

AXA Group

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Table Of Contents

Credit Highlights

Outlook

Key Assumptions

Business Risk Profile

Financial Risk Profile

Other Key Credit Considerations

Related Criteria

Appendix

AXA Group

Anchor	aa-	+	Modifiers	0	=	SACP	aa-	
	▲			▲		+		
Business Risk	Very Strong							
Competitive position	Excellent		Governance	Neutral		Support	0	
IICRA	Intermediate							
Financial Risk	Strong		Liquidity	Exceptional		Group support	0	
Capital and earnings	Strong							
Risk exposure	Moderately low		Comparable ratings analysis	0		Government support	0	
Funding structure	Neutral							
								A/Stable/A-1
								Holding company ICR

IICRA--Insurance Industry and Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
Leading positions in many core markets, supported by superior brand recognition.	Reliance on potentially volatile soft forms of capital.
Very wide business and product diversification.	Sensitivity to market stress in the deleveraging phase after the XL acquisition.
Robust and resilient profitability.	

S&P Global Ratings' 'AA-' issuer credit and financial strength ratings on the core operating subsidiaries of AXA group reflect the group's prominent business positions across significant insurance markets and lines of business. AXA's operating profitability metrics in recent years demonstrate the group's competitive advantage due to its size, business (property and casualty [P&C], health, life, and asset management) and geographic diversification (France, the U.S., Germany, the U.K., Switzerland, Belgium, and Japan), brand recognition, and capacity to gradually shift its business mix away from financial market-sensitive products. For these reasons, we choose the higher anchor in the 'aa-/a+' dual outcome.

We consider AXA's 2018 acquisition of the XL insurance group strategic. The deal made AXA's insurance operations into a global leader in commercial P&C lines, combining XL's specialty commercial business with AXA Corporate Solutions. It also provided a profit contribution from XL, with material revenue and cost synergies in both insurance and reinsurance. Furthermore, we believe the XL acquisition and AXA's sale of its U.S. subsidiary, Equitable Holdings (EQH), have helped the group shift its exposure to insurance underwriting risk from financial risk, in line with its strategy. Based on this, AXA's profile is becoming closer to that of global multiline insurer (GMI) peers such as Allianz, AIG, and Zurich. Moreover, we consider integration challenges to be limited and XL's exposure to catastrophe risk is under strict control. That said AXA-XL's profitability has not yet reached its full potential, due to subdued underwriting performance, and is unlikely to do so in 2020 as COVID-19-related claims are expected to be significant.

Although the XL acquisition weighed on AXA's capital in 2018, we believe the group's capital adequacy recovered to above the 'AA' level in 2019, supported by the divestment of its stake in EQH. We also expect AXA group will generate capital of close to €3.0 billion per year on a normalized basis, assuming group profit exceeds €6.0 billion annually and the dividend payout ratio is about 50%. In 2020, the COVID-19 pandemic will materially affect group profitability and, as such, its normalized profit target is unlikely to be reached.

Nonetheless, we consider AXA group's capital position to remain partly reliant on soft forms of capital, such as life insurance future profits, unrealized gains on investments, and hybrid debt instruments. The sensitivity of such forms of capital to market movements may increase the volatility of AXA's capitalization in cases of market stress.

The anchor choice is influenced by our view of AXA's leading position in many insurance markets, exceptional diversification, and superior brand recognition.

Outlook: Stable

The stable outlook reflects our view that, over the next two years, AXA's profitability will continue to strengthen, and its capital position will remain very strong.

Downside scenario

We could lower the ratings over the next two years if unexpected adverse market developments materially weakened AXA's capital adequacy prospects and depressed its stand-alone profitability. Setbacks in the integration of XL or the significant underperformance of XL's profit contribution could also pressure the ratings.

Upside scenario

A potential upgrade of AXA group is unlikely, in our view, and would hinge on further sustainable improvement in the group's profitability and capitalization.

Key Assumptions

- Eurozone GDP decline of 7.5% in 2020 and a rebound to 5.6% growth in 2021.
- Average 10-year government bond yields in the eurozone remain well below the historical average in 2020-2021 at about 0.2%.
- U.S. GDP decline of 5.2% in 2020 and a rebound to 6.1% growth in 2021.
- Asia-Pacific GDP growth of 0.3% in 2020 and 6.7% in 2021.

Key metrics

	2022F	2021F	2020F	2019	2018	2017
Gross premiums written (mil. €)	>95,000	>95,000	>95,000	100,154	96,369	92,792
Net Income after minority interest(mil. €)	>6,000	>6,000	>4,000	3,857.0	2,140	6,209
Return on shareholders' equity (%)	>5.0	>5.0	>5.0	6.2	(0.6)	10.2

	2022F	2021F	2020F	2019	2018	2017
Net combined ratio (%)	95-97	95-97	95-97	96.5	97.0	95.9
Life new business margin (%)	>3	>3	>3	3.7	3.9	4.3
S&P capital adequacy	Very Strong	Very Strong	Very Strong	Very Strong	Strong	Very strong
Fixed-charge Coverage (x)	>7x	>7x	>7x	7.7	9.4	12.3
Financial leverage (%)	<30	<30	<30	24.9	28.0	22.9

F--Forecast. Forecast data represent S&P Global Ratings' base-case assumptions. Note: Data are calculated according to our criteria and may differ from those reported by AXA Group.

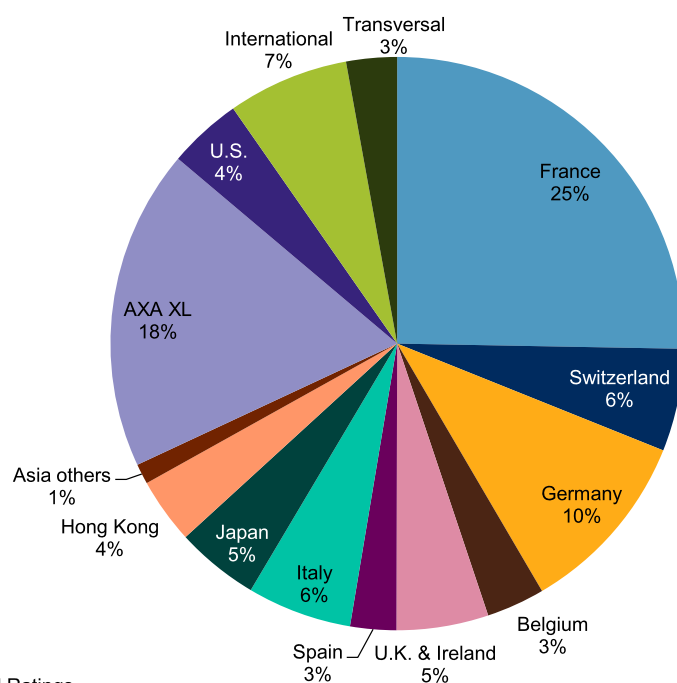
Business Risk Profile: Very Strong

The group has a diversified franchise, but with a large bias toward advanced economies. Most of AXA's business is in large, stable economies where we perceive low or intermediate industry and country risk, such as France (life and P&C), Switzerland (life and P&C), and Germany (P&C). Activities in weaker economies, represented by various emerging markets that we consider to have moderate insurance industry and country risk, only make up 10% of group premiums.

AXA's robust competitive position stems from its strong brand and market position, and its broadly diverse country and industry risk exposures. The group compares favorably with its GMI peers in terms of volumes, geographic reach, and business mix. With €104 billion of total revenue and €781 billion in total assets in 2019, AXA ranks among the largest GMIs. The group's combination of life and P&C insurance businesses, with more stable fee-based income in asset management, reinforces our view.

Chart 1

AXA's Gross Revenue At Year-End 2019



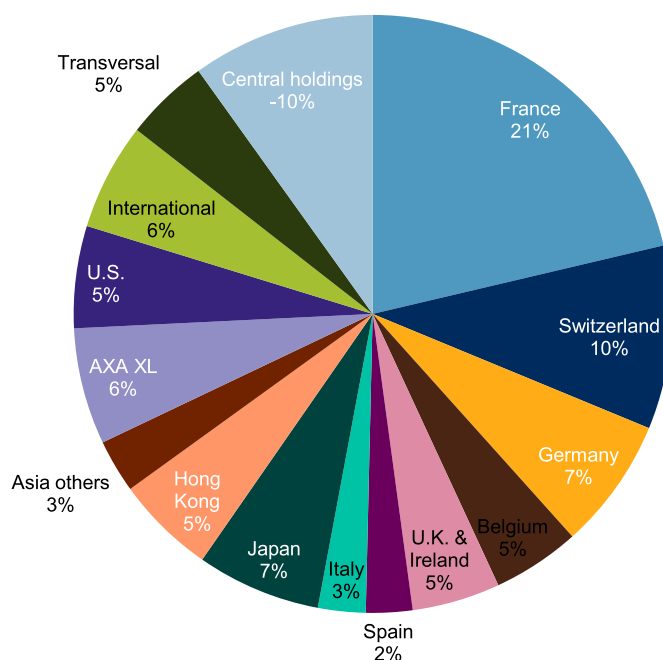
Source: S&P Global Ratings.

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The group has built its geographic footprint through both organic growth and opportunistic acquisitions. Within AXA's Ambition 2020 strategic plan, the group has specific targets for its Asian business, highlighting the importance of this part of its global strategy.

Chart 2

AXA's Underlying Earnings At Year-End 2019



Source: S&P Global Ratings.

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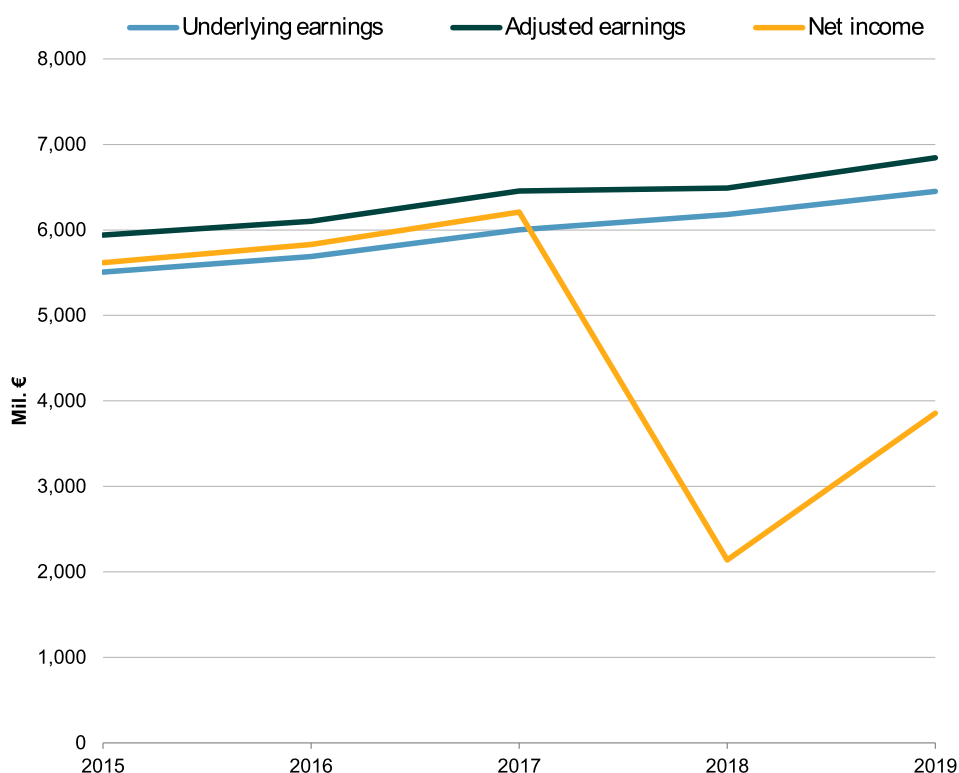
AXA's acquisitions and disposals have been largely supportive of its goals of moving toward less-capital-intensive products as well as exiting small countries or businesses that have limited scope for material contribution to the group's growth and profitability. The recent acquisition of the remaining 50% stake in AXA Tianping, as well as the sale of the AXA Life Europe variable annuity product carrier AXA Bank Belgium and Central European activities, are consistent with the group's long-term strategy.

Similar to most GMI peers, AXA group has a comprehensive mix of distribution channels, ranging from proprietary agents to bank insurance joint ventures, and direct capabilities. These enable the group to reach a broadly diverse customer base, with two-thirds of business from retail clients and one-third from the corporate segment.

We consider AXA group's operating performance to be comparable with its closest GMI peers'. Under its Ambition 2020 plan, the group anticipates improvements in these metrics through efficiency gains, for instance, by harnessing big data to produce better underwriting results. The group has a track record of delivering on targeted efficiencies, and we believe this is likely to continue. That said, the COVID-19 pandemic will materially affect the group's profitability in 2020.

Chart 3

AXA's Earnings Trend



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Financial Risk Profile: Strong

We consider AXA's capital and earnings to be strong, based on the recovery in its capital position in 2019, as well as the relative weakness in the quality of capital. This assessment is slightly less favorable than for most GMI peers, which we consider to have very strong capital and earnings.

After a drop due to the consolidation of XL at year-end 2018, we believe AXA's capital adequacy recovered above the 'AA' level in 2019, supported by the disposal of its stake in EQH. In the medium term, we also expect AXA to internally generate capital of close to €3.0 billion per year, assuming group profits exceed €6.0 billion annually and the dividend payout ratio is at about 50%. Our review of AXA's loss reserves has also prompted us to add credit for reserve surpluses.

Given that the balance sheet of the renamed AXA-XL is more than €100 billion smaller than EQH's, we believe this business has lower capital requirements, resulting in a net benefit for the group's capital adequacy. We also expect growth in AXA-XL's capital requirements will be contained by the group's controlled appetite for catastrophe risk, which represents 3% of total P&C premiums.

Nonetheless, we consider that the group's capital position remains partly reliant on soft forms of capital, such as future life insurance profits, unrealized gains on investments, and hybrid debt instruments. The sensitivity of these forms of capital to market movements may increase the volatility of AXA's capitalization in case of market stress.

Our assessment of the group's risk exposure as moderately low is in line with that for GMI peers. The improvement in AXA's business mix has reduced its exposure to what we consider high-risk assets, relative to its capital base, although it remains higher than some of its peers'. We believe XL's integration into AXA's risk management framework is smoother than EQH's. This is because Bermuda's solvency regulation is more closely aligned with the EU's Solvency II directive, which dictates the minimum amount of capital that insurance firms must hold to reduce the risk of insolvency, than the U.S. regime, easing the prospective use of AXA's internal model to calibrate the risk appetite of AXA-XL within AXA.

AXA's financial flexibility is strong, with a long and successful track record of tapping the financial markets. The group's flexibility is further enhanced by a well-spread debt repayment schedule over the next five years. The group's financial leverage increased significantly in 2018 following the acquisition of XL and consolidation of its debt, but remains slightly below 25% in light of the group's large capital base. Following the repayment of about €3.8 billion of debt in 2018-2019 and of €1.3 billion in 2020, management has made significant progress on its deleveraging plan and intends to further reduce financial leverage by year-end 2020. We project that fixed-charge coverage ratios will remain above 7x over 2019-2020, which compares favorably with those of other GMIs.

Other Key Credit Considerations

Governance

AXA group's management and governance are strong, notably due to its strong track record of strategic planning and execution.

Liquidity

AXA's liquidity is exceptional, owing to the strength and variety of available liquidity resources, factoring in minimal risk from collateral posting and confidence-sensitive liabilities.

Factors specific to the holding company

The long term rating on the group's top nonoperating holding company, AXA, reflects our standard two-notch differential from the financial strength rating on the core entities, based on the subordination of AXA's creditors to the core entities' policyholders. The outlook on AXA mirrors that on the group's core operating entities.

AXA is the group's debt-issuing vehicle, the central body in terms of corporate, capital, and debt management, and plays a major role in the group's capital fungibility.

Environmental, social, and governance (ESG)

We view AXA's exposure to environmental and social risk factors as consistent with the global insurance industry. As a GMI, the group is exposed to environmental risks related to climate change, such as increased insurance claims from extreme weather events or pandemics. AXA is largely protected from these risks thanks to a very high degree of reinsurance. In addition, the group benefits from sophisticated risk management tools. We consider AXA's capital

position well protected against extreme natural catastrophe events, despite the additional exposure brought by the former XL Group, which it acquired in 2018. The group's normalized exposure to natural catastrophe risk accounts for just 3% of its premiums. AXA's investment portfolio and asset management business is a second source of exposure to environmental risk. It accounted for €1.4 trillion of managed assets as of year-end 2018. Many of the assets it invests in are subject to transition risk (that is, the risk that sudden changes in policy or public opinion regarding climate change could lead to significant volatility or a depreciation in asset prices). However, this exposure is similar to other GMIs, such as Aviva, Zurich, and AIG. AXA also underwrites a wide range of life insurance products (€63 billion in 2018, including savings, health, and protection-related premiums). We regard AXA's exposure to social factors as comparable with that of other life insurance companies. For example, demographic developments are causing an increase in longevity, a trend that will increase insurance liabilities. Governance practices are in line with what we see across France and our own expectations.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Appendix

Credit Metrics History		
Ratio/Metrics	2019	2018
S&P Global Ratings capital adequacy	Very Strong	Strong
Total invested assets	614,830	739,944
Total shareholders equity	67,920	66,403
Gross premiums written	100,154	96,369
Net premiums written	90,440	90,180
Reinsurance utilization (%)	9.7	6.4
EBIT	8,541	9,003
Net income (attributable to all shareholders)	4,181	(375)
Return on revenue (%)	8.2	8.0
Return on assets (including investment gains/losses) (%)	1.0	1.0
Return on shareholders' equity (reported) (%)	6.2	(0.6)

Credit Metrics History (cont.)

Ratio/Metrics	2019	2018
P/C: net combined ratio (%)	96.5	97.0
P/C: net expense ratio (%)	26.7	27.2
EBIT fixed-charge coverage (x)	7.7	9.4
Financial obligations / EBITDA adjusted	2.6	2.9
Financial leverage excluding pension deficit as debt (%)	24.9	28.0
Net investment yield (%)	2.2	2.9
Net investment yield including investment gains/(losses) (%)	2.3	2.6

P/C--Property/casualty.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of August 4, 2020)*

AXA

Issuer Credit Rating	A/Stable/A-1
Commercial Paper	A-1
Junior Subordinated	BBB
Senior Unsecured	A
Subordinated	BBB+
Domicile	France

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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