

Research Update:

AXA Group 'AA-' Ratings Affirmed Following New Strategic Plan And Revised Capital Model Criteria; Outlook Stable

March 7, 2024

Overview

- On Feb. 22, 2024, AXA unveiled its new 2024-2026 strategic plan, targeting faster revenue growth and earnings per share growth of 6%-8%, compared with the 2020-2023 plan, but also raising shareholder remuneration to 75% of yearly underlying profits.
- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions"), the implementation of which has not materially changed our view of AXA Group's overall capital and earnings.
- We currently see limited internal build-up of capital at AXA over 2024-2026.
- We therefore affirmed our 'AA-' long-term ratings on AXA's core operating subsidiaries and 'A+' long-term ratings on AXA.
- The stable outlook reflects our view that AXA's globally diversified business profile will allow it to continue to grow its underlying profits, while at least maintaining its strong capital and earnings.

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Rating Action

On March 7, 2024, S&P Global Ratings affirmed its 'AA-' long-term insurer financial strength and issuer credit ratings on the core operating subsidiaries of France-domiciled AXA (see the ratings list below for further details).

S&P Global Ratings also affirmed its 'A+' long-term insurer financial strength and issuer credit ratings on the operating holding company and on all the highly strategic operating subsidiaries of the group, except Catlin Insurance Co. Inc (CICI), on which we raised the long-term insurer financial strength and issuer credit ratings to 'AA-'.

The outlooks on AXA and its core and highly strategic subsidiaries are stable.

We also affirmed all our issue ratings on the group's outstanding debt.

Impact Of Revised Capital Model Criteria

- Applying the revised capital model criteria did not materially affect our view of AXA's creditworthiness.
- AXA enjoys a higher diversification benefit as a global player with a diversified business portfolio, leading to a substantial reduction in the required capital charges as per our new criteria.
- Additionally, we fully take into account the International Financial Reporting Standard (IFRS) 17 contractual service margin (CSM) net of tax as an equity-like life reserve. This is partially offset by the absence of CSM on the short-term life business that previously contributed to AXA's embedded value.
- The criteria clarified the exclusion of future discretionary benefits from policyholder capital.

Credit Highlights

Overview

| Key strengths | Key risks |
|--|---|
| Leading position in property/casualty (P/C) commercial lines globally, and in P/C personal lines in France, Germany, Switzerland, U.K., Belgium, and Hong Kong, supported by high brand recognition. | Weak revenue trends in life insurance, which constrains profitability growth. |
| Broad business and product diversification, with additional earnings from asset management. | AXA's real estate and private equity investments could suffer under a high interest rate environment. |
| Expected to stay strongly capitalized both under our criteria and relative to regulatory requirements. | Relatively high target shareholder remuneration. |

Outlook

The stable outlook on AXA reflects our view that, over the next two years, AXA will continue to expand its underlying profits, keep a combined ratio of 95% or below and a return on equity (ROE) above 10%, and maintain its capital adequacy at least at the 99.8% level according to our capital model.

Downside scenario

We could lower the ratings over the next two years if unexpected adverse market developments materially reduced AXA's capital adequacy, or if AXA's operating performance materially and consistently weakened and led to materially negative internal capital generation in light of AXA's ratchet dividend policy.

Upside scenario

Although not expected in the next two years, we could raise our ratings if we determined that AXA's capital adequacy buffers were materially higher than forecast or more resilient to stress than currently estimated, while the group maintains current strong profitability metrics.

Rationale

The affirmation reflects our view that France-based AXA's very strong business risk profile is underpinned by its strong brand, leading market positions, and broad business diversification. AXA holds top-five positions in France, Switzerland, Belgium, Germany, Spain, Italy, the U.K., and Ireland, and is a market leader in P/C commercial lines through AXA XL. The group compares favorably with its global multiline insurer (GMI) peers in terms of volumes and business mix, combining life, P/C, and health insurance businesses, with additional fee-based income from asset management.

With €103 billion of total revenue in 2023, AXA reported a net income of €7.2 billion (under IFRS 17 and 9) as compared with €6.7 billion (under IFRS 4) in the same period last year. The increase was in line with our earnings expectations for the group. Also, considering the positive effect of discounting, the combined ratio of AXA's P/C business improved to 93.2% (under IFRS 17) in full-year 2023 versus 94.6% in 2022 (under IFRS 4).

In our view AXA intends to accelerate its pace of organic growth in the next three years as outlined in its 2024-2026 strategic plan, aiming for a top-line growth of 5% in P/C activity and 6% in the short-term line and health business. AXA also intends to continue to improve its efficiency to obtain 6%-8% growth in underlying earnings per share. We believe these objectives are achievable, despite the uncertain economic context. At the same time, AXA has increased its target distribution of underlying profits to shareholders to 75% (60% via dividends and 15% via share buybacks), which in our view will limit the internal build-up of capital at AXA over 2024-2026. The dividend will follow a ratchet policy that could result in a higher payout ratio in case of unexpected adverse market developments.

The enhancement in transparency under IFRS 17 benefitted our view of AXA's capital adequacy at the 99.80% confidence level as per our revised capital model. AXA posted a CSM (net of tax) of €26.6 billion at year-end 2023, which represents about 60% of its shareholder equity of €44.2 billion (net of perpetual subordinated debts) in the same period. This is partially offset by the absence of CSM on the short-term life business; previously, this contributed to AXA's embedded value.

AXA's regulatory Solvency II ratio was 227% as of Dec. 31, 2023, well above the year-end 2022 level of 215%. This reflects AXA's strong capital generation, positive market trends, and the proactive reduction of AXA's duration gap to zero years following the rise in interest rates.

Our assessment of AXA's risk exposure as moderately low is in line with our assessment of its GMI peers. We believe that adverse developments in natural catastrophe and man-made claims are well under control. AXA has robust reinsurance coverage and, after natural catastrophe exposure at AXA XL Reinsurance Ltd. (AXA XL RE) was drastically reduced, this subsidiary returned to profitability in 2023. The group also has an adverse development cover that largely protects AXA XL's legacy long-tail P/C insurance reserves against unexpected losses. We expect AXA XL to remain a key contributor to the group's earnings, after achieving €1.9 billion in underlying earnings in 2023.

AXA has ample financial flexibility, in our view, with a successful track record of debt issuance, and a well-spread debt-repayment schedule. AXA's announcement of a buyback offer on two grandfathered subordinated debt issues denominated in pound sterling has no impact on our

ratings, in light of its recent €1.5 billion restricted tier 1 debt issue and commitment to maintain a stable debt level over 2024-2026. We assume that AXA will maintain its financial leverage ratios at less than 40% and fixed-charge coverage ratio above 10x over 2024-2025, which compares favorably with other GMIs' ratios.

We regard AXA's liquidity as exceptional and do not expect any liquidity constraints to keep it from meeting its obligations, given the substantial amount of liquid assets held by the group.

The upgrade of CICI reflects our view that it is now a core part of the group. CICI is already in the insurance pool along with the other U.S. operating subsidiaries of AXA XL RE. In addition, AXA plans to use CICI as an integral part of the future underwriting strategy of the AXA XL U.S. pool of entities.

Environmental, social, and governance factors have no material influence on our credit rating analysis of AXA.

Ratings Score Snapshot

| | To | From |
|----------------------------------|-------------------|-------------------|
| Financial strength rating | AA-/Stable | AA-/Stable |
| Anchor* | aa- | aa- |
| Business risk | Very Strong | Very Strong |
| IICRA | Intermediate | Intermediate |
| Competitive position | Excellent | Excellent |
| Financial risk | Strong | Strong |
| Capital and earnings | Strong | Strong |
| Risk exposure | Moderately Low | Moderately Low |
| Funding structure | Neutral | Neutral |
| Modifiers | | |
| Governance | Neutral | Neutral |
| Liquidity | Exceptional | Exceptional |
| Comparable ratings analysis | 0 | 0 |
| Support | | |
| Group support | 0 | 0 |
| Government support | 0 | 0 |

IICRA--Insurance Industry And Country Risk Assessment. *Anchor selection: We chose the higher anchor in recognition of AXA's leading position in many insurance markets, and profitable asset management contribution.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10,

- 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
 - General Criteria: Group Rating Methodology, July 1, 2019
 - General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
 - General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- AXA's Restricted Tier 1 Subordinated Notes Issued Under Its Euro Medium-Term Note Program Rated 'BBB+', Jan. 10, 2024

Ratings List

| | |
|---------------------------------|----------------|
| Ratings Affirmed | |
| AXA | |
| Issuer Credit Rating | A+/Stable/A-1+ |
| AXA | |
| XL Reinsurance (China) Co. Ltd. | |
| XL Insurance Switzerland Ltd. | |
| Financial Strength Rating | |
| Local Currency | A+/Stable/-- |
| AXA Banque | |
| Issuer Credit Rating | A+/Stable/A-1+ |

AXA Belgium

XL Specialty Insurance Co.

XL Reinsurance America Inc.

XL Re Europe SE

XL Insurance America Inc.

XL Bermuda Ltd.

Indian Harbor Insurance Co.

Greenwich Insurance Co.

AXA XL Insurance Company UK Ltd.

AXA Versicherungen AG

AXA Versicherung AG

AXA Lebensversicherung AG

AXA Krankenversicherung AG

AXA Insurance U.K. PLC

AXA General Insurance Hong Kong Ltd.

AXA France Vie

AXA France IARD

AXA China Region Insurance Co. Ltd.

AXA China Region Insurance Co. (Bermuda) Ltd.

Issuer Credit Rating

Local Currency

AA-/Stable/--

AXA Belgium
XL Specialty Insurance Co.
XL Reinsurance America Inc.
XL Re Europe SE
XL Insurance Co. SE
XL Insurance America Inc.
XL Bermuda Ltd.
Indian Harbor Insurance Co.
Greenwich Insurance Co.
Catlin Re Switzerland Ltd
AXA XL Reinsurance Ltd.
AXA XL Insurance Company UK Ltd.
AXA Versicherungen AG
AXA Versicherung AG
AXA Lebensversicherung AG
AXA Krankenversicherung AG
AXA Insurance U.K. PLC
AXA Insurance Co.
AXA General Insurance Hong Kong Ltd.
AXA France Vie
AXA France IARD
AXA China Region Insurance Co. Ltd.
AXA China Region Insurance Co. (Bermuda) Ltd.

Financial Strength Rating

Local Currency AA-/Stable/--

Catlin Re Switzerland Ltd

Issuer Credit Rating AA-/Stable/--

XL Group Ltd.

Issuer Credit Rating A/Stable/--

XL Insurance Co. SE

Issuer Credit Rating

Local Currency AA-/Stable/--

XL Insurance Switzerland Ltd.

Issuer Credit Rating

Local Currency A+/Stable/--

AXA

Senior Unsecured A+

Subordinated A-

Junior Subordinated BBB+

| | | |
|---------------------------|---------------|--------------|
| Commercial Paper | A-1+ | |
| XL Group Ltd. | | |
| Senior Unsecured | A | |
| Subordinated | BBB+ | |
| Upgraded | | |
| | To | From |
| Catlin Insurance Co. Inc. | | |
| Issuer Credit Rating | | |
| Local Currency | AA-/Stable/-- | A+/Stable/-- |
| Financial Strength Rating | | |
| Local Currency | AA-/Stable/-- | A+/Stable/-- |

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