AXA SA

And Core Insurance Subsidiaries

Full Rating Report

Ratings

AXA SA

Long-Term IDR	A
Short-Term IDR	F1
Senior Unsecured Debt	A-
Subordinated Debt (Minimal risk non-performance)	BBB+
Subordinated Debt (Moderate risk of non-performance)	BBB
Junior Subordinated Debt	BBB
Commercial Paper	F1

AXA insurance companies

Insurer Financial Strength (IFS)	AA-

See additional ratings on page 21.

Outlooks

Long-Term IDR	Stable
Insurer Financial Strength	Stable

Financial Data

AXA SA

(EURbn)	2018	2017
Gross written premiums	96.3	92.1
Total assets	930	870
Shareholders' equity – Group share	62.4	69.6
Net income – Group share	2.1	6.2
P&C combined ratio (%)	97.0	96.3
Return on equity[a] (%)	3.2	8.9

[a] Fitch-calculated
Source: Fitch Ratings, AXA

Related Research

French Insurance Dashboard : 2018 Results (April 2018)

French Health Insurance Market (January 2019)

French Insurance Outlook (November 2018)

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Key Rating Drivers

Transformation Plan on Track: AXA SA (AXA) has demonstrated strong progress in executing its strategic objectives of moving away from financial to insurance risks. It is integrating XL and has further sold down its shareholdings of AXA Equitable Holdings, Inc (AEH).

Very Strong Business Profile: AXA's very strong business profile benefits from its considerable geographical and business diversification. The management is pursuing a consistent strategy of rebalancing AXA business towards property and casualty (P&C), health and protection.

Financial Leverage To Improve: AXA's consolidated financial leverage ratio (FLR) was 29% at end-2018 (end-2017: 24%). We estimate that the deconsolidation of AEH in 2019 will have reduced FLR by around 2pp on a pro-forma basis. Fitch Ratings' central scenario is for AXA to deliver on its deleveraging plan, returning FLR to a pre-XL acquisition level of around 25% by 2020.

Very Strong Capitalisation: Fitch views AXA's capitalisation as supportive of its ratings. AXA scored 'Strong' at end-2018 (2017: "Very Strong") under Fitch's Prism Factor-Based Capital Model (Prism FBM). The category change was mainly driven by the acquisition of XL and the costs incurred in AEH's IPO. However, we estimate AXA's Prism FBM score to improve to 'Very Strong' following the deconsolidation of AEH at end-March 2019. This is driven by the resulting reduction in AXA's exposure to market risk.

Strong Financial Performance: AXA group's operating profitability continued to improve in 2018, with underlying earnings rising steadily to EUR6.2 billion in 2018 (+6%). We expect AXA to continue reporting strong earnings, which should be less volatile following the implementation of a new comprehensive reinsurance programme. Net income Return on equity (ROE) fell to 3.2% at end-2018 (2017: 8.9%) mainly due to AEH goodwill impairment.

XL 'Very Important': We consider XL 'very important' to AXA based on XL sharing common branding, management, resources and distribution with AXA. We rate XL's IFS rating in line with those of AXA's core operating entities.

Rating Sensitivities

Strategic Plan Implementation: A rating upgrade is conditional on the successful integration of XL and the full divestment of AEH. The successful execution of these plans would lead to the following conditions for an upgrade: Prism FBM score high in the 'Very Strong' category, FLR below 25% and P&C combined ratio at 95% or below on a sustained basis.

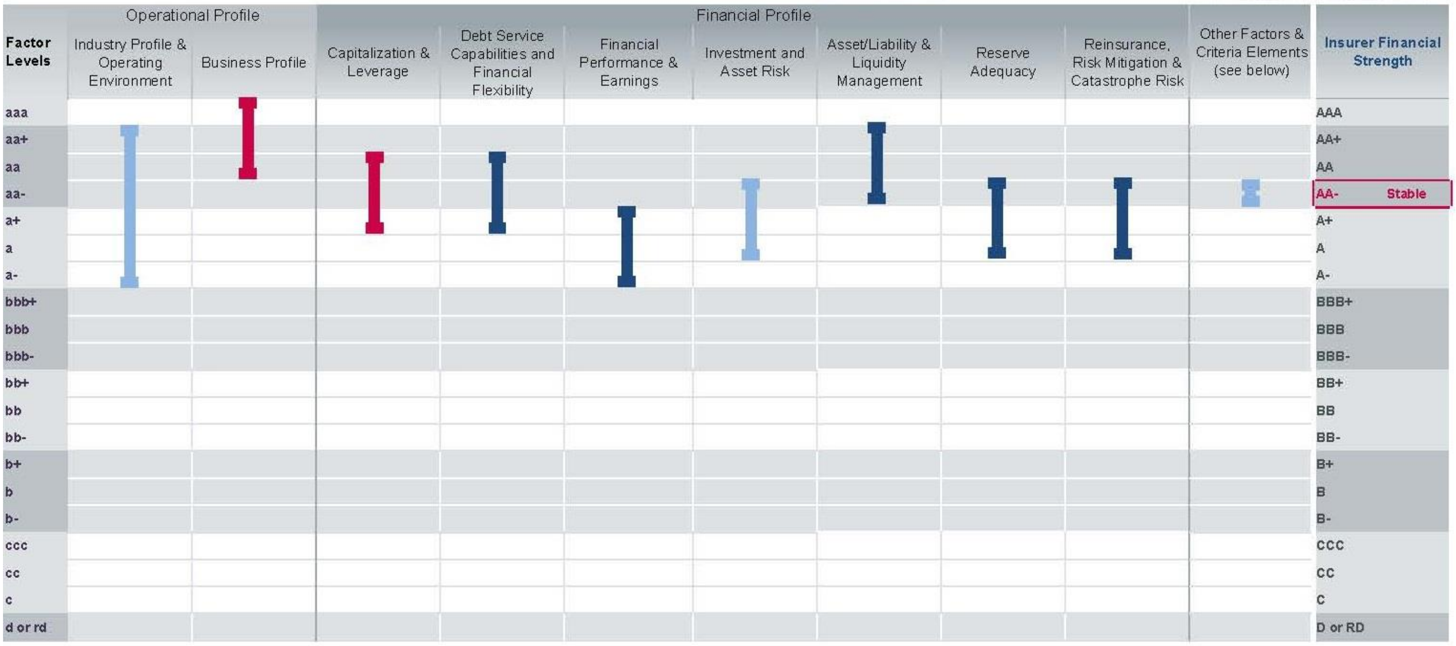
Weaker Leverage, Coverage: The ratings could be downgraded if AXA's financial leverage weakens to above 30% or fixed-charge coverage drops below 9x. The ratings could also be downgraded if Prism FBM score remains 'Strong' for a sustained period.

XL's Strategic Importance Weakens: XL's ratings could also be downgraded if the company's profitability or market position deteriorates to such an extent that we view XL as less important to AXA. XL's rating sensitivities are otherwise consistent with AXA's sensitivities.

AXA SA

ESG Relevance:

Insurance Ratings Navigator
European Composite



Other Factors & Criteria Elements

Provisional Insurer Financial Strength				AA-
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Corporate Governance & Management	**Effective**	Some Weakness	Ineffective	+0
Ownership	Positive	**Neutral**	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	**No**	AAA	+0
Insurer Financial Strength (IFS)			Final:	**AA-**
IFS Recovery Assumption	**Good**			-1
Issuer Default Rating (IDR)			Final:	**A+**

Bar Chart Legend:

Vertical Bars = Range of Rating Factor

Bar Colors = Relative Importance
- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ☐ Stable

Related Criteria

Insurance Rating Criteria (January 2019)

Business Profile

Very Strong Business Profile

Fitch ranks AXA's business profile as 'Most Favourable' (as defined within Fitch's criteria and discussed in Appendix A of this report), compared to that of Europe-based multi-national insurers due to its leading, highly diversified global business franchise. Given this ranking, Fitch scores Group AXA's Business Profile at 'aa+' under its credit factor scoring guidelines.

Very Strong Global Franchise

AXA is a global, large multi-line organisation, offering a broad range of financial services to more than 100 million clients, including individual customers and corporations. The group uses well-diversified distribution channels.

Life insurance services include savings and risk-type policies, such as those covering mortality and disability. In 2018, the life insurance business contributed around half of the group's total revenue and underlying earnings.

In non-life, AXA provides insurance policies covering individual and corporate risks, such as motor, property, liability and health. The acquisition of XL Group (now AXA XL) made AXA the largest P&C commercial line insurer and a top 10 P&C reinsurer globally, with an enhanced global footprint. AXA's asset management business consists of AXA Investment Managers (AXA IM) and Alliance Bernstein (AB) (EUR730 billion and EUR468 billion assets under management, respectively). AXA also runs retail banking activities in selected European markets.

Very Strong Competitive Positioning in Selected Countries

AXA is the largest European insurance group by written premiums. It holds leading business positions in many of the countries in which it operates, especially in P&C, which allows the group to generate economies of scale and act as a price-setter in several business lines. This is particularly the case in France, Belgium and, to a lesser extent, Germany and Switzerland.

In addition to its 10 core markets[1] (generating over 80% of the group's revenues in 2018), AXA has identified six 'High Potential'[2] countries for business growth. A notable achievement is in China where AXA announced in November 2018 the acquisition of the remaining 50% stake in AXA Tianping to become the leading foreign P&C insurer in China.

In other countries of operation, for business or strategic purposes, AXA may decide on a regular basis to reassess its business positioning, potentially exiting the market, like Azerbaijan or Ukraine in 2018.

Shifting Business Risk Profile

AXA's preferred segments are P&C Commercial lines, health and protection, all of which have been key growth drivers in 2018.

AXA's strategic objective is to move away from market risk exposure to insurance risk exposure. The successful listing of the US life insurance and asset management activities, the transformation of the Swiss group life insurance business (from full-value insurance to semi-autonomous contracts) and the divesture of AXA Life Europe (variable annuity portfolio) in 2018, all contributed to reducing financial risk. The acquisition of XL in 2018 helped expand AXA's presence in US Commercial P&C insurance and global reinsurance markets.

AXA is on track to complete the integration of XL by 2020 and fully exit from US life business to achieve related strategic goals.

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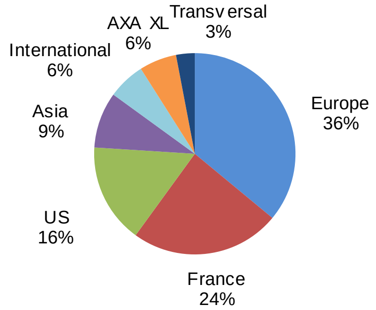
[1] France, Switzerland, Germany, Belgium, Spain, Italy, the UK & Ireland, Japan, Hong Kong, and the US.
[2] Brazil, China, Indonesia, Mexico, the Philippines and Thailand.

Effective Diversification

There is significant diversification between life and non-life underwriting risks across AXA. However, the benefit to the AXA franchise stemming from the XL acquisition is to some extent offset by AXA's reduced presence in the US life business following the IPO of AEH. Ultimately, when AXA has exited US life insurance, management estimates that P&C, health and protection will account for around 80% of AXA's business.

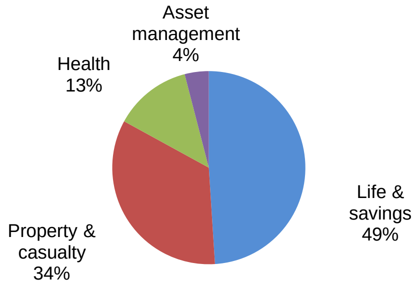
The group's size and geographical diversification enables it to share best practice between various operations and start large group projects to develop specific businesses, such as the expansion of direct insurance activities in several European and Asian markets, and improve efficiency.

2018 Revenues By Geography



Source: Fitch Ratings, AXA

2018 Revenues By Segment

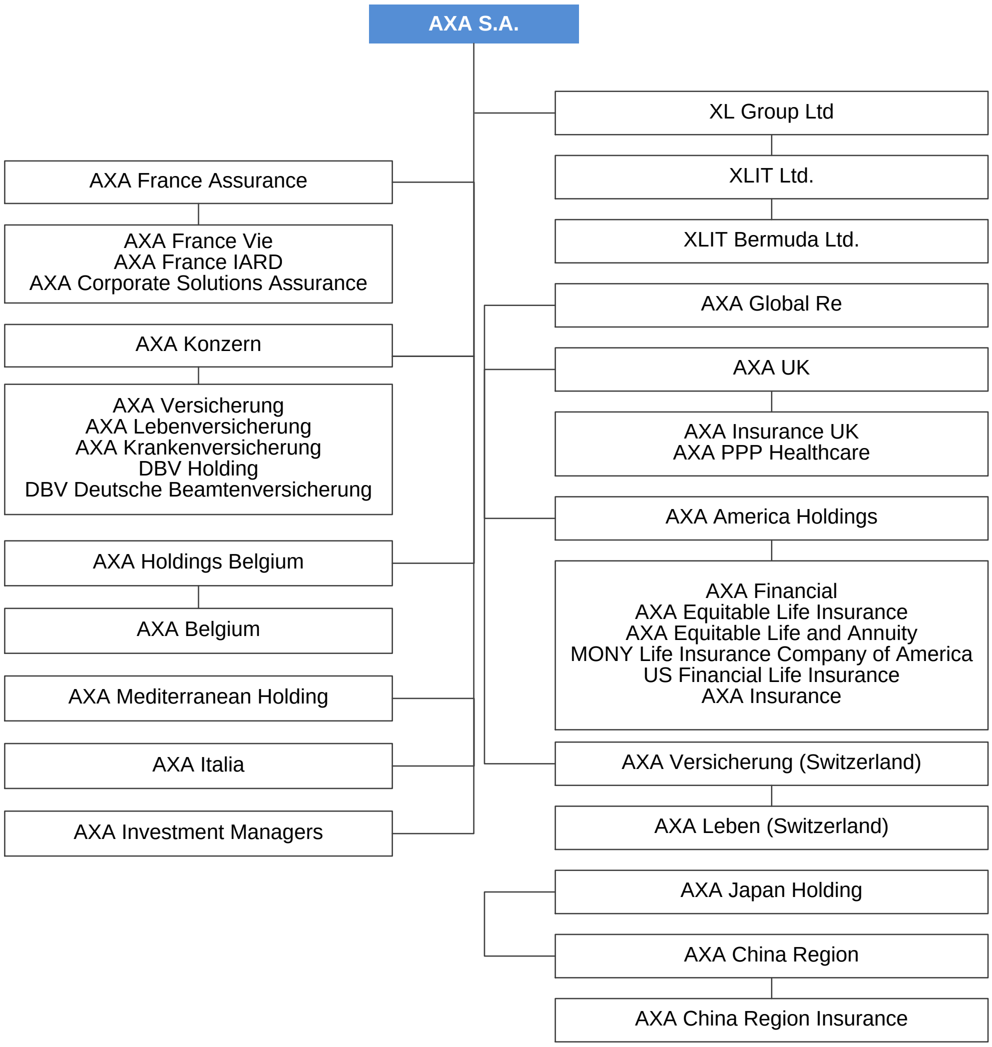


Source: Fitch Ratings, AXA

Ownership Is Neutral to Ratings

AXA is a listed company and its shares are traded on the Paris stock exchange. Most of its shares are freely traded on the market. At end-2018, major shareholders were Mutuelles AXA, a group of French mutual insurance companies (14.4% ownership). Employees and insurance agents collectively own 5.3% of AXA's shares, which indicates important alignment of interests.

AXA Group Simplified Organisation Chart[a]



Source: Fitch Ratings, AXA

Capitalisation and Leverage

	2014	2015	2016	2017	2018	Fitch's expectation
Asset leverage[a] (x)	9	10	9	9	8	We believe AXA's Prism FBM score will improve to "Very Strong" once AEH is deconsolidated. We forecast an FLR decreasing to 25% or below, once AXA has fully sold down AEH, as the company plans and as Fitch expects.
Operating leverage[b] (x)	6	6	7	6	6	
Regulatory solvency margin (%)	201	205	197	205	193	
Financial leverage ratio (%)	28	26	25	24	29	
Total financing & commitments/shareholder's equity (x)	1.1	1.2	1.2	1.2	1.4	

[a] Sum of life technical provisions (*including* unit-linked) and operational debt, divided by the sum of total equity and FFA
[b] Sum of life technical provisions (*exluding* unit-linked) and operational debt, divided by the sum of total equity and FFA
Source: Fitch Ratings, AXA

Very Strong Capitalisation; Leverage to Decrease

Fitch considers AXA's capitalisation as very strong. We believe FLR peaked at end-2018 at 29%. Fitch's central scenario is for AXA to deliver on its deleveraging plan, returning FLR to a pre XL acquisition level of around 25%. AXA's Prism FBM score to improve to "Very Strong" following the deconsolidation of AEH at end-March 2019. We also expect AEH divestment and integration of XL in AXA's S2 internal model to improve AXA's S2 ratio by end 2020.

Prism FBM Score Expected to Improve to 'Very Strong'

AXA Prism FBM score dropped to "Strong" under Fitch's Prism FBM based on end-2018 results, a level commensurate with the 'A' rating category. The main reason for the score deterioration is an increase in required capital resulting from higher P&C risk due to XL acquisition and a decrease in available capital, resulting from AEH IPO and reduced unrealised gains.

We expect the full sell-down of AEH to reduce investment and life risk exposure, which, combined with increased retained earnings and no material VIF reduction, should lead to a net positive effect on Prism FBM score, returning a "Very Strong" score at end-2019.

Very Strong Solvency II ratio

AXA reported very strong coverage of the S2 Solvency Capital Requirement (SCR), at 193% at end-2018 (end-2017: 205%), within the 'Ambition 2020' target range of 170-220%.

AXA expects to have XL integrated under the S2 internal model by 2020. The company expects the diversification effect brought by XL to improve the Group's S2 ratio by 5 to 10 points. This also supports our assessment of AXA's overall capital position.

AXA S2 coverage ratio has an overall limited sensitivity to changes in interest rates or equity markets, which supports its ratings. The management expects the future inclusion of XL in the group's S2 internal capital model to result in a modest higher sensitivity to 1/200 natural event risk, which will be more than offset by a reduced sensitivity to financial shocks resulting from US life business removal.

Financial Leverage to Improve

AXA's consolidated FLR, as calculated by Fitch, increased to 29% at end-2018 (2017: 24%), which is high in relation to the company's rating.

However, we estimate that the deconsolidation of AEH in 2019 will reduce FLR by around 2pp on a pro-forma basis. Assuming AXA fully sells down AEH, uses the proceeds to reduce debt and generate capital as planned, we anticipate FLR level to improve to around 25% or below by 2020.

High Level of Intangibles Affect Capital Quality

At end-2018, the group had EUR16 billion and EUR7 billion goodwill and other intangibles on its consolidated balance sheet. Goodwill (45% of which relates to XL acquisition), represented 27% of consolidated shareholders' funds (2017: 22%).

Fitch also notes the relatively high proportion of softer forms of capital present within the assessment. Value of in-force (VIF) business and subordinated debt, for which the Prism FBM assessment gives some credit, represented 46% of total available capital, which somewhat reduces the overall quality of capital.

Debt Service Capabilities and Financial Flexibility

(Currency)	2014	2015	2016	2017	2018	Fitch's expectation
Fixed-charge coverage – including realised and unrealised gains (x)	9.2	10.1	16.3	13.2	10.4	Fitch expects interest charges to decrease in the next two years and interest coverage to improve as consequence, remaining commensurate with the ratings.
Payout ratio (%)[a]	46	47	48	49	52	

[a] AXA dividend payout policy is based on Adjusted Earnings net of undated debt interest charges
Source: Fitch Ratings, AXA

Very Strong Coverage and Financial Flexibility

Fitch views AXA's financial flexibility as very strong. The group's fixed-charge coverage is likely to improve as a result of lower interest charges as debt is reduced.

Very Strong Fixed-Charge Coverage

Fixed-charge coverage (FCC), as calculated by Fitch, remained strong in 2018 at around 10x compared to 13x in 2017. Interest charges increased in 2018 due to the integration of XL debt and issuance of debt by AEH. We expect FCC to improve in 2019 due to lower interest charges resulting from AEH debt deconsolidation in 2019 (around EUR4 billion) and other debt net debt repayment by 2020 (around EUR3 billion).

The management can rapidly move liquidity within the organisation, if needed, because excess capital sources are largely fungible across the group.

Very Strong Financial Flexibility

AXA is a listed entity that is not constrained by a concentrated shareholding structure. Having frequently tapped the senior and hybrid debt markets, the group is a well-known issuer.

Fitch believes AXA's strong ability to tap the debt market was demonstrated in 2018, when the company issued a record EUR5 billion of long-term debt. The company has also ample short-term debt-issuance capacity in the form of commercial papers.

AXA also benefits from EUR12.3 billion committed back-up credit lines (undrawn at end-2018) provided by a pool of the world's largest banks.

Debt Maturities Closely Managed

The maturities of the outstanding dated debt are well-spread over the next 30 years, meaning that there is limited concentration of refinancing risk. AXA's debt is mostly subordinated with long maturity profiles.

Holding Company Liquidity

AXA SA is the group's ultimate holding company. It is the main debt-issuing entity within the group.

Fitch believes the cash-flow position and liquid assets available at holding-company level will be sufficient to maintain strong liquidity.

AXA manages excess cash position to secure availability in case of adverse conditions.

Remittance ratio was 76% in 2018 (excluding one-off and AEH), in line with AXA's 75-85% guidance, allow AXA to maintain a strong liquidity at the holding company level (around EUR1.7 billion at end-2018).

AXA has access to significant commercial paper programs and undrawn credit lines (EUR12.4 billion, excluding XL lines).

Debt Maturities

(As of December 2018)	(Currency EURbn)
2019	1.5
2020	2.1
2021-2025	2.3
Total	

Source: Fitch Ratings, AXA

Financial Performance and Earnings

(EURm)	2014	2015	2016	2017	2018	Fitch's expectation
Underlying earnings	5,060	5,507	5,688	6,002	6,182	Fitch expects operating profitability to improve following the integration of XL. Volatility of earnings resulting from natural catastrophe exposure should be reduced by the implementation of a new comprehensive reinsurance programme.
Net income	5,024	5,617	5,829	6,209	2,140	
Net income return on equity (%)	8.5	8.4	8.4	8.9	3.2	
Pre-tax return on assets – including realised and unrealised gains and losses (%)	1.0	1.0	1.1	0.9	1.0	
P&C combined ratio – reported (%)	97	96	96	96	97	

Source: Fitch Ratings, AXA

Strong Financial Performance

Fitch views AXA Financial performance and earnings as strong. The group has demonstrated a sustained underlying earnings growth over the past five years. We expect AXA to continue reporting strong, though potentially more volatile, earnings.

Steady Growth in Operating Earnings

AXA's operating profitability has steadily improved over the past five years. Underlying earnings continued to rise in 2018 to reach an all-time high of EUR6.2 billion (+6%), despite the reduction in the stake in AEH and high natural catastrophes (nat cat) loadings in 4Q18. The main earnings growth contributors were Europe and France. Revenue increased by 4%, driven by AXA's preferred segments of growth, such as health and commercial P&C.

Fitch expects operating profitability to improve following XL integration[3] and assuming a normalisation of natural catastrophe activity. We also expect earnings to be more volatile due to XL's exposure to natural catastrophe losses, mitigated by a new group aggregate cover should effectively reduce the potential impact from nat cat to around EUR0.5 billion above the normalised level in a 1/20 year scenario. Generally, geographical and business mix optimisation is likely to have a positive impact on profitability for the group.

Net Income Lower on AEH Impairment

Net income decreased by 66% to EUR2.1 billion. This was mainly caused by AEH goodwill impairment (EUR3 billion). As a result, ROE, as calculated by Fitch, deteriorated to 3.2% at end-2018 (2017: 8.9%). Excluding this negative one-off, ROE was 7.8%, broadly in line with the past five years, and commensurate with an 'A' category rating.

Strong P&C Profitability

The group's P&C reported all-year combined ratio deteriorated to 97.0% at end-2018 (2017: 96.3%), a level that Fitch still views as very strong. Higher nat cat losses (EUR0.4 billion after tax, in excess of normalised FY18 nat cat charges, equivalent to a 1/10y modelled severity, according to AXA) weigh on underwriting profitability, accounting for 4.2% of combined ratio in 2018 vs. 2.5% in 2017. More favourable prior-year reserve developments mitigated the negative nat cat impact.

Fitch expects improvements in AXA XL[4] underwriting performance to be supported by normalised nat cat charges and the positive contribution from the revised reinsurance programme. Overall, we believe AXA is well-positioned to manage potentially higher P&C claim volatility. AXA's pricing discipline and ability to adjust risk selection is strong.

[3] In 2018, XL was consolidated only in the fourth quarter. In 2019, XL will be consolidated for the full year.

[4] AXA XL consists of XL Group, AXA Corporate Solutions Assurance and AXA Art.

Profitable Health and Protection Growth

The group's health combined ratio improved to 94.4% in 2018 (2017: 94.8%). Fitch expects AXA to continue expanding its health franchise while maintaining a very strong level of profitability, in line with the group's strategy. Protection combined ratio improved by 1.3 points to 95.6%.

Strong Life Results

AXA reported solid life results, as life & savings' underlying earnings grew by 9% in 2018. This was driven by higher unit-linked management fees, notably in France and the US, as the company has been moving from spread-based business to capital-light, fee-based business. An improved net technical margin, and slightly higher investment margin, also supported the strong life earnings momentum.

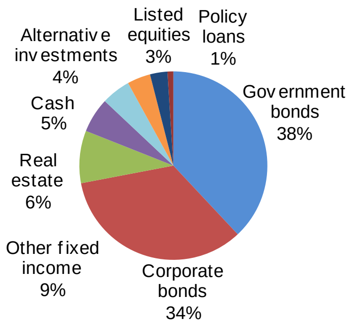
We expect life margins to remain strong as AXA repositions its business mix, favouring capital-light products.

Investment and Asset Risk

	2014	2015	2016	2017	2018	Fitch's expectation
Unaffiliated shares/equity (%)	39	46	43	45	39	Fitch expects AXA's risky asset ratio to rise due to the accounting of AEH as an equity holding under the equity method. The allocation of the insurance assets is expected to remain prudent and relatively stable.
Non-investment-grade bonds/equity (%)	44	41	42	33	33	
Investment in affiliates/equity (%)	3	4	4	4	4	
Risky assets/shareholder's equity (%)	86	91	88	82	77	

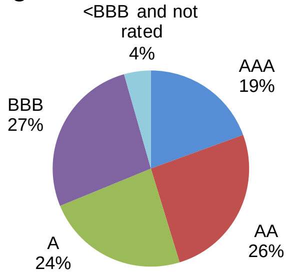
Source: Fitch Ratings, AXA

2018 General Account Invested Assets



Source: Fitch Ratings, AXA

2018 Government and Corporate Bonds Split by Rating



Source: Fitch Ratings, AXA

Prudent Investment Policy

Fitch views AXA's investment and asset risk as strong. AXA demonstrates a conservative asset allocation, supported by a quality bond portfolio. The accounting of AEH from 2Q18 under the equity method will automatically increase the exposure to affiliated equities.

Conservative Asset Allocation

Fitch views AXA's asset allocation as conservative and consistent with the group's business profile, with fixed-income securities of high credit quality accounting for 81% of its insurance invested assets (i.e. excluding unit-linked assets and banking assets).

In 2018, the risky assets-to-equity ratio improved to 77% from 82% in 2017, a level that Fitch views as supportive of the ratings. The incorporation of XL's assets (EUR33 billion, 88% fixed-income) had a limited impact on the group's invested asset risk profile.

High-Quality Bond Portfolio

AXA manages a high-quality bond portfolio, with around 70% of government and corporate bonds rated above 'A-' while 4% are non-investment-grade or non-rated. Issuers of government bonds held by AXA are well-spread between Europe (most notably France, 21%), the US (9%) and Japan (14%). The corporate bonds portfolio is also well-diversified between banks (35% of the portfolio) and non-financial institutions.

Overall, Fitch believes AXA's bond portfolio contains low credit risk and that the group is capable of managing the volatility risk inherent in this asset class.

Asset/Liability and Liquidity Management

(EURm)	2014	2015	2016	2017	2018	Fitch's expectation
Cash available on balance sheet	22,048	26,275	26,314	23,898	31,329	Fitch expects liquidity risk to remain low due to sufficient liquid assets and structurally positive net cash flows. AXA's interest-rate risk is expected to reduce as the company withdraws from US life business.
Short-term debt	691.0	1,465.0	990.0	1,612.0	2,385.0	
Liquid assets/net technical reserves (%)	100	98	96	98	97	

Source: Fitch Ratings, AXA

Very Strong ALM and Liquidity Profile

Fitch's views AXA's ALM as very strong, as interest-rate risk is moderate and reducing as AXA exits the US life market. Fitch considers AXA's balance sheet liquidity as strong and well able to support its policyholder liabilities.

Disciplined ALM Policy

AXA's fixed-income asset duration is structurally shorter than the duration of its life insurance liabilities. Fitch views AXA's management of this ALM mismatch as disciplined, supported by the group's risk-appetite framework, which includes a maximum mismatch of one year. In 2018, duration of fixed-income assets was 7.9 years and AXA maintains a very tight duration gap as part of its risk appetite.

We view the gradual sell down of AEH, combined with the disposal of AXA Life Europe and the Swiss life business in 2018 as positive from an ALM perspective, as this significantly reduces the group's exposure to interest-rate risk.

Reducing Exposure to Interest-Rate Risk

At end-2018, 18% of AXA's life and savings technical reserves were related to savings products offering one-year guaranteed rates that are updated every year (2017: 20%), allowing AXA to proactively manage interest-rate risk. However, 35% were related to protection and health with surrender guarantees and in some cases a guaranteed long-term rate (2017: 31%).

Although declining interest rates have pressured investment returns in recent years, AXA's investment yield on in-force business was stable at 3.1% for FY18, comfortably above the average guaranteed rates of 1.8% (+135bp spread). In addition, the spread above guarantee for new business continued to increase to +220bp for FY18 compared with +180bp for FY16, driven by limited sales of guaranteed products and new business skewed towards higher-margin unit-linked and hybrid products across Europe.

Very Strong Liquidity Profile

The liquidity profile of the AXA group is very strong, as reflected in its high ratio of liquid assets-to-policyholder liabilities, supported by a substantial EUR25.9 billion of cash & cash equivalent on balance sheet at end-2018.

Fitch considers the group's liquidity management to be cautious, especially given the consistently strong cash-flow generation of its insurance activities and, in case of need, the significant potential for raising liquidity provided by the group's high-quality fixed-income investments.

AXA regularly stress-tests its liquidity position to ensure that available liquidity would meet requirements under extreme scenarios.

Reserve Adequacy

(%)	2014	2015	2016	2017	2018	Fitch's expectation
Net technical reserves/net written premiums	196	193	190	195	261[a]	Fitch expects non-life reserving policy to remain very strong and favourable reserve releases to continue.
Loss reserves/CY incurred losses	2.0	2.1	2.1	2.2	2.5	
Loss reserves/equity	0.7	0.8	0.8	0.8	1.1	
Change in ratio of loss reserves/earned premium	2.0	-2.7	-1.0	3.4	36.3[a]	
One-year reserve development/PY equity	-0.4	-0.7	-0.7	-0.6	-1.2	
One-year reserve development/PY loss reserves	-0.4	-1.0	-0.9	-0.8	-1.6	

Note: Negative numbers denote positive reserve developments. CY: Current Year. PY: Prior Years
[a] XL premium are consolidated only for 4Q18 in FY18 income statement, while reserves were fully consolidated in AXA's balance sheet
Source: Fitch Ratings, AXA

Very Strong Reserve Adequacy

Fitch views AXA's non-life reserve adequacy as very strong. Reserve releases have been positive over the five-year period.

Thorough Reserving Process

AXA's non-life insurance entities have developed thorough reserving practices, which have led to secure reserve levels. Local actuarial departments have responsibility for setting reserves but they must apply the group methodology, which is defined by a central actuarial department. Technical reporting has been standardised to streamline the monitoring process across the group.

Cautious Non-Life Reserving

AXA typically sets its technical reserves cautiously, as reflected in a Fitch-calculated reserve ratio (defined as non-life technical reserves/non-life net written premiums) high and stable at around 195% between 2014 and 2017. The ratio at end-2018 was distorted by the XL premium being consolidated only for 4Q18 in FY18 income statement, while reserves were fully consolidated in AXA's balance sheet. AXA's IFRS reserves exceeded S2 Best Estimates liabilities by EUR7.1 billion at end-2018 (end-2017: EUR5.7 billion).

Favourable Prior-Year Run-Off

AXA has reported overall positive variances in prior-year reserves in recent years, providing a consistent source of earnings. The favourable reserves development increased to 1.2% of equity in 2018.

We expect favourable reserve releases to increase in 2019, as AXA increased its guidance on prior-year reserve development based on higher reserve ratio and higher IFRS P&C reserves in excess of S2 Best Estimate liabilities.

Reinsurance, Risk Management and Catastrophe Risk

(Currency)	2014	2015	2016	2017	2018	Fitch's expectation
Reinsurance recoverables/capital (%)	31	35	26	22	40	Fitch expects AXA's reinsurance programme to remain effective.
Net Written Premiums/Gross Written Premiums (%)	91	91	91	92	89	

Source: Fitch Ratings, AXA

Strong Reinsurance Protection

Fitch considers AXA's reinsurance programme and overall risk management to be strong and effective.

Effective Use of Reinsurance Through Pooling at Group Level

AXA is able to set up and optimise its reinsurance protection through a centralised placement of external reinsurance by AXA Global Re. This pooling enables a more effective use of the reinsurance and retrocession markets, especially as the group accounts for a large part of some of its reinsurers' revenues. The scope of activities in these entities allows the group to keep a part of the identified risks for which it believes recurrent positive margins can be generated.

Revamped Reinsurance Programme

Fitch considers the 2019 reinsurance program covering both AXA and XL as well-designed and consistent with the company's risk appetite. It has three components: a non-proportional excess-of-loss reinsurance cover to limit the exposure of its insurance P&C portfolios to specific catastrophic events (e.g. EU windstorm, a North American hurricane to be protected up to a 1/200 year event), alternative capital, and cat bonds to protect its reinsurance business and a group aggregate cover.

The reinsurance programme is structured according to AXA's risk appetite, notably a deviation of about EUR500 million net of tax with a 5% probability above the company's normalised nat cat charges (about EUR1.5 billion, equivalent to approximately 3pp of combined ratio), which Fitch considers commensurate with the company's equity.

The new group aggregate cover effectively covers nat cat exposure to its attachment point of EUR1.45 billion. It is meant to cover a wide range of natural events (subject to a EUR50 million deductible per event), while the per-event protection is meant to protect the insurance business from a small number of large events.

Adequate Quality Reinsurers

At end-2018, the average rating of the reinsurance providers was adequate, with 47% of ceded reserves placed with reinsurers rated in the 'AA'-range and above, while 21% of reserves were placed with reinsurers rated below 'BBB'. However, 13% was placed within reinsurance pools or unrated reinsurers. Fitch understands that the credit quality of the unrated reinsurers is satisfactory, with the majority of those being rated internally by AXA 'A-' or above.

The internal rating model has been approved by the ACPR, the French insurance and banking regulator. Fitch understands that reinsurers under the new reinsurance programme have a higher overall credit quality.

Key Non-Insurance Operations / Exposure

(EURm)	2014	2015	2016	2017	2018	Fitch's expectation
Assets under management (EURbn)	1,277	1,363	1,429	1,439	1,472	Fitch expects the asset management franchise contribution to AXA's earnings to diminish with the sell-down of AEH, which includes AB.
Total banking and other activities assets	37,713	36,123	35,459	37,335	41,809	

Source: Fitch Ratings, AXA

Asset Management as Main Non-Insurance Business

Fitch considers AXA's non-insurance operations to be neutral to its ratings.

Strong Franchise in Asset Management

AXA is one of the world's largest providers of asset-management services through AXA IM and AB, which together managed EUR1.1 trillion at end-2018 (including around 44% managed on behalf of third parties). The asset-management division has been an important contributor to group profit for each of the past five years (around 10% of reported underlying earnings in 2018).

Fitch believes the group's asset-management business faces challenges to maintain its current profitability in an industry facing pricing pressures. Average management fees on assets under management (AUM) at AXA IM were down to 17.1 bp at end-2018 from 17.9 bp at end-2017.

Banking Business in Selected Countries

AXA offers retail banking products to insurance customers mostly in Belgium, France, and Germany through its retail banking business. Given the limited size of this segment, which produced revenue of EUR490 million in 2018 (2017: EUR501 million), and despite it being profitable in years, Fitch considers AXA's banking activities to be neutral to its ratings.

Appendix A: Industry Profile and Operating Environment (IPOE)

The AXA Group has a global geographical footprint and its IPOE is a blend of several, predominantly related to highly rated countries. This section discusses the main insurance markets in which AXA operates.

Regulatory Oversight

Fitch considers regulatory oversight in western Europe as very strong. The western European insurance markets are highly regulated, with well-developed regulatory practices and supervision processes. West European countries adopted the risk-adjusted solvency framework (Solvency II), which came into force on 1 January 2016. Fitch considers the regulators' enforcement as effective.

Technical Sophistication of Insurance Market; Diversity & Breadth

AXA has a very significant presence in the main western European markets. The French and German insurance markets are the second- and third-largest respectively in Europe after the UK. Fitch believes the markets are technically highly sophisticated. In addition, the adoption of Solvency II improved the level of sophistication of enterprise risk management in the market.

The western European insurance markets are also well-diversified. As the markets are highly mature, premium growth is low.

Competitive Profile

Fitch believes the western European insurance markets are very competitive, both in life and non-life.

Life insurance companies have been repositioning their business to cope with persistently low interest rates in Europe, favouring the distribution of capital-light, unit-linked products. In non-life, the high level of competition creates pressure on prices mitigated by an ongoing phase of "harder" pricing. The health and protection business represents an area of strategic growth for all insurers.

Financial Markets Development

The western European financial markets are sophisticated and have considerable breadth and depth, both in its insurance and non-insurance segments. The stock and bond markets are large on a global basis, providing sufficient liquidity in most traded products. Access to capital markets is good.

Country Risk

France's Long-Term IDR is currently 'AA' with a Stable Outlook. Germany's Long-Term IDR is currently 'AAA' with a Stable Outlook. France and Germany's ratings are underpinned by large, wealthy and diversified economies, strong and effective civil and social institutions and a record of macro-financial stability. They also benefit from strong financial flexibility and the access to deep and liquid capital markets as core eurozone members.

Appendix B: Peer Analysis

Relative Performance in Line with Current Rating

AXA's peer group consists of a few large international insurance groups operating across several continents and benefiting from leading market positions in the world's largest insurance markets (the US, Japan, the UK, France and Germany) and a number of emerging markets.

In 2018, AXA was the largest insurance group among its peers by premiums, total equity and assets. Its (net income) return on equity is in the low end of the peer group range. AXA's financial leverage is in the upper range.

Peer Comparison - 2018

(EURm)	IFS Rating/ Outlook[a]	Total equity[b]	Return on equity[c] (%)	Gross written premium	Total assets	Return on assets[d] (%)	Net income[b]	Solvency II ratio[e] (%)	Reported combined ratio (%)	Financial leverage[f] (%)
Allianz	AA/Stable	63,679	12	77,824	897,567	1.2	7,703	229	94.0	24
AXA	**AA−/Stable**	**75,267**	**3.2**	**96,309**	**930,695**	**1.2**	**2,140**	**193**	**97.0**	**29**
Generali	A/Stable	24,643	9.8	66,691	515,827	0.8	2,497	216	93.0	32(e)
Aviva	AA−/Stable	20,551	9	32,383	479,374	0.5	1,906	204	96.6	28
Aegon	A+/Stable	19,565	3.7	19,316	393,031	0.2	745	211	n.a.	27
Zurich	AA−/Stable	36,633	12	55,552	452,676	1.2	4,626	216	97.8	26

Foreign-exchange rates used: Period average: GBP1 = EUR0.885, EUR1 = USD1.181; Period end: EUR1= EUR0.898, EUR1 = USD1.143
[a] IFS Ratings of primary operating companies of each group
[b] Includes minorities
[c] Group net income 2018/average shareholders' equity including minorities
[d] Group pre-tax income 2018/average total assets
[e] For Zurich, Swiss Solvency Test as of 1 January 2018

Source: Fitch Ratings, Companies' accounts

Appendix C: Strategic Importance of Rated Entities

As part of its surveillance of ratings, Fitch re-assesses the strategic status of core entities. A core entity includes an insurer that is a key and integral part of the group's business and the credit fundamentals of the group are strong so that support is likely to be unrestricted.

Core Entities Based on Business Profile in a Given Country or Region

An important parameter is the geography where the core entity operates. In undertaking this exercise, Fitch relies on strategic considerations presented by AXA.

AXA classifies countries between 'Current Engines', 'High Potentials' and smaller entities (ie countries where AXA does not hold a leading market position and/or prospects for growth are more subdued).

Most Fitch-rated core entities have operations in 'Current Engines' countries (France, Belgium, Germany, Switzerland, Hong Kong and the UK) although one core entity is domiciled in Singapore (AXA Insurance Pte Ltd.).

Often, size is not a driving factor as the entity is central to AXA's product offering in a particular region (eg AXA Art Versicherung). The 'core' status of the German entities (including smaller and niche operations) is also supported by a profit and loss-sharing agreement and intra-group reinsurance agreements.

AXA considers Singapore to be a strategic hub for selling commercial business in south-east Asia, a position strengthened by the acquisition of XL. AXA China Region Insurance Co. (Bermuda) Ltd is part of AXA Hong Kong, which is part of the current engines.

Typically, core entities are central to AXA's group strategy and display profitability in line with group metrics. Fitch considers that being part of an "engine country" reduces the risk of disposal or reduced support.

Core Entities Based on Strategic Role Within the Group

Fitch views the other entities as core subsidiaries, given their high degree of strategic importance to the AXA Group (beyond the logic of having a strong foothold in a given country or regions).

Fitch believes this is especially true of AXA Corporate Solutions Assurance and AXA Global Re. The former is likely to have an increased strategic role now that it forms part of AXA XL, the latter is the life and non-life reinsurance unit in the AXA Group, and is the result of the merger between AXA Global P&C and AXA Global Life in 2017. In Fitch's view the merger created an important risk-pooler.

Very Important Entities

Fitch considers XL Group Ltd. and its subsidiaries to be Very Important and assigns the group IFS of 'AA-'. XL shares common branding, management, resources and distribution with AXA. Fitch believes AXA has adequate financial strength to support its operating subsidiaries and that the management is willing to do so, although no formal support agreements are in place. XL could reach core status with some seasoning of ownership by AXA.

Appendix D: Other Ratings Considerations

Below is a summary of additional ratings considerations that are part of Fitch's ratings criteria.

Group IFS Rating Approach

All rated entities, except those related to XL, are viewed as core to the AXA Group, reflecting their strategic importance through their contribution to the group's targets. XL entities are viewed as very important. Fitch expects group financial support to be fully available to these rated entities in case of need. They all carry the same IFS ratings and/or IDRs, which are based on a consolidated group assessment.

XL-rated entities are viewed as 'very important' to the AXA Group. All XL rated entities ultimately carry the same IFS ratings and/or IDRs as those of the AXA Group. Their IFS ratings are benchmarked by notching from the group credit profile. The degree of notching is based on judgment.

Notching

For notching purposes, the French regulatory environment is assessed by Fitch as Effective, and classified as following a Group Solvency approach.

Notching Summary

IFS Ratings
A baseline recovery assumption of 'Good' applies to the IFS ratings, and standard notching was used from the IFS anchor rating to the actual of implied Issuer Default Rating (IDR) of the operating companies. The IFS rating of the operating companies is one notch higher than the actual or implied IDRs.

Operating company debt
n.a.

Holding company IDR
Notching between the implied insurance operating companies and AXA SA top holding company IDRs is expanded by one notch relative to standard notching for a group solvency regulatory environment. This is because earnings and capital in EU regulatory jurisdictions are less than 70% of consolidated group totals.

Holding company debt
Senior debt issued by AXA SA is rated using a baseline recovery assumption of 'Below Average', and based on standard notching it is rated one notch below the holding companies' IDRs.

Hybrids
The subordinated debt of AXA SA (including junior subordinated debt) is rated using a baseline recovery assumption of 'Poor'. In addition, all but two subordinated debt issues are considered by Fitch as having 'Moderate' non-performance risk (such as ability to defer coupons). Based on a combination of these two characteristics, the ratings of the respective subordinated issues are three notches below the IDR of AXA SA, two for recovery and one for non-performance risk.
For US-registered subordinated debt issues XS01222028904 and US054536AA57 a non-performance risk of 'Minimal' is assumed. These issues are rated two notches below the IDR of AXA S.A., two for recovery, and none for non-performance risk.

Source: Fitch Ratings

Hybrids – Equity / Debt Treatment

Hybrids Treatment

Hybrid	Amount (EURm)	FBM Fitch (%)	FBM reg. override (%)	FLR debt (%)
AXA SA				
Undated subordinated debt	2,668	0	100	100
Subordinated debt	13,538	0	100	100
AXA XL				
Subordinated debt	1,385	0	100	100

FBM – Prism Factor-Based Capital Model. FLR – Financial leverage ratio
For FLR, % gives the proportion of hybrid value included as debt in the numerator of leverage ratio
Source: Fitch Ratings, AXA

Short-Term Ratings

The AXA SA Short-Term IDR is 'F1', which is the base-line Short-Term IDR when the Long-Term IDR is 'A'. Fitch uses the baseline short-term ratings at cusp points for insurance holding companies.

Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

Appendix E: Complete Rating List

AXA SA

Long-Term IDR: 'A'; Outlook Stable
Short-Term IDR: 'F1';
Senior unsecured debt: 'A-';
Subordinated debt ('minimal' non-performance risk): 'BBB+';
Subordinated debt ('moderate' non-performance risk): 'BBB';
Junior subordinated debt: 'BBB';
Commercial paper: 'F1';

AXA Versicherung AG:

Long-Term IDR: 'A+'; Outlook Stable

XLIT Ltd.

Long-Term IDR: affirmed at 'A'; Outlook Stable
Senior Notes: affirmed at 'A-';
Subordinated Notes: affirmed at 'BBB';
Preference Ordinary Shares: affirmed at 'BBB';

The following core subsidiary companies' IFS ratings are 'AA-' with a Stable Outlook:

AXA Art Versicherung AG
AXA France IARD
AXA France Vie
AXA Corporate Solutions Assurance
AXA Insurance Company (US)
AXA Life Ltd
AXA Belgium
AXA Global Re
AXA Versicherung (Germany) AG
AXA Versicherung AG
AXA Lebensversicherung AG
AXA Krankenversicherung AG
DBV Deutsche Beamtenversicherung AG
Deutsche Arzteversicherung Aktiengesellschaft (DAV)
AXA Insurance UK Plc
AXA PPP Healthcare Ltd
AXA Insurance Pte Ltd.
AXA General Insurance Hong Kong Ltd
AXA China Region Insurance Co. (Bermuda) Ltd

The following 'Very Important' subsidiary companies' IFS ratings are 'AA-' with a Stable Outlook:

XL Bermuda Ltd
XL Insurance Switzerland Ltd
XL Insurance Company SE
XL Insurance America, Inc.
XL Reinsurance America Inc.
XL Re Europe SE
XL Insurance Company of New York, Inc.
XL Specialty Insurance Company
Indian Harbor Insurance Company
Greenwich Insurance Company
XL Select Insurance Company

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.