S&P Global
Ratings

RatingsDirect®

AXA Group

Primary Credit Analyst:
Taos D Fudji, Milan (39) 02-72111-276; taos.fudji@spglobal.com

Secondary Contact:
Marc-Philippe Juilliard, Paris +(33) 1-4075-2510; m-philippe.juilliard@spglobal.com

Table Of Contents

AXA Group

SACP* Assessments					SACP*			Support				Ratings
Anchor	aa-	+	Modifiers	0	=	aa-		+	0		=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0		Group Support	0		AA-/Stable/--
Very Strong												
Financial Risk			Holistic Analysis	0		Sovereign Risk	0		Gov't Support	0		Holding Company Rating
Strong												A/Stable/A-1

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths

- Leading market position in many core markets supported by superior brand recognition.
- Very wide business and product diversification.
- Robust and resilient profitability.

Weaknesses

- Reliance on potentially volatile soft forms of capital.
- Sensitivity to market stress in the deleveraging phase post-XL acquisition.

Rationale

S&P Global Ratings' 'AA-' issuer credit ratings on the core operating subsidiaries of AXA Group reflect the group's prominent business positions across significant markets (France, the U.S., Switzerland, Germany, the U.K., Belgium, and Japan) and lines of business (P&C, Health, Life, Asset Management). Operating profitability metrics achieved in recent years demonstrates AXA's competitive advantage sourced from its size, brand recognition, and capacity to shift the business mix away from market-sensitive products.

We consider the acquisition of the XL Insurance group to be strategic for AXA, since it will transform the insurance group into a global leader in commercial P/C lines, combining XL's specialty commercial lines with AXA Corporate Solutions (ACS). The acquisition will also provide a profit contribution from XL that generates material revenue and cost synergies in both insurance and reinsurance. We also believe the XL acquisition and AXA's eventual sale of its U.S. subsidiary AXA Equitable Holdings (AEH) will help the group shift its exposure from financial risk to insurance underwriting risk, in line with AXA's public strategy. Moreover, we consider integration risks to be limited, since XL's management will be in control of the combined XL-AXA corporate property/casualty (P/C) business, and both groups have the objective of reducing XL's exposure to catastrophe risk.

Although the XL acquisition will weigh on AXA's capital in 2018, we believe the group's capital adequacy can recover to above the 'AA' level, according to our model, by 2019-2020, helped by the further reduction of AXA's stake in AEH. We also expect the AXA group to internally generate close to €3 billion of capital per year, assuming group profits exceed €6 billion annually and the dividend payout ratio is about 50%.

Nonetheless, we consider that AXA Group's capital position remains partially reliant on soft forms of capital such as its life value in force, 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.

Outlook: Stable

The stable outlook reflects our view that, over the next two years, AXA's and XL's stand-alone profitability will continue to strengthen, that AXA will reduce its stake in AEH, and the integration of XL will proceed smoothly.

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 a significant underperformance of XL's profit contribution could also put pressure on the ratings.

Upside scenario

A potential upgrade of AXA group is unlikely, in our view, and would hinge on a further improvement in the group's capitalization, combined with a more resilient business profile.

Base-Case Scenario

Macroeconomic Assumptions

- Eurozone GDP growth of 2.1% in 2018 and 1.7% in 2019.
- Average 10-year government bond yields in the eurozone rising to 1.2% in 2018 and 1.9% in 2019.
- U.S. GDP growth of 2.9% in 2018 and 2.6% in 2019.
- Average 10-year treasury yields in the U.S. rising to 3.1% in 2018 and 3.4% in 2019.

Key Metrics

	2014A	2015A	2016A	2017A	2018F	2019F
Gross premiums written (mil. €)	86,595	92,309	94,933	92,791	>90,000	>90,000
Net income before minorities (mil. €)	5,336	5,987	6,193	6,603	>6,000	>6,000
Return on shareholders' equity (%)	10.5	10.3	10.6	10.2	>9.0	>9.0
P/C net combined ratio (%)	98.5	96.4	97.4	95.9	95-97	95-97
Life new business margin (%)	3.4	3.3	3.9	4.3	>3.0	>3.0
Net investment yield* (%)	3.6	3.5	3.5	2.6	>2.5	>2.5
S&P Global capital adequacy	Moderately strong	Strong	Very strong	Very strong	Strong	Very strong
Financial leverage	21	19	19	18	<25	<25
Fixed charge coverage ratio	8	9	12	13	>10	>10

A--Actual. F--Forecast. Forecast data represent S&P Global Ratings' base-case assumptions. P/C--Property/casualty. Note: Data are calculated according to our criteria and may differ from those reported by AXA group. *Excluding unrealized gains or losses.

Business Risk Profile: Very Strong

Our intermediate insurance industry and country risk assessment reflects the group's diverse exposure, but with a large bias toward advanced economies. Most of AXA group's business is in large, stable economies where we perceive low 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, remain a limited contributor to group premiums (around 10%).

AXA group's extremely strong competitive position stems from its strong brand and market position, and its broadly diverse country and industry risk exposures. The group's profile compares favorably with those of its global multiline insurer (GMI) peers in terms of volumes, geographic reach, and business mix. The group's combination of life and non-life insurance businesses, with more stable fee-based income in asset management, reinforces our view.

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

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 that have limited scope for material contribution to the group's growth and profitability. We highlight the acquisition of Genworth Lifestyle Protection (capital-light life protection) and the sale of the U.K. life portfolio as examples consistent with the group's long-term strategy.

AXA group has a comprehensive mix of distribution channels, ranging from proprietary agents to bancassurance 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 those of 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.

Financial Risk Profile: Strong

Our opinion that AXA group's capital and earnings are strong takes into account the group's expected recovery in capital position through to year-end 2020, as well as the relative weakness in the quality of capital.

Thanks to a good level of retained earnings relative to capital requirements, we have seen an improvement in the group's capital position, based on our capital model at year-end 2017. After a forecast drop due to the consolidation of XL by year-end 2018, we believe AXA group's capital adequacy can recover to above the 'AA' level, according to our model, by 2019-2020, helped by the further reduction of AXA's stake in AEH. We also expect AXA group to internally generate close to €3 billion of capital per year, assuming group profits exceed €6 billion annually and the dividend payout ratio is at about 50%. Our review of AXA group's loss reserves has also prompted us to add credit for reserve surpluses.

We forecast that AXA will further reduce its investment in AEH over the next two years, following the placement of shares of about 35% of shares in AEH in May 2018 through an IPO and a senior mandatorily convertible bond. We observe that the share price of AEH has constantly remained above the IPO price of $20 since its listing.

Given that XL's balance sheet is more than €100 billion smaller than AEH's, we forecast XL will have lower capital requirements than AEH, resulting in a net benefit for the group's capital adequacy. We also forecast growth in XL's capital requirements will be contained by the additional retrocession on catastrophe reinsurance that XL and AXA have undertaken in 2018.

Nonetheless, we consider that the group's capital position remains partially reliant on soft forms of capital such as life value in force, 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 case of market stress.

Our assessment of the group's risk position as intermediate is in line with that for GMI peers. The improvement in AXA group's capital adequacy since 2014 has reduced our concerns regarding its exposure to what we consider high-risk assets, relative to its capital base. However, the group's exposure to these assets relative to its capital base remains higher than some of its peers'. We believe that XL will integrate more easily than AEH into AXA's risk management framework. This is because Bermuda's solvency regulation is more closely aligned with Solvency II than the U.S. regime, easing the use of AXA group's internal model to calibrate the risk appetite of XL within AXA.

AXA group's financial flexibility is strong, with a long and successful track record of tapping the 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 will significantly increase in 2018 following the acquisition of XL and consolidation of XL debt, but remain slightly below 25% in light of the group's large capital base. The repayment schedule of less than €1 billion in 2018 is manageable and there are no significant repayments until 2020. We forecast fixed-charge coverage ratios of above 10x at year-end 2018 which compares favorably with those of other GMIs.

Other Assessments

We consider AXA group's enterprise risk management (ERM) framework to be adequate with strong internal risk controls, enabling it to monitor and control risk exposures within risk tolerance levels. While the group is managed on a consistent basis with notably public Solvency 2 target metrics, the pre-eminence of Solvency 2 metrics over economic model valuation may generate conflicting views of risk-taking within individual business units. We have evidence of strong risk controls from our review of AXA's extensive analysis and monitoring of credit risk and underwriting risk. The group maintains a material prudential buffer on its non-life loss reserves, which reinforces our opinion. AXA's extensive track record in acquiring and divesting entities on a timely basis and consistent with its strategic objectives testifies to its strategic risk management capabilities.

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

The Ambition AXA plan focuses on sustainable growth in earnings and free operating cash flows in mature markets, fostering expansion in high-growth markets, managing legacy issues, and turning around the asset management business.

The group is increasingly focusing on capital and cost efficiency, cash flow generation, and the internal rate of return. It has a comprehensive set of risk tolerance indicators and financial standards. However, it displays a higher appetite for credit and market risk in comparison with other GMIs.

Liquidity

AXA group's liquidity is exceptional, owing to the strength and variety of available liquidity resources, and 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 non-operating holding company, AXA, reflects our standard two-notch differential from the financial strength rating on the core entities, based on the subordination of AXA 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, central body in terms of corporate, capital, and debt management, and plays a major role in the group's capital fungibility.

Rating Score Snapshot

Ratings Score Snapshot	
Financial Strength Rating	AA-/Stable/--

Ratings Score Snapshot (cont.)	
Group Credit Profile	aa-
Anchor	aa-
Business Risk Profile	Very Strong
IICRA*	Intermediate Risk
Competitive Position	Extremely Strong
Financial Risk Profile	Strong
Capital & Earnings	Strong
Risk Position	Intermediate Risk
Financial Flexibility	Strong
Modifiers	0
ERM and Management & Governance	0
Enterprise Risk Management	Adequate, with strong risk controls
Management & Governance	Strong
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

*Insurance Industry and Country Risk Assessment

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Insurance - General: Methodology For The Classification And Treatment Of Insurance Companies' Operational Leverage, Oct. 31, 2014
- Criteria - Insurance - Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010

- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of September 11, 2018)	
Holding Company: AXA	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	A-1
Junior Subordinated	BBB
Senior Unsecured	A
Subordinated	BBB+
Operating Companies Covered By This Report	
AXA France IARD	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Financial Enhancement Rating	
Local Currency	AA-/--/--
AXA Belgium	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA China Region Insurance Co. (Bermuda) Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA China Region Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA Corporate Solutions Assurance	
Financial Strength Rating	
Local Currency	AA-/Stable/--
AXA France Vie	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--

Ratings Detail (As Of September 11, 2018) (cont.)	
AXA Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
AXA Insurance U.K. PLC	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA Krankenversicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA Lebensversicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA Life Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
AXA Versicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
AXA Versicherungen AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
DBV Deutsche Beamten-Versicherung AG	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Related Entities	
AllianceBernstein L.P.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1

Ratings Detail (As Of September 11, 2018) (cont.)	
Financial Assurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Financial Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
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.