, for which revenues grew by more than 80%, for a net new money of 1.3 billion euros. Overall, our revenues in personal savings is unchanged compared with 2022, with the first quarter showing a 6.5% decline and the second showing growth (+7.5%). The month of June was excellent, in fact, with growth of +14%.

Maximilian FRANZ

Are you planning to sell AXA XL Re?

Are you satisfied with half-year earnings from Germany? What are your projections there? Is there a market there for possible acquisitions?

Thomas BUBERL

Germany is a market that we like a lot and one where our position is good. If potential opportunities arise for reinforcing our footprint, we will look at them, while also making sure that capital management discipline is part of the picture.

AXA XL Re is on the right growth path. We have substantially reduced (35%) our exposure to natural catastrophes. Its performance has been excellent this year, and its combined ratio is around 80%, a level we had not achieved in quite a while.

Patrick COHEN

We are very satisfied with the revenue momentum we are seeing in Germany, especially on the P&C side. At the same time, we remain vigilant regarding the increase in the loss ratio and frequency after the Covid crisis. Our teams have already implemented a series of technical measures to contain what appears to be a new situation in terms of frequency.

From the floor (Michael)

Thomas Buberl, you were interviewed recently by a Mexican newspaper and in this article, you said that not everything can be controlled from Paris and that the local markets are very important for the company because customers need different products. I have noticed that other big players – your competitors – have a different approach. They are trying to standardize their products across geographies. What's the advantage of your strategy?

In addition, with your strategic plan reaching the end this year, what are the next steps ahead?

Thomas BUBERL

Indeed, the strategic plan will end this year. We will be launching the new strategic plan in early 2024. Our model delivers good earnings, and the next plan will certainly seek to develop this model further while also exploring ways to make it even more profitable. However, I am not presenting the plan today. Announcements will be made in the first half of 2024.

In answer to your first question, I confirm that AXA has always favored a very balanced model, with a group that oversees local entities and focuses on core issues (like the brand, risks, financing, major investments), while the management of day-to-day operations is up to the leadership teams of the local entities. We have made this decision because is a local activity that must respond to the needs of clients. Accordingly, the leadership of each entity must have flexibility while also respecting the Group's framework for fostering employee engagement and high customer satisfaction. Our NPS indicators place us in the average or above the market, and so we confirm the choices that have proven successful.

Herbert FROMME, *Süddeutsche Zeitung*

Some German industrial clients are expressing frustration because some of AXA XL's underwriting decisions are no longer made in London, but instead are coming from the United States. Do you confirm this?

You say that your NPS is better than that of your competitors, but can you give us a few examples for the sake of comparison? For example, insurers' NPS used to be in negative territory. Also, can you give us your scores for your three principal markets?

Mr. Buberl, you are 50 years old. You have been the CEO of the AXA Group for eight years. Are you going to remain as head of the Group? What are your personal medium-term prospects?

Thomas BUBERL

The core underwriting and strategic guidelines for AXA XL are set by AXA XL's chief underwriter in the United States, but implementing the decisions in compliance with these guidelines is up to the heads of different geographies. For Germany, this implementation depends on Dublin, which is where the European headquarters of AXA XL is located. This model works well, and we have not had any negative feedback from our big clients to the effect that there is some flaw in this organization.

As for the NPS, let me specify that we calculate this score by market and by business line. Consequently, I can't provide an NPS that is specifically for the German market, because the approach is more granular. I can answer your question more specifically after the press conference with our NPS scores per market compared with the average, while noting that these NPS scores are measured by third-party organizations.

Reaching the age of 50 is a big milestone in life. In September, I will have been at the helm of the AXA Group for eight years, working alongside a fantastic team. Despite being 50, I remain full of energy and ideas for the next stages.

Ronan McCarthy, Insurance ERM

You have left the Net Zero Insurance Alliance. What's the future of this alliance?

Thomas BUBERL

AXA was at the origin of this net zero alliance of insurers, considering that it was important to have the support of a broad group asset managers and insurers working hand in hand. At the outset, we focused our attention on accurately measuring the greenhouse gas emissions generated by our business activity and we worked hard to define a framework for our objectives. Unfortunately, this very good dynamic was disrupted, and we had to make the decision to leave it. Our departure in no way means that we have given up on our ambitions with respect to climate issues – not at all. Just after announcing our departure, we published targets for our insurance businesses, after having done the same for asset management. In fact, I mentioned them in my introduction because these objectives are a pillar of our engagement strategy. As an investor and an insurer, we want AXA to be able to influence the decisions being made with respect to the climate transition.

If there are no other questions, let me end by thanking you for your participation and wishing you a great summer and vacation.

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