AXA IFRS17 Presentation Transcript

November 3, 2022

This document is the transcript of the IFRS17 presentation to analysts and investors held on November 3, 2022. The webcast of this presentation is available on https://www.axa.com/en/press/press-releases/axa-published-an-investor-presentation-on-its-implementation-of-ifrs17-and-ifrs9. In the event of any inconsistency between the transcript and the podcast, the podcast will prevail. In addition, the following transcript is unedited, and statements and figures therein are accordingly in all cases subject to those set forth in AXA's most recently published quarterly or annual results.

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AXA's audited financial statements for 2022 under IFRS4 will be published in March 2023 with its 2022 Universal Registration Document. On January 1, 2023, IFRS4 will be replaced by IFRS17, which is a new accounting standard applicable to (re)insurance contracts that will result in significant accounting changes, with impacts on AXA's consolidated statement of income and balance sheet. AXA will also begin applying, starting on January 1, 2023, the IFRS9 standard on classifying and measuring financial assets and liabilities and certain contracts. During an initial implementation stage of IFRS17/9 relating to accounting periods on or after January 1, 2022, AXA will prepare unaudited key financial information under IFRS17/9 for the first half of 2022 and for the full 2022 fiscal year, including estimates for certain key financial indicators under IFRS17/9 included or mentioned in this presentation. See the slide entitled "Upcoming Reporting."

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IFRS17 Presentation

Anu Venkataraman, Head of Investor Relations, AXA

Well, welcome back to our IFRS 17 presentation. Before I turn it over to Alban and Grégoire, a few housekeeping items. So, let me briefly summarize for you where we stand-on the IFRS 17 implementation process and also highlight for you a few things to keep in mind as we go through this presentation and for our financial reporting in the coming months.

To start with, as you know, we currently report and manage under IFRS 4. Our full-year '22 results, when they will be published in February of next year, will be on IFRS 4 basis. At the start of 2023, IFRS 17 and IFRS 9 will replace IFRS 4 and IAS 39. As a result, formal reporting under IFRS 17 will not start until the beginning of next year. Therefore, any measurements and estimates that we share throughout this presentation are preliminary and subject to change. They are also unaudited. While we are working with our auditors to implement the new accounting standards, we thought would share with you a few numbers in order to make this a more useful, and dare I say, lively interaction. We do believe that the numbers that we're sharing with you will be close enough to the final outcome.

But nonetheless, please let me point you to the disclaimers on Slide 2, which you can expand on your devices for easier reading, and let me also point you to the calendar that we have shared on Slide 5. That will show you exactly which accounting standards our financial reports will be based on for the upcoming few quarters.

And with that, let me -- I should reintroduce you to our two speakers so, most of you are familiar with our Group CFO, Alban de Mailly Nesle. Joining him to present the impact of the accounting standards is our Group Chief Accounting and Reporting Officer, Grégoire de Montchalin. And with that, let me hand over to Alban.

Alban de Mailly Nesle, Group Chief Financial Officer, AXA

Thank you, Anu. Hello again. I'm pleased to share the floor with Grégoire, for this highly technical subject.

So, the first thing to say on IFRS 17 is that we believe it's good news for the industry, in the sense that it will lead to more convergence between insurance companies on the way they book their reserves and therefore release their earnings and I think we are in an industry which is sometimes difficult to understand from the outside and therefore this is a welcome change, I believe.

So, for us what are the main messages that we want to give to you today. The first one is on our underlying earnings power. And very importantly, it remains unaffected between IFRS 4 and the transition to IFRS 17 and you will see that a number of times in the presentation, there will be continuity in our earnings capacity. To the same extent, there will be -- I mean our shareholders' equity will be roughly at the same or broadly at the same level under IFRS 17, as they are today under IFRS 4. I say broadly, you'll see in the presentation that it's exactly the same amount, but as Anu said there are still potential adjustments and we want to be cautious along the whole presentation on the number that we show you, but there again there is stability.

So, that's on the results and then there is the how, which is the reporting and on the reporting, you will see, in fact little changes on our P&C and on the Health business and obviously no change on our Asset Management business, because it's not affected by IFRS 17 and those lines of business, P&C and Health, represent the majority of our revenues and therefore there would be limited reporting impacts overall and they will focus mostly on long-term business and therefore Life.

The fourth important message is that it is an accounting change and only an accounting change. So, it does not have any impact on our cash generation, our capital management policy, nor our strategy and that's extremely important. It is 'just' – so to speak – the way we report earnings at consolidated level and not for instance in statutory accounts locally and it does not impact Solvency II either. So, that's extremely important. And so, given that there is continuity in our level of earnings and given that capital and cash are not affected, we are in a nice position which is that we are able today to say that our 2023 targets are reaffirmed. I mean the four ones that you know, that are about our earnings and our treasury.

So, going into a bit more details and starting with our earnings. Let's look first at the reserves, because obviously IFRS 17 is about reserves and you will see in the whole presentation that we discuss IFRS 17, because that's where the main impact is and much less IFRS 9 that has much less impact for us.

So, what are the changes, the main changes brought by IFRS 17. The first one, importantly is that reserves will be booked on a best estimate basis. Second, they will be discounted. And therefore when you say, best estimate and discounted, they will be extremely similar, extremely close to Solvency II best estimate liabilities.

Second, there will be a reserve called risk adjustment that will come on top of reserves, on top of best estimate liabilities, to cater for uncertainty on non-financial risks. We will discuss more at length risk adjustment later. And you will see that in fact it has little bearing on our earnings.

And third and, that's really where the the main change is, because it's on the Life side, we have the creation of a stock of future profits which is the contractual service margin, both on the Life side and on the Life-like Health business that we have, so as far as we are concerned, in Japan and Germany. Those are the main changes.

So, what does it mean when you take the helicopter view. P&C earnings would therefore be a bit more sensitive to interest rates, because with movement in interest rates from one year to the other, the discount that you will apply to claims in the current year will vary.

The second aspect is that CSM and the CSM release, will be the main driver of earnings on the Life side going-forward. And you will see later in the presentation that there is not complete stability, but there is a good degree of stability in terms of amount of CSM released year-after-year and that will improve the predictability of our earnings on the Life side.

Health business, depending on the country and the nature of the business, it will be like P&C for typically what we have in France, in the UK or Mexico or like Life as, I said, Germany and Japan.

And finally, Asset Management and Holding by construction are not affected by the change in accounting standards and overall, when you look at our earnings capacity in aggregate for the whole Group, stability as I said between IFRS 4 and IFRS 17. So, that's for the results.

For the reporting side, what we want to highlight is the following. On the P&C side, in terms of reporting, you will see little change in the main KPIs. We will keep on reporting on the basis of gross earned premiums, and normally, you should see the industry move to that; some others use, under IFRS 4, net earned premiums as the denominator of the combined ratio. I believe we should see some move to gross earned premiums and therefore make our combined ratios more comparable. Second, you will still see in terms of technical profitability, the current year loss ratio and the prior year, that will not change in terms of concept. Obviously as I said, the amount themselves would be affected by the discount, but you will still see current year and prior year loss ratio.

On the Life side, as I said before, the main driver of earnings is CSM. So, that means that we will give you more details on the CSM, what we are thinking of is the new business CSM, the roll-forward from the beginning of the year to the end-of-the year of the stock of CSM. And also the fact that, we will be able to give you some indication of how the stock of CSM will be released across the years in the future. Again giving you more predictability on earnings. I take also that opportunity to say that more globally with Anu, we are looking to improve our disclosures and we're happy to get your feedback on what you would like to see and, just a warning, not everything is possible, but what you would like to see in our disclosure, that's the moment when as we move to IFRS 17.

Health, I want come back to that, is a mix of P&C and Life and Asset Management in terms of reporting would not be affected at all.

So what does it mean? Earnings power unaffected post-transition. When we say earnings power, we mean underlying earnings and for us underlying earnings are similar to operating earnings as per the definition of IFRS 17. The difference between the two that underlying earnings are after tax, but unaffected. Between underlying earnings and net income, you have a number of things that I will describe later on the presentation. We don't expect that part of our P&L to be more volatile under IFRS 17 than it is under IFRS 4.

When it comes to our balance sheet, shareholders' equity will be stable at Euro 58 billion. That's the amount excluding OCI. And that's very important and that's something that we have worked for in the sense that -- and Grégoire will mention that - there are number of options that we have taken allowed by IFRS 17, and one of the principles was to have continuity as much as possible for capital. And as I said, there would be the CSM -- it would be Euro 34 billion. So that gives you an idea of the amount of profits going forward. And you will see later in the presentation, by how much that should be released every year. And Euro 34 billion is gross of tax.

And so just to reiterate, no impact on capital and cash generation, same balance sheet strength in terms of Solvency II and it's important because it's at Group level and at local level no impact on Solvency. Therefore no impact on capital management policy and therefore no impact on business strategy. And so key targets are reaffirmed.

And with that, I'm happy to leave the floor to Grégoire.

Grégoire de Montchalin, Group Chief Accounting & Reporting Officer, AXA

Thank you, Alban, and good afternoon to everyone. So it's first of all, a real pleasure for me to be here with you all and to present IFRS 17. Indeed I, but also many teams at AXA, have been now working for, I think, many years on this topic. So that's the day where we first present it to you. We are clearly at the crossroads between IFRS 4 and IFRS 17. And I think it's fair to say that is definitely an exciting time for the company, and I think more generally for the industry. And you know IFRS 17 started already long ago. We've come a long way. And I believe, really the standard will bring some features that investors have been hoping for for a long time.

So, let me first remind you on top of everything that Alban already introduced that the accounting philosophy on which IFRS 17 was built is in a sense quite similar to the one of Solvency II. And we introduced to make sure that our financial statements reflect the economic reality of our business over the long term. So we gave us some guiding principles. Our main goal within the introduction of the new standard, as Alban already said, was to maintain continuity, especially on both capital and earnings, and to limit any additional volatility that could come from the new standards.

When I say continuity, indeed you can look at it from different angles. It's continuity of methodologies because wherever it was possible, we reused the methodologies already developed for Solvency II. It's continuity in reporting, as already evidenced by Alban, and it's continuity, and that's even more important obviously, of our key financials. So earnings and capital - meaning more precisely that we will have largely stable shareholders' equity on transition. And we also expect, as already mentioned, our earnings power to be unaffected in aggregate.

So moving on to the following slides. A first aspect to consider is that AXA's business mix will be largely accounted for under, what is a simplified model, under IFRS 17. So as you know, there are three major models under IFRS 17 that depend on the features of the business. So the short-term technical businesses will be accounted for under the simplified model, which we call the PAA Model. The long-term technical business will be under the general model, which is called the BBA model, and the long-term participating businesses, including all the Unit-Linked business by the way, will be under the third model, which is called the VFA Model.

And important to note is that as a result of our strategic decision, a few years ago as you know very well, to rebalance AXA towards technical risks with our primary focus now being P&C, Health and Protection, you see that 65%, and that's what is shown on the slide, of our business will be under the simplified model or even fully unaffected in the case of Asset Management. So on the contrary, they are the two other models, BBA and VFA, which other ones on which there is the introduction of the main new mechanism brought by IFRS 17, which is the CSM mechanism. But, these two businesses BBA and VFA only represent 35% of our overall activity that you see. So by and large, approximately two thirds that's the key message here of our business will be largely unaffected by the move to IFRS 17.

So, let me now with this slightly more busy slide walk you through the main choices that we made to implement IFRS 17. Just as a preliminary remark, when making those choices and as you will see in the following five examples, our guiding principle has been first, a consistent approach across the group, because, obviously, that's important for the consolidated accounts as well as, as already mentioned, ensuring continuity notably in our earnings power and limiting volatility. So, if I look, we cleared the five items disclosed on the slides. Starting with one of the main changes introduced by IFRS 17, which is the discounting, from now on, all reserves. So we had the choice between the top-down or bottom-up approach when it comes to building the discount rate curve, as you know. And we intend to use the bottom-up approach, which is the one that starts from the risk-free rates and adds up a premium for illiquidity, very similar to Solvency II, and as a matter of fact, the curve that we will use will be very close to the one that you know under Solvency II. And by the way, this will bring also some efficiency because having this proximity will allow us to leverage similar inputs between the two frameworks obviously.

The second item, still linked to discount rates but relating to the changes in discount rates, so as you know, the framework requires reserves to be discounted at market consistent rates. So, we must revalue our reserves at each closing dates using the latest market rates. So this brings potential volatility obviously. We elected to account for those changes through OCI. And so OCI, whenever we have the choice between adding them in full through P&L or OCI. And let me zoom a second on the OCI under IFRS 17. So, you're all familiar with the asset OCI that exists under IFRS 4 and as you know, one of the main novelties of IFRS 17 is that it brings a liability OCI which is conceptually and de-facto a counterpart and a balance to the asset OCI and that will result in a net OCI that, first, will be structurally much closer to zero at the scale of the Group, and also much more stable or much less volatile than the OCI that we had under IFRS 4 which especially this year as you will know was very volatile.

So coming back to the choice that we made on the discount rates having the changes through OCI. Let's just keep the idea that this is something that we obviously need to mitigate the volatility in the P&L and the specific volatility will be ring-fenced to the balance sheet.

Next item is the risk adjustment. So, as you know, it's essentially an additional reserve sitting on-top of our prudent Best Estimate reserves. We will compute these adjustment with a percentile based approach and I propose to come back with a bit more detail on it in one of the next slides.

Moving to the fourth item and this time on the asset side of the balance sheet. So for listed equities, we had under IFRS 9, this time, an important choice on how to account for them and we have chosen the fair value through OCI method that is offered by IFRS 9. So concretely, equities will continue to generate dividends, obviously that will remain in the P&L as before, but the mark-to-market volatility that goes with the value of the equities, this one will now go only through the balance sheet and including, as you know, the fact that realized gains and losses will not get recycled through the P&L. But as a counterpart this will be another element adding to the reduction of the volatility of our P&L and that's the main reason why we made this choice.

And finally, when it comes to the transition approach. So as you know three approaches are possible under IFRS 17 and we have chosen the retrospective approach, so the full of the modified retrospective approaches, which has the two first of the three possible approaches, for about 80% of our businesses meaning that we have adopted the third one, which is the fair-value approach, only by exception, and concretely only in order to limit the risk of having onerous contracts.

So, overall summarizing this a bit busy slide, our key accounting changes reflects well our guiding principles already announced. On one, ensuring continuity in earnings power. Two, limiting the P&L volatility wherever possible and three ensuring the convergence to Solvency II where it was feasible.

So, I come now to detailing one of the key message of today, which is that our shareholders' equity will be expected to remain broadly stable at around Euro 58 billion. So here on the slide, we see the walk-through of our shareholders’ equity excluding OCI from IFRS 4 to IFRS 17.

And this is basically a three-step process, after a preliminary step, which is about eliminating the technical intangible assets, so meaning the DAC and the VBI which are mechanically fully eliminated when we move to IFRS 17. So once we've done that, the three steps are first that we revalue the liabilities on the best estimate basis and by discounting all those technical reserves. Second, we create the risk adjustment. And finally, we create, again as already announced, the CSM which as you know consists of future profits appearing on the liability side, and that's important, of our balance sheet and gradually released into our P&L. So let me now zoom on the following slides into each of those three steps.

So the first item is about the revaluation of our reserves. And before we start on the slide, let me just remind you that reserving under IFRS 17 is broadly speaking very similar to what we do under Solvency II. We use the same models, we have very close technical parameters. And that includes obviously discounting all the reserves. So here I focus on commenting this discount that, notably from now on, we will apply to all the P&C reserves that were just a very small part of the P&C reserve that were discontinued until now. So that's probably one of the key changes as already highlighted by Alban.

So, as you know, discounting, well first of all and it's really important has no impact on the lifetime profitability of any business which is discounted. But it is just about giving a more economic value to the newly-created reserves by discounting them obviously. And then as long as we hold that reserve that was first discounted there are basically two parallel accounting mechanisms.

So the first accounting mechanism is that we unwind in the following years as long as we still hold the reserve, the discount. And we use the rates locked-in at inception, so the one that was used for the discounting in the first year to calculate this unwind which is the part that flows through P&L.

And the second parallel mechanism is as already explained, the fact that there will be an impact on the face value of the reserve of the volatility of interest rates around that rate that was locked in at inception and this volatility will go through OCI, as I've already mentioned, and will be ring-fenced to the balance sheet.

So this is the accounting mechanism for all our non-participating businesses. Just note that for the participating business which is under the VFA model notably, there is the CSM mechanism that is a slightly different mechanism but that is basically the one that plays the same role to absorb also all the volatility linked to the movements in interest rates. So we already see what the discounting mechanism is something which is fairly straightforward.

Next item especially remember the roll-forward of our shareholder's equity from IFRS 4 to IFRS 17. For the second step, that I already introduced is the risk adjustments. So, as I already said, so the risk adjustment is a new liability that is created and required under IFRS 17, this is the extra reserve sitting on-top of the pure best estimate liabilities and which is conceptually made to cover non-financial risks. I think you know all that. So as already said, there is no prescription under IFRS 17, as regards how to build this risk adjustment and we chose a Percentile-based Approach to build it. At AXA, as you know, whenever we set Best Estimate Liabilities, we nevertheless make sure to remain on the prudent side in the way we set out our Best Estimate Liabilities. And accordingly, we believe that it's appropriate to set the confidence interval for the risk adjustment that will be centered on the 65th percentile. More precisely or more technically, we will give us a range between the 62.5 and 67.5 percentile within which the risk adjustment will actually be set and -- from the number perspective, which is very important to you. This is expected to represent between Euro 3 and Euro 4 billion in our balance sheet for the risk adjustments going from the bottom to the upper-end of the range.

So moving now to the third and last step, which is building the newly created CSM. So as you know it will act as a reserve for future profits and the CSM applies basically to all long-term -- all long-term Life & Savings contracts as well as the long-term Life-like, if you want, Health contracts. So you can see on the right part of the slide, the typical mechanism of creation of CSM. So it's nothing more than the premiums that we receive netted off expected claims and costs to which we add an extra buffer, which is the risk adjustment that we just discussed. And all the cash flows are, obviously, discounted. And this gives the future value attached to the premium that we receive that we account for as liabilities as the contractual service margin attached to that given contract and the premium we receive for it. So that's for one single contract. So now if we look at it from a stock perspective, we will have in the opening balance sheet the total amount of CSM of around Euro 34 billion gross of tax corresponding to an estimate of Euro 27 billion net of tax. And this Euro 34 billion is going to be split approximately Euro 25 billion for Life & Savings and Euro 9 billion for Health.

So if now we look at the evolution over time of the CSM, we expect it, and that's the key message here to grow sustainably. So it doesn't mean that it cannot decrease in a given year. And by the way the CSM will play as really good volatility absorber. It will absorb at first all the technical volatility and for all the VFA business on top of the technical volatility, the financial volatility impacting the valuation of the reserve, to be first absorbed by the CSM and then if it's pure volatility it will disappear by itself or if the impact is confirmed over time, this will be gradually released through the P&L. So that's why is really important for us to monitor the stock of CSM over the long run. Obviously, we'll disclose details on this roll forward. And the reason why we believe on average, over the long period, it will grow sustainably is that will have the contribution every year of the new business CSM, which will be measured on a risk-neutral basis. We would expect then, exactly like you see on the Solvency II, a financial variance to be on average over time positive that will be -- this financial variance will reflect real-world returns versus CSM which is first built on a risk-neutral basis. And we expect that the sum of those positive elements will more than offset the release of CSM that will feed the P&L in each and every year. So Alban will comment further on this mechanisms and what it means for our Life & Savings earnings in the next part of the presentation.

But before moving to that profitability part of the presentation, so it's time now to take stock of everything I've just explained by having a look at the resulting balance sheet. So this is what is presented on this slide. If I look first on the asset side, so the key points to highlight here are the elimination of Euro 18 billion of technical intangibles, namely the DAC and the VBI. On the contrary, the pure goodwill is fully unchanged by the move to IFRS 17, so obviously, the goodwill remains as it is before and after the move to IFRS 17.

On all the invested assets, I think a really key and important message is that, overall, there is very limited changes attached to all those assets and notably the classification remains broadly unchanged, so that means that we still have as before most of our assets measured at fair-value through OCI. And you may note as well that we will account, as before it was for almost all the real-estate, for absolutely all the real-estate, the real-estate will be classified at cost in our IFRS 17 and 9 financials.

If I look now on the liability side, so we find again consistently with everything that we just discussed. Well first the remeasurement, notably through discounting of the reserves, so that leads to around Euro 530 billion of Best Estimates reserves. You will note that this is going to include a very small amount for onerous contracts that would correspond to less than 0.5% of our total best estimate liabilities.

You see the introduction of the risk adjustment so bit less then Euro 4 billion. You see the CSM, as announced around Euro 34 billion. And we'll have under IFRS 17 the new OCI, as I promised, much closer to zero. So technically in the opening balance sheet, we expect it to be at minus Euro 3 billion. So all-in-all, having summed all those elements both on the asset and the liability sides, this ends up with Euro 58 billion of shareholders' equity which is a stable amount as compared to what we had under IFRS 4.

So with that, we've now established the impacts of IFRS 17 on the balance sheet that was the main focus of this part, stable shareholders' equity and also a much more economical representation on the face of the balance sheet. So we see all this as very positive. On this last slide before and for the sake of completeness on the balance sheet related items, let me just focus on two ratios, the return-on-equity and the debt gearing that will, obviously, remain key to understanding our financial profile going forward. So regarding the ROE, we have a simple message here which is no change so the definition will remain unchanged, moving from 4 to 17. We still have the underlying earnings and as you know, many of our peers referred to a similar concept as operating earnings, but that's exactly same concept, divided by the average shareholders' equity and since the shareholders' equity is stable in this transition, it makes perfect sense that we reaffirm and maintain the target which is one that you know range between 13% and 15%.

Looking now at the debt gearing, here it's slightly different, because we will amend the definition moving to IFRS 17. What we will basically do is add the CSM net of tax to the denominator and we believe it makes sense, because the CSM is also a financial resource that can be used to meet our future financial debt obligations. Hence it makes sense to report it to the amount of debts. So, this will by construction mechanically translate into a lower gearing ratio as compared to the one that we used until now. You have on the slides the new range to which the previous one would now correspond. But important is that, despite these pure change of measurements, this has no impact again on our net debt issuance capacity of Euro 1 billion per annum, at constant gearing as you all very well know.

So, now just before handing back to Alban, maybe just quickly wrap-up this part. So, the transition to IFRS 17 resulted in a new Euro 34 billion item, CSM, on the balance sheet, and as you very well understood, we welcome this change as it better reflects the economic reality of our business over time. And so, we've made accounting choices to implement IFRS 17 and that served two main objectives, that I'll just reiterate. First, the continuity of our accounts and in particular of our shareholders' equity as I covered it in this section and second, with the objective to keep a low level of volatility for our underlying earnings just as before.

So, thanks for your attention and I will of course be available for questions later, but I'll hand over back to Alban.

Alban de Mailly Nesle, Group Chief Financial Officer, AXA

Thank you, Grégoire. I'll try to be as clear as Grégoire on the P&L, as he was on the balance sheet and the accounting options that we took.

So, starting with the profitability by line of business. So, the global picture as we said is that overall in aggregate, our earnings power will be unaffected, but this is also true broadly by line of business. So in P&C what you will see and I will come back in detail on this in the coming slides, is obviously an improved combined ratio, simply because or thanks to the discount effect that you will have in any given year.

That will be offset by lower investment income, because you will have the same gross investment income as today, but you will have the negative unwind of the discount rate. There will be volatility in P&C and importantly as Grégoire also mentioned, our best estimate reserves will keep on having some degree of prudence. I mean our approach to reserving will not change significantly as such, where you can still expect positive prior year developments, in line with our long-term average. As we said, Life & Savings will be predictable and Health would be a mix of P&C and Life.

So, a bit more details on the P&C side. Starting with what does not change. Again as Grégoire stated, the accounting change that is represented by IFRS 17 does not change the lifetime profitability of the business or any given contract. It just changes the pattern of recognition of the earnings of that business. Second, we will carry-on with our approach which is to be prudent, both on underwriting and reserving. And third, as I said at the beginning we will continue analyzing our profitability with the combined ratio on a gross basis.

So, what will be the change brought by IFRS 17? The current year claims will be discounted at inception i.e., at rates that reflect the then prevailing rates. The mark-to-market along the years of those changes in rates will go to OCI, will not go to P&L, as Grégoire said.

And the unwind of those rates will go to P&L in the following years. So, you have those three movements, discount in the current year at the then prevailing rates, move over time of the mark-to-market in OCI and then unwind in the following years at the inception rate.

An important aspect is the risk adjustment. The net effect of the risk adjustment is expected to be really marginal. Because as Grégoire said, it will be within the range, but within a relatively narrow range. Part of it will be released every year with the reserves themselves. But we will recreate immediately risk adjustment with the new claims of the New Year. So, don't expect on the long-run risk adjustment to contribute to earnings and that's pretty important.

When you look at the combined ratio, obviously the combined ratio will look better under IFRS 17 than under IFRS4 for obvious reasons, thanks to the discount. It will be also, as I said, a bit more volatile given the -- the changes in interest rates from one year to another. And we will need to learn to live with that collectively, because earnings will be earnings and we need to take into account that volatility, that once again does not impact the overall profitability of the business. The combined ratio will be better than today. Investment result will be lower than today, because again, you will have the investment income as it is today, but you will have the unwind of the reserve discount.

And the way we see it, I mean once it stabilizes, as you invest every year, your investment income should reflect the various years of investment that you had, but so should also the unwind of the reserve discount. So, there is a parallel track for the investment income and the unwind, if we invest regularly which we do. The difference between the two is that the unwind reflects the rate at which it was discounted which is a risk-neutral rate, a risk-free rate, whereas the investment income obviously is the real-world rate.

If we move now to Life. So, as we've said several times, the Life earnings will be driven fundamentally by the release of CSM. And as opposed to what we showed on the P&C side, it's a completely different world and that's why we don't show the bridge between IFRS 4 and IFRS 17, it wouldn't make sense. So, as Grégoire said, there will be some volatility in the CSM itself. But very importantly, the CSM release will be reasonably stable. And why is it stable? Simply because it is a function of long-term assumptions that do not vary significantly from one year to the other. The CSM is created on a risk-neutral basis but its unwind is a function of real-world assumptions, like in Solvency II where you have that financial variance year after year. That's why here, we say that the range of release of the CSM is between 9% and 11%. It's not because the CSM as a stock -- I'm sorry, what I mean is is to offset the volatility of the CSM.

In other words, when the CSM is down as the amount of CSM released will be relatively stable, it means that the percentage of CSM released will be higher, close to 11%. When the CSM is up, conversely, the CSM release again is still reasonably stable and the percentage released will be closer to 9%.

So that's the percentages that we will have on the Life side. That is extremely important because again we see IFRS 17 as a mechanism that brings a lot of predictability on the Life side and that's why, we will be able to give you a good indication on how the CSM will be released in the future. Again, we are not saying that it's through the euro but we're saying that it would be reasonably stable.

So that's the the CSM, main driver of our profits on the Life side. You will also have investment results on the other Life businesses that are not under VFA, so the non-participating businesses and the shareholder fund, and you will also have the technical adjustments for the small part of the life business which is PAA.

So, if I sum-up, it will be effectively the line which is the most affected by the change, but the good thing about it is the overall predictability of the release that you will see year after year.

A word on new business value and new business margin. Obviously with IFRS 17 you will have a new business CSM that we will report. But on-top of that we thought it would be useful for everyone to keep the concept globally of new business value for all our Life businesses even those that do not generate a CSM because they are not accounted for under that format.

And that will therefore be comparable to the new business value of today. So we will use the CSM and the IFRS 17 framework to calculate the new business value, notably when it comes to discount rates but you will have a new business value comparable to what it is today but which will highlight the new business CSM probably as its main component.

And that new business value will be in-line with what you have today. The new business margin as a concept doesn't change. I just want to highlight one thing, we were one of the last to report new business margin as with APEs as the denominator. So we will use present value of expected premiums only going-forward as the denominator which will also put us more in-line with what our competitors do.

On the Health side, as I said, Health today is a mix of short-term business and long-term business. So you will have in our health earnings, a mix of the life mechanisms and the release of CSM and everything that we've just seen, notably in Asia that's what I said at the beginning notably in Japan, a bit in Europe with Germany. And for the short-term business, you will have something which will be similar to P&C.

So, that's my technical slide. And it is how you move from underlying earnings to net income. And I said at the beginning that we don't expect that part of our P&L to be more volatile under IFRS 17 than it is under IFRS 4. Why? So there are several reasons. The first one is the mark-to-market of all assets that back VFA business to put it that way, participating business, all that mark-to-market will be absorbed by the CSM. Therefore, you won't see it in that part of our P&L and it will be released over time.

Second, today in that part of our P&L, we book the realized gains that we have on our equity portfolio, listed equity portfolio and impairments if any. We took the option to have that mark-to-market on listed equities in OCI and no longer in P&L. So the only thing that you will see in the P&L and it will be in underlying earnings is the dividends that we receive from that portfolio of listed equities.

And that also gives me the opportunity to say that we manage 2022 to IFRS 4 and that's a good example. What do I mean by this? As we won't have capital gains on equities from 2023 on, we realize those gains this year. And we save the capital gains that we have on real estate for future years, obviously because we want still to have in '23 the same sort of amount of capital gains overall but in '22, it will be done with equities, in '23 with real estate. Which means, that when we show to you the '22 P&L under IFRS 17, and we'll do that in May next year. You won't see the capital gains in equities because they don't exist under IFRS 17. So, it's a sort of a forewarning on the P&L

of '22 under IFRS 17, it will be interesting but don't look at it too long because again it's managed to IFRS 4 and that's what matters to us and not to IFRS 17. So those are the two reasons why that part would be less volatile.

There is a part which is a bit more volatile is that the amount of investment funds that will be accounted through P&L and not through OCI will be slightly greater under IFRS 17 than under IFRS4.

So that's overall the impact that you have. Obviously, everything else which is not financial such as the restructuring provisions and so on do not change and there would be the same concepts in IFRS 4 and in IFRS 17.

So what are the conclusions in terms of profitability? More economic view because you will have reserves on the best estimate basis but with some degree of prudency, but you will have the discount impact immediately and greater predictability because on the Life side, we'll give you the CSM release pattern. Obviously, I haven't mentioned it yet, but given the continuity that we have, underlying earnings remain the basis of our dividend policy, no change to that. And last, net income is not expected to be more volatile for the reasons I tried to explain.

So I will in conclusion get back to what I said at the very beginning before taking your questions with Grégoire. Underlying earnings power not affected, overall true in aggregate but true also broadly line-by-line. Shareholders' equity ex-OCI stable, limited change in reporting and mostly on the Life side for participating businesses. No change to capital management, strategy, cash generation. And therefore, same targets for Driving Progress '23 as we had in our Plan.

And with this, Grégoire and I are happy to take your questions.

Q&A SESSION

Anu Venkataraman | Head of IR, AXA Let's start in the middle, Andy.

Andrew Sinclair | Bank of America Thanks. Andrew Sinclair from Bank of America. Three, please. Firstly, I was just looking at shareholders' equity plus CSM and comparing that to own funds in a Solvency II world. I would have probably thought intuitively, they'd be fairly similar numbers given the similar methodologies, but it seems quite a big difference, quite a lot higher under IFRS 17, just wonder if you can bridge the gap for me?

Secondly, was just the mix of P&C results seems to move towards technical, just how will that change as interest rate and bond yields go higher, I suppose intuitively would be more going towards the investment result, actually does more go to the technical result, because you get more discounting, just how does that mix evolve?

And thirdly, was just on the unwind rate of the CSM, 9% to 11% seems quite a high unwind rate on the Life CSM. Why is that and what does that say about duration? And similarly for Health, it seems a bit lower 6% to 8%, why lower there? Thanks.

Alban de Mailly Nesle | Group CFO, AXA So, can you say your second question, I was not completely sure I understand it, the mix between technical and non-technical?

Andrew Sinclair | Bank of America Yes. Just so you've shown that the mix moves towards technical away from investment income on the P&C result, I was just thinking as interest rates, as bond yields go higher, how does that mix evolve? I would have intuitively thought normally you're getting more in the investment result, but actually does higher discounting actually mean you're getting perhaps more of the technical result?

Alban de Mailly Nesle | Group CFO, AXA Okay. So, Grégoire, I suggest I take the last two questions and you take the first one on the reconciliation between shareholders' equity and own funds.

And if I start with the CSM release. What we see with the 9% to 11% is exactly what you said about duration, is that broadly the duration of our Life business is 10 years, which is reality, our Life business has a 10 year duration. When you look on the Health side, that release would be closer to 5%. And that's because the duration of our Health business, the Life-like Health business, is closer to 20 years. Think of what we have in Japan, those are lifelong contracts and therefore with a much longer duration and therefore with the release which is only a 5%.

On the mix between technical and investment income, as the interest rates increase, immediately you will see a benefit in terms of combined ratio and technical profitability. And you will see that coming over time with investment income, but there again, bear in mind that the investment income will grow as you will have invested at a higher rate, but the unwind will also be done at a higher rate. That's what I tried to explain earlier on when I said that both should move in parallel. Grégoire?

Grégoire de Montchalin | Chief Accounting & Reporting Officer Yes, on the reconciliation between the IFRS 17 shareholders' equity and the Solvency II concerns. So, we'll disclose in the future the full reconciliation similar to the one you already know. But to give you a few tips, I think it's going to be a very similar reconciliation. The main things that are going to change as compared to the one you know now is, so when it comes to eliminating the intangibles, you will eliminate just the amount of goodwill and not the whole intangibles that you used to eliminate.

On the technical reserves, the best estimate liabilities themselves, they are really very close, like a difference below 0.5% or something like that to the one that are under Solvency II. The only thing that really changes is the amount of risk adjustment under IFRS 17 versus the risk margin of Solvency II and as you know for prudential reasons, the risk margin under Solvency II is calibrated at a quite high level and so this makes the gap that you have to take into account in your reconciliation as well.

And the third item in the reconciliation, this is the one that you mentioned. The CSM obviously is presented as the liability under IFRS 17, so to come to something similar to Solvency II, you have to add it up basically net of tax which is more Euro 27 billion rather than the Euro 34 billion gross of tax that we mentioned.

Alban de Mailly Nesle | Group CFO, AXA And I realized I told you it was 5% release for Health, whereas it's 6% to 8% as written in the presentation.

Anu Venkataraman | Head of IR, AXA Michael?

Michael Huttner | Berenberg On the combined ratio, I'm really confused. If you could talk really, really, really slowly like, well, I am 60 so, like to a 65 year old, because you say there's more volatility, but I can't see where the volatility comes from. If you have a discount rate, discount rates change maybe year to year, but I can't see it being such a big item so and I would be really interested. And also if you could just repeat the unwind of the discount rate in the combined ratio, I understand goes through the investment income, but what does the change in discount rate, where does that reappear or disappear, disappear is a wrong word, where does that reappear? I'd be greateful for that. And then on the point about the discount rate and the combined ratio in the technical profit, does that mean that there will be a non-life CSM as well?

Alban de Mailly Nesle | Group CFO, AXA Okay. So, just, Grégoire, you take the third question and I take the first two.

So, the combined ratio volatility, there will be some volatility, but compared to the Life side where it's going to be very stable, I just wanted to highlight that. But what do we mean concretely? When you look at the amount of reserves that we book for any given year of claims, there is probably a two year duration. You multiply that with the change in interest rates that you can have, times our claims, and you will see the amount of earnings pluses or minuses that you could get. I mean it's, not huge volatility I agree with you, but compared to today, where investment income was stable, there will be a bit more.

Now on your other question on the unwind. To put it simply, it's exactly like a bond. When I buy a bond today, I have let's say a 4% yield. If market moves to 2%, that goes to OCI, but I will still have my 4% in the next years. It's the same here for the discount on the claims. I will have for '22, the '22 rates, that will be the rate at which I will discount the claims. Then any valuation of that will go to OCI, which will not impact the P&L going forward because it will still be unwound at the rates that they will have in '22.

Grégoire de Montchalin | Chief Accounting & Reporting Officer Okay. On any potential non-Life CSM, the simple answer is, there will not be any CSM on non-Life, almost absolutely all the non-Life business will be accounted for under the simplified method and the particularity of the simplified method is precisely not to have any CSM contrary to the other one.

Anu Venkataraman | Head of IR, AXA Farooq?

Farooq Hanif | JP Morgan Hi, thanks very much. Thanks for going through all that, it was a very, very good presentation I thought. Can you tell us the proportion of CSM that's VFA and BBA? Is it two-thirds, one-third? Can you comment on the sensitivity of both equity and CSM? I think maybe to interest rate spreads and equities roughly, I mean, is there anything there that would be slightly different from what we are used to in own funds and that we should bear in mind?

And can you talk about the CSM impact on profit? So if we decided as analysts that we wanted to add the CSM back, which I think some of us may do, what would the impact on underlying earnings be, if we took Life & Savings and Health CSM movement and add it back, how material would that be? Thank you.

Alban de Mailly Nesle | Group CFO, AXA I'm sorry, on the third question, can you say that again?

Farooq Hanif | JP Morgan If we use like a quasi embedded value approach and we added back the CSM to equity, we know the impact because you've told us roughly. But what would be the impact on underlying earnings be? Because you said that the CSM is going to grow every year, so if I took that out and added that back to earnings, my earnings would also go up. So what would the movement in CSM be every year as a percentage of earnings?

Alban de Mailly Nesle | Group CFO, AXA Do you want to take those three questions? I can start with the third one and you will complement.

So, if I well understood your third question and I'll start with that one. CSM stock will grow year-after-year, that's our projection, because you fill the ‘bathtub’ with new business CSM on a risk-neutral basis but you unwind it and release it on the basis of real-world assumptions. So the CSM will grow even though you release 9% to 11% of it every year. So that's the part I understood in your question, but maybe…

Farooq Hanif | JP Morgan If the CSM grew by 100 because new business and unwind and investment return is – much bigger than the release of Euro 100 million. Then I would add 100 to my earnings if I had to remove the CSM, as a concept.

Alban de Mailly Nesle | Group CFO, AXA So even if you didn't have CSM, you wouldn't take today all earnings one-shot in the current year. So there is not a big difference when you think about notably investment assumption that would be one of the primary movers of the CSM. Rates move, you don't see the impact today on our earnings because they will materialize slowly as we reinvest. Okay, Grégoire, do you want to take the other two.

Grégoire de Montchalin | Chief Accounting & Reporting Officer Yeah. On the split of the CSM between the VFA and BBA. So we gave us the split more by line of business between Life and Health, so Euro 25 billion and Euro 9 billion, respectively. I don't have the exact figure, but on top of my head, it's a small amount of pure BBA, probably between 10% and 15%, but we don't disclose the exact figure for the time being.

And it'll be the same for the sensitivity of the CSM. We don't have sensitivities to disclose for the time being. You're right that to a certain extent, we should find things a bit similar to what we observed under Solvency II, but this is typically the kind of things we would refine in the future.

Anu Venkataraman | Head of IR, AXA Okay. Dom?

Dominic O'Mahony | BNP Paribas Exane Dom O'Mahony, BNP Paribas Exane. So just starting with a technical question, the illiquidity premium and the discount rate. How are you going to calculate this? And is going to respond to credit spreads? If I understood correctly then the investment income is essentially spread less illiquidity premium, less credit-loss that will be your investment income in P&C. So if for instance, we end the year and spreads have blown out, are you going to have a much higher illiquidity premium increase in the discount rate? Or we can expect higher investment income to come if you could help us on that one that would be very helpful.

You showed us, essentially the earnings don't move very much at a Group level and even at a sort of product segment level. My guess -- but it's only a guess, is that a geography level there may be a bit of movement. And it is only a guess, but I'm guessing that long-term Health, for instance, has a deferral of profit recognition and Asia, for instance would have a lower level of profitability than today. Is that right? Or is that wrong? And indeed other geography segments which look better, which are offsetting that?

And then the third question, at the beginning you said, you gave us a very helpful reminder that this doesn't change statutory earnings, it doesn't change Solvency II. Could you maybe give us a little bit of color on where the main misalignments might be? So for instance, in German GAAP, I think it's well-understood, it has quite different drivers both from IFRS and Solvency II. Are there other drivers of your remittance capacity that you'd highlight as sort of being different essentially from IFRS 17? Thanks.

Alban de Mailly Nesle | Group CFO, AXA Grégoire, I will take the last two and you take the first one on the illiquidity premium?

So the drivers of remittance, the way we think about it, is mainly the local Solvency and how much we have created in terms of Solvency locally and what is the excess amount that we can pay as a dividend to AXA SA. That doesn't change, fundamentally. So obviously, there is a link to the earnings notably on the P&C side, but fundamentally it's a solvency creation. So I don't think there is any change on this that we should expect compared to today. And on the profit recognition versus today, so you saw that at line of business, group level, even at entity level, it will be very, very similar and you won't see massive change or even significant change at product level.

Grégoire de Montchalin | Chief Accounting & Reporting Officer And on the interest rate curve that we will use, as I said we will use a curve which is very close to Solvency II. We said very closely because it's risk-free rate plus illiquidity premium, like in Solvency II. As you know, when you look into the details, you have 10 to 15 detailed parameters across with the number of currencies. So for that reason, there is not a perfect alignment with Solvency II, but as with Solvency II, yes, indeed, you have kind of volatility adjuster mechanism that makes that different spreads go up, this will be reflected in the yield curve. And this is the same yield curve that we will use on all the businesses across the board for the BBA and VFA businesses, but also for the P&C. So indeed, if spread increases and the interest rate curve goes up for that reason, this would be reflected in the discount.

Anu Venkataraman | Head of IR, AXA Andrew?

Andrew Crean | Autonomous This is Andrew Crean with Autonomous. And we go back to embedded value again. Three questions. One, on slide 12, I think you said, 24% of the earnings are under the VFA method. Roughly speaking, how much is G/A Savings of that 24%? Secondly, could you go into a bit more detail on the onerous contracts? How much are they and where are they? And then thirdly, if you're presenting all this, based on current, I mean, the difference between your equity in December was, I think, 75 plays 55, isn't it if you include the OCI. I'm assuming going to be much more narrow now, because the IFRS 4 balance sheet has come down a lot more. I assume that the IFRS 17 balance sheet hasn't moved much.

Alban de Mailly Nesle | Group CFO, AXA Do you want to take all three?

Grégoire de Montchalin | Chief Accounting & Reporting Officer Yes. The first one, to be honest I'm not sure to have right away like that the proportion of G/A Savings as part of the 24% of the VFA, but it's probably a majority part. We could refine that figure.

Alban de Mailly Nesle | Group CFO, AXA And to be sure, you have this and you have Unit-Linked. Unit-Linked is also a VFA business, to be clear. So we will come back to you on that.

Grégoire de Montchalin | Chief Accounting & Reporting Officer So on onerous contracts, two things. First, as I said, we have very small amount of reserves deemed onerous contract in the opening balance sheet, around 0.5% or even less of the total liabilities, concretely around Euro 2 billion. These are reserves for onerous contracts, where we are just faced to the technical risk as regards any impact on the P&L, we believe there are reserves on the prudent basis from a technical standpoint. So we don't expect any volatility coming from those. And as regards any potential new onerous contracts, our stance here is that we definitely want to continue to be very selective in the business we write and not write concretely any onerous new business. From what we write currently there is no new onerous business.

Alban de Mailly Nesle | Group CFO, AXA So when you write loss-making business, the loss goes directly to P&L. So, yes you would see that if we were to write any.

Grégoire de Montchalin | Chief Accounting & Reporting Officer And on the equity, I think the answer was indeed in your question. Actually at the 1st of January '22 or the 31st of December, '21 there was a Euro 75 billion equity including with more than Euro 20 billion of OCI. The OCI under IFRS 4 reduced by Euro 19 billion at half year, this was the figures that we disclosed. And the rates have continued to move-up, so this OCI under IFRS 4 is definitely very volatile and the shareholders' equity as we speak is as at minimum at the same level as the IFRS 17 one. The good news again is that this volatility coming from the OCI will be much lower than IFRS 17.

Anu Venkataraman | Head of IR, AXA Will?

William Hawkins | KBW Thank you. William Hawkins from KBW. Yeah, thank you also for an excellent presentation, it's very helpful. Why are you encouraging us to look at shareholders' funds excluding OCI? I can see under the existing regime, there's a big problem of comparability between assets and liabilities, so we should be doing it. The whole point about this change is the assets and liabilities move on to a basis is more comparable? So, I really don't understand why we are being encouraged to do that? And then sort of second, so slightly smaller, but why is the OCI negative? Should I be inferring anything from that?

And then secondly please, do you have an allowance for limited historical experience? I'm assuming not, because you haven't referred to it. And, I'm not even sure where this idea came from other than the fact that one of your peers invented it a month ago. So clearly, to the extent you don't have one is that implying that you're less well reserved than the company that does?

Alban de Mailly Nesle | Group CFO, AXA So, on the OCI, I guess it's a tradition at AXA, when we looked at our ROE in the past or when we looked at gearing, we always excluded OCI, because there is a degree of variability in it. As Grégoire just said, under IFRS 17 it will be much much less volatile because the volatility coming from the asset side will be offset totally or in a great part by the same movement coming from the liability side because you also discount your liabilities. So we expect the OCI to be much less volatile than today. That being said, that's not something that we consider because it doesn't say much about our business and other assets, but that's the way we have looked at it historically.

Why is it negative? It was already close to zero at half year simply because rates had gone up. So it's just a reflection of the current interest rates applied to our assets and liabilities fundamentally, plus the variation on equities as well, which is why we're still positive by Euro 1.5 billion at 30th June but it could vary and that could become negative and that could go to OCI.

The third question on -- did I forget anything on this?

Grégoire de Montchalin | Chief Accounting & Reporting Officer No. Just to add on this one that I said it's structurally close to zero. In the opening balance sheet it is minus Euro 3 billion which we believe at the scale of our overall assets is close to zero, hence the fact that I mentioned it this way. There is notably a small mismatch, notably for the real-estate which is accounted for at-cost. So, you don't have the unrealized gains on the real-estate on the asset side of the balance sheet while when you calculate the reserves on the liability side, you take into account the corresponding value notably for the policyholder. And, the offset of that is in OCI and so you create and so it was a bit too simplistic saying it's centered to zero, it's probably in real-life, the OCI that we have in the IFRS 17, centered around minus Euro 3 billion, Euro 4billion something like that as you see in the opening balance sheet. Then with the rates moving, we will have a bit of volatility around that. Too early to say, to give you more detail on that, but much lower volatility than again the one that we observed through this year on the IFRS 4 OCI.

Alban de Mailly Nesle | Group CFO, AXA And on your question on reserves and the allowance. For us, best estimate liabilities, our best estimate liabilities and they take into account what we know and what we don't know and we have IBNRs for that and we will keep on having IBNRs and they will be in our best estimate liabilities. So we didn't see the merit or the use of having additional reserves. We already have the risk adjustment and I guess, you have felt from what I said that we think that the risk adjustment is not a necessary reserve, it will not move much, it will not be released through a P&L, net-net. So we don't see the merit of having yet another amount of reserve separately from our best estimate liability.

Anu Venkataraman | Head of IR, AXA Claudia?

Claudia Gaspari | Barclays Thanks. Claudia Gaspari from Barclays. So this very stable picture you're painting today, to what extent would you say is the result of your product mix, I guess, and geographic footprint, to what extent, is it a result of accounting choices you're making here now, and to what extent it's the actual like quality of the product sitting on the book. So to what extent can a company control it and can't?

And then secondly on the CSM, I mean there is a clear incentive to maximize the CSM at inception and there is equally very clearly some constraints, I mean the obvious ones, that Alban mentioned are all those financial leverage and, I guess, the tax bill. But there's probably a million other considerations that come into play. So if you could just elaborate a little bit on your thought process when determining this balance with the inception CSM? Thank you.

Alban de Mailly Nesle | Group CFO, AXA And the two questions go together. I'll have a first go and Grégoire, don't hesitate to complement.

I think, so you're talking Life and not P&C with your questions. You don't have volatility, if you don't have onerous contracts fundamentally, because the CSM as such and the way it is released provides for stability in earnings without having to do more. So the question is onerous contracts and that's one of the key options that we have taken to make sure that through the fair-value approach, we limited the amount of reserves that were onerous contracts, but that was a tiny bit of our portfolio. What remains is what Grégoire said 0.5% even 0.4% of our reserves. But fundamentally, the stability comes from the quality of the business and the fact that for a very, very large majority, it was not onerous contracts at all.

And so what drove the CSM, honestly, it's apart from that part on fair-value. It is very, very similar to what we have under Solvency II. We didn't try to move it one-way or another, you have the profits going-forward. The discount curve that we built in a given way that Grégoire described and that gives you the CSM. I think, where we acted was to limit the amount of onerous contract results.

Grégoire de Montchalin | Chief Accounting & Reporting Officer That's it and just on your first question, I think I tried to explain the main choices that we made, which to a large extent were kind of obvious choices to us, notably as we don't like volatility in the P&L for instance. So we made choices, made calculations. As a matter of fact that, to be honest, we really saw that as a kind of normal thing, this ended-up with figures that showed, that were already very close from the start to the stability of the shareholders' equity, also the stability of earnings and in that context no need to voluntarily boost the CSM and this is absolutely not the way where under which we worked, because on the contrary, we want to have the earnings that we believe represent a fair level of earnings for the Group. And continue to have the ability to have the CSM stock to grow sustainably over overtime.

Anu Venkataraman | Head of IR, AXA Ashik?

Ashik Musaddi | Morgan Stanley Yes. Thank you. Ashik Musaddi from Morgan Stanley. Just a few clarification on the CSM. So, if I understand correctly, what you mentioned is, CSM is basically based on market consistent discount rates. So, does that mean that real world CSM is a much larger amount, because you would have much higher returns on real estate, equities, some of the illiquid assets you would have, so that's one, if my understanding is correct.

Second thing is, when you mention 9% to 12% release of CSM, does that mean that half of that is actually coming from the stock of CSM unwind, let's say 5% because it's market consistent. But the other half is actually the real world excess returns you will be generating, I mean a concept which is similar to OCG, that you would have a higher returns on equities, real estate, so going back to the duration point, I guess you mentioned duration is 10 year, but that means maturity profile of 20 years i.e., your CSM unwinds at 5%, but on top we add 5% which is the real world returns, that's basically the ultimate CSM unwind.

The third question is, when we think about real world unwind, is it the realized unwind or is it the assumed unwind, i.e. would you assume that equities will give us 5%, real estate will give us 7% in that unwind of CSM or is it the actual realized which is based on dividend, rental income, etc? Yes, three questions, great. Thank you.

Alban de Mailly Nesle | Group CFO, AXA So, as usual Grégoire, I'll take the first two and then you take the third one. So, on the market consistent, the short answer to your first question is, yes, under real world set of assumptions, it would be larger in sort of deterministic way rather than a stochastic risk-neutral approach, and that's why I said earlier that, when you move from the CSM at the beginning of the year to a CSM at the end of the year, obviously you have the new business CSM, but the unwind will reveal the real world assumptions, exactly as you said, whereas it was booked on a risk-neutral basis.

Now, the 9% to 11% is the unwind applied to the stock. That's the amount that will be released in a given year. In addition to that, you have the financial variance that you see, as explained earlier when I was there on some other aspects. Grégoire, on the third question.

Grégoire de Montchalin | Chief Accounting & Reporting Officer I think, you have to make a difference between two aspects. The stock of CSM is always calculated on a risk-neutral basis. And then every year, you release through P&L a portion of that, which for Life & Savings is on average for the Group and it can vary entity by entity between 9% and 11% and for the Health between 6% and 8%. The way this portion which is released, but that's technically a kind of different question, is measured through projecting what is called coverage unit and it's in the way we project coverage unit that we need to take into account real world long-term assumptions and that's what make us say that the exact amount that is released in any given year also depends on real world assumptions.

Anu Venkataraman | Head of IR, AXA Thomas?

Thomas Fossard | HSBC Yes. Thank you. Thomas Fossard from HSBC. Two questions. The first one, can I challenge your assumptions or I mean data that 80% of the Life business has been made on a retrospective approach? Because I thought that it was a super complex situation to gather all the data from historical contract and that was probably not super easy to do. So, I'm still surprised that actually you managed to reach to 80% on the Life book.

And second question would be, can you talk a bit about the operational gains from IFRS 17, because initially when it has been presented, it was a big project, then it was meant a big reshuffling of the financial function, breaking the silos between actuarial and accounting, so is there any material gains that you're getting to start earning through, now that actually the investment process is over and you are going live?

Alban de Mailly Nesle | Group CFO, AXA So, I'll take the second question, you take the first, Grégoire. So, the simple answer to your second question on operational gains is I don't see any, simply because, yes, there is convergence between IFRS 17 and Solvency II, and that's a plus, and yes, actuaries and accountants talk to each other and that's good, but when you look at the finance function, they also need to take care of their statutory P&L and balance sheet, and they have not moved to IFRS 17, so you have different frameworks that you need to live with.

Grégoire de Montchalin | Chief Accounting & Reporting Officer So, on your question on the retrospective approach, I confirm it's actually 80% of business which has been accounted for using a retrospective approach. Now, you're right from a technical standpoint, you have either the full or what is called the modified which is basically a proxy and most of what we did is a proxy, notably as we used to disclose embedded value for many, many years now, we had those data, which helped us to make appropriate proxies.

Michael Huttner | Berenberg So, you spoke about convergence and you said your numbers are broadly, are very similar before and after, which kind of implies it is a competition converging, which kind of implies they were wrong and I was just kind of thinking, where do you think in particularly is that the mutual - I mean just give us a feel for your thinking there.

And then the other question is the rating agencies. You heard from some of us that we are wondering whether CSM is equity or not equity, or earnings or not earnings, how are the rating agencies thinking about this?

And the last point which is probably, because I am still like struggling with this, does this mean because the equities go through OCI, but real estate gains do not, that you're going to give up your equities and just invest in real estate?

Alban de Mailly Nesle | Group CFO, AXA Okay. Anu, is it okay if you take the question on rating agencies and I'll take the other two.

Anu Venkataraman | Head of IR, AXA Sure. So, Michael, the rating agencies have their own model and you know S&P, it has been in a comment period, so it remains to be seen how they treat the changes under IFRS 17. It would not be for us to speak for them.

Alban de Mailly Nesle | Group CFO, AXA And so on convergence, far for me the idea of saying that anyone was wrong before. Nevertheless, what you see in some countries was that on the Life side, some were used to booking NBV as a profit first year. And so that's a difference and with IFRS17 that's not possible any longer.

The second thing is on the P&C side. The concept of best estimate liability is probably tighter now, than it was with IFRS4, where you could have bit more of leeway. Those are the two differences. I don't think it affects significantly the comparability with our traditional peers. It's more with others notably on the Life side that I mentioned.

On equities, no. I mean the equities bring value. It's not recognized in P&L as for the mark-to-market, it would still be recognized in the OCI, we don't plan to get rid of our equities. That being said, you know that today our net exposure to equities is very limited.

Anu Venkataraman | Head of IR, AXA Andrew?

Andrew Crean | Autonomous A very quick one. I mean you gave the embedded value of your Life business in your Embedded Value report, how does that compare with the CSM? Is it possible for us to make that comparison? Is it the same scope in terms of Life and Health, so that we can see the degree to which your CSM is conservatively struck with a risk-neutral basis?

Alban de Mailly Nesle | Group CFO, AXA Just to be clear, there's a perimeter or a scope aspect, because our Embedded Value will be slightly broader to some extent I describe on the new business that not only would you have the new business CSM, you would also have have new business value coming from other Life and Health activities which would not be accounted for under VFA or BBA, but under PAA. So there is the question of scope.

Andrew Crean | Autonomous CSM is a broader scope?

Alban de Mailly Nesle | Group CFO, AXA No the CSM is a narrower scope, it's slightly narrower, it's not a big difference. Other items to have in mind, when we reconcile the two?

Andrew Sinclair | Bank of America If you put the CSM on to a real-world basis, what would it lift it by?

Alban de Mailly Nesle | Group CFO, AXA So, I mean, Embedded Value is not on a real-world basis either because it's market neutral. And it's a long-time since we last looked at the deterministic embedded value. But, I mean our embedded value is not deterministic, it's not real-world, it is market neutral.

Anu Venkataraman | Head of IR, AXA Since there are no more questions in the room, we're going to go to questions that we received online.

Operator So we have two questions from the webcast. The first question is from James Shuck from Citi. How much of your Euro4 billion risk adjustment relates to P&C? And how does this number compare to your previous margin over best estimate i.e. excess P&C reserves under IFRS 4?

Alban de Mailly Nesle | Group CFO, AXA Do you want to take it?

Grégoire de Montchalin | Chief Accounting & Reporting Officer The Euro 4 billion risk adjustment is broadly speaking splitted half-half P&C and Life so that is next Euro 2 billion, which is to be compared to an amount of excess reserves which was slightly higher than that I think at the end of last year.

Alban de Mailly Nesle | Group CFO, AXA Exactly it was Euro 3.4 billion[1] at the end of last year but it's reasonably similar at the size of the Group.

Operator And the second question is from Rob Haim from JP Morgan. To follow-up on an earlier question, what are the main items that reconcile your Solvency II own funds of Euro 45 billion at full-year 2021 against a total shareholders' equity plus CSM of Euro 85 billion, i.e. Euro 58 billion plus post-tax CSM of Euro 27 billion, especially given that your best estimate liabilities are similar between IFRS 17 and Solvency II.

Alban de Mailly Nesle | Group CFO, AXA There are several differences. The first one is goodwill. Because we still have goodwill in IFRS17 balance sheet and we don't have that under Solvency II. When you look at our own funds, you have obviously debt in those parts.

Grégoire de Montchalin | Chief Accounting & Reporting Officer The Euro 45 billion to which, we try to reconcile on the Solvency II side is with no debt and so you have to deduct Euro 7 billion, I think of debt that are still under IFRS17. And then you have the difference between the risk adjustment and the risk margin, a much higher risk margin under Solvency II, that also drives the level of shareholders' equity and the Solvency II down. So if you add-up the goodwill, the debts, the difference between risk adjustment and risk margin, and you take into account CSM which is net of tax, I think you have all the elements to make that exactly reconciliation that was targeted here.

Anu Venkataraman | Head of IR, AXA Do you have any other questions online?

Operator No more questions from the webcast.

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[1] As per slide B24 of FY21 Appendices disclosures 2022-02-24 - AXA - FY21 Earnings Appendices, vs. Euro 2.4 billion as mentioned on the call

Anu Venkataraman | Head of IR, AXA Okay. Will.

Will Hardcastle| UBS It's a quick one I promise. On the risk adjustment, will we get that disclosure going-forward the split of P&C and Life and will we get sensitivity to percentiles? You're going to give us what percentile, it's based on, I'm wondering whether we'll get sensitivities on that percentile?

Grégoire de Montchalin | Chief Accounting & Reporting Officer So on the split, I'm not sure where it will show up or not in our disclosures but this is related to...

Anu Venkataraman | Head of IR, AXA ... If that's something you want to see then obviously, we'll take that into account and we will be soliciting your views and those of everybody else to populate our new Financial Supplement as Alban mentioned.

Grégoire de Montchalin | Chief Accounting & Reporting Officer And about sensitivities to those, because it's what we truly believe it does not make much sense because we really expect as we said this amount to be quite broadly stable over time.

Anu Venkataraman | Head of IR, AXA Michael?

Michael Huttner | Berenberg Just picking-up on maybe Ashik's question but probably, I didn't understand his question. So the new business value excluding the scope thing, so on the CSM, I understand it, it's market consistency, you use risk-free plus illiquidity. Is that number different from the new business value we have now?

And on the other question where you kind of said, you hadn't done that calculation for a while. I think you did it, my memory 2014 or '15 where you showed the movement from embedded value to realistic assumption to something else and the gap was from memory, it's about Euro 30 billion, Euro 34 billion something like that? And that was if you like the unwind in profits, it was in one of those quite complicated Life presentations, I try to get my head around but, clearly I didn't do that very successfully. And I just wondered whether you could say the difference between CSM and a realistic would be of that order of magnitude which we had back then, you did publish it.

Alban de Mailly Nesle | Group CFO, AXA So on those question if we leave aside the scope aspect, the new business value on the CSM scope will not be very different, before and after you may have some issues because some differences, because the boundaries of contracts are not exactly the same under IFRS17 as they are today for our new business value, but that will not impact significantly the amount.

On the move to realistic assumptions, honestly that's not something that we have in mind to do. I think when we give the pattern of release of CSM going forward, that's to some extent already a good indication of what it will look like.

Michael Huttner | Berenberg I remember and this is really so many years ago. You did that exercise of comparing market consistent with more realistic assumptions is to show the potential cash, which could be unwound because that difference effectively does come through its real value. And so it gets us back to kind of the meaty question, which is not that CSM analogy to have more cash or less cash, but really whether we can have more cash that you're publishing now?

Alban de Mailly Nesle | Group CFO, AXA I mean it's the same question as for Solvency II fundamentally. At what rate do you unwind your VIF and your Solvency II capital fundamentally? And what is the gain between real world and market neutral assumptions, which is also the question that we had before fundamentally. That's the same mechanisms under IFRS 17 and under Solvency II.

Anu Venkataraman | Head of IR, AXA Okay. If there are no further questions, then we will end the presentation. We really appreciate your time and attention. Thank you.

Alban de Mailly Nesle | Group CFO, AXA Yeah. Thank you very much.

Grégoire de Montchalin | Chief Accounting & Reporting Officer Thank you.

*** END OF THE TRANSCRIPT ***