

Research Update:

# AXA Group's Core Subsidiaries Affirmed At 'AA-'; Outlook Stable

March 16, 2020

## Overview

- AXA enjoys robust leading positions in many core insurance markets, supported by superior brand recognition and very wide business and product diversification. Operating profitability is also resilient.
- The group still relies on potentially volatile soft forms of capital but is less sensitive to market stress as the deleveraging plan implemented since its acquisition of XL Insurance group is progressing well.
- We are affirming our 'AA-' ratings on AXA's core subsidiaries.
- The outlook is stable because we project that AXA and XL's combined profitability will continue to strengthen in line with the latter's integration.

## Rating Action

On March 16, 2020, S&P Global Ratings affirmed its 'AA-' long-term insurer financial strength and issuer credit ratings on the core subsidiaries of France-domiciled AXA group (see the ratings list below for further details). The outlook is stable.

We also withdrew our ratings on AXA Corporate Solutions Assurances and Catlin Insurance Co Ltd as these two entities no longer exist following their merger with XL Insurance Company SE and XL Bermuda Ltd. respectively.

## Outlook

The stable outlook reflects our view that, over the next two years, AXA's and XL's combined profitability will strengthen, and the latter's integration will progress smoothly.

## Downside scenario

We could lower the ratings over the next two years if unexpected adverse market developments

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materially weakened AXA's capital adequacy prospects and depressed its stand-alone profitability. Setbacks in the integration of XL or sustainable underperformance of the group's profitability, including the repetition of negative one-off items, could also put pressure on the ratings.

## Upside scenario

We see a potential upgrade of AXA as unlikely. It would hinge on material improvement in the group's profitability and capitalization.

## Rationale

The 'AA-' ratings on AXA's core operating subsidiaries reflect the group's prominent business positions across large insurance markets (France, the U.S., Germany, the U.K., Switzerland, Belgium, and Japan) and lines of business (property/casualty [P/C], health, life, and asset management). AXA's operating profitability metrics in recent years demonstrate the group's competitive advantage thanks to its size, business and geographic diversification, brand recognition, and capacity to gradually shift its business mix away from financial market-sensitive products.

We consider the acquisition of XL to be strategic for AXA, because it has transformed the group into a global leader in commercial insurance P/C lines. The acquisition also provided a profit contribution from XL, with revenue and cost synergies in both insurance and reinsurance. Furthermore, we believe the XL acquisition and AXA's sale of EQH 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 approaching that of global multiline insurer peers such as Allianz, AIG, and Zurich. Moreover, we consider integration challenges remain limited, although earnings contribution from AXA XL remains subdued, and XL's exposure to catastrophe risk to be under control.

Although the XL acquisition weighed on AXA's capital in 2018, we believe the group's capital adequacy has recovered to above the 'AA' level as of 2019, supported by the full disposal of its stake in EQH. We also expect AXA will generate capital of nearly €3.0 billion per year, assuming group profit exceeds €6.0 billion annually and the dividend payout ratio is about 50%.

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

## Ratings Score Snapshot

Business Risk Profile	Very Strong
Competitive position	Excellent
IICRA	Intermediate risk
Financial Risk Profile	Strong
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral

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Anchor*	aa-
<b>Modifiers</b>	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
<b>Financial Strength Rating</b>	<b>AA-</b>

\*This is influenced by our view of AXA's leading position in many insurance markets, exceptional diversification, and superior brand recognition.

## 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

## Ratings List

### Ratings Withdrawn

	To	From
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#### AXA Corporate Solutions Assurance

Financial Strength Rating	NR/--	AA-/Stable/--
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#### Catlin Insurance Co. Ltd.

Issuer Credit Rating	NR/--	A+/Stable/--
Financial Strength Rating	NR/--	A+/Stable/--

### Ratings Affirmed

#### AXA

Issuer Credit Rating	A/Stable/A-1	A/Stable/A-1
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### AXA Belgium

XL Specialty Insurance Co.

XL Select Insurance Co.

XL Reinsurance America Inc.

XL Re Europe SE

XL Insurance Co. of New York, Inc.

XL Insurance America Inc.

XL Catlin Insurance Company UK Ltd.

XL Bermuda Ltd.

Indian Harbor Insurance Co.

Greenwich Insurance Co.

DBV Deutsche Beamten-Versicherung AG

Catlin Re Switzerland Ltd

AXA Versicherungen AG

AXA Versicherung AG

AXA Lebensversicherung AG

AXA Krankenversicherung AG

AXA Insurance U.K. PLC

AXA France Vie

AXA France IARD

AXA China Region Insurance Co. Ltd.

AXA China Region Insurance Co. (Bermuda) Ltd.

XL Insurance Company SE

Issuer Credit Rating	AA-/Stable/--	AA-/Stable/--
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### AXA Belgium

XL Specialty Insurance Co.

XL Select Insurance Co.

XL Reinsurance America Inc.

XL Re Europe SE

XL Insurance Company SE

XL Insurance Co. of New York, Inc.

XL Insurance America Inc.

XL Catlin Insurance Company UK Ltd.

XL Bermuda Ltd.

Indian Harbor Insurance Co.

Greenwich Insurance Co.

DBV Deutsche Beamten-Versicherung AG

Catlin Re Switzerland Ltd

AXA Versicherungen AG

AXA Versicherung AG

AXA Lebensversicherung AG

AXA Krankenversicherung AG

AXA Insurance U.K. PLC

AXA Insurance Co.

AXA France Vie

AXA France IARD

AXA China Region Insurance Co. Ltd.

AXA China Region Insurance Co. (Bermuda) Ltd.

Financial Strength Rating AA-/Stable/-- AA-/Stable/--

Catlin Insurance Co. Inc.

XL Insurance Switzerland Ltd.

Catlin Specialty Insurance Co.

Issuer Credit Rating A+/Stable/-- A+/Stable/--

Financial Strength Rating A+/Stable/-- A+/Stable/--

X.L. America, Inc.

XLIT Ltd.

Issuer Credit Rating A/Stable/-- A/Stable/--

### AXA

Senior Unsecured A A

Subordinated BBB+ BBB+

Junior Subordinated BBB BBB

Commercial Paper A-1 A-1

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### XLIT Ltd.

Senior Unsecured	A	A
Subordinated	BBB+	BBB+
Junior Subordinated	BBB+	BBB+
Preferred Stock	BBB+	BBB+
Preference Stock	BBB+	BBB+

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