Solvency and Financial Condition Report 2016

AXA CORPORATE SOLUTIONS

redefining / standards

This report is the Solvency and Financial Condition Report (SFCR) of AXA Corporate Solutions Assurance for the reporting period ended December 31, 2016, pursuant to article 51 of the Directive 2009/138/EC and articles 290 to 298 of the Delegated Regulation 2015/35.

CERTAIN PRELIMINARY INFORMATION ABOUT THIS SFCR REPORT

Presentation of the information

In this Report unless provided otherwise, (i) the “Company”, and/or “AXA Corporate Solutions” refer to AXA Corporate Solutions Assurance, a “société anonyme” organized under the laws of France, which is an indirect subsidiary of AXA SA or “AXA”, the publicly traded parent Company of the AXA Group, and (ii) “AXA Group”, the “Group” and/or “we” refer to AXA SA together with its direct and indirect consolidated subsidiaries.

SUMMARY

In recent years, the European Union has developed a new regulatory regime for European insurers which finally became effective on January 1, 2016, following the adoption of the 2009 Solvency II Directive on the taking-up and pursuit of the business of insurance and reinsurance, as amended in 2014 by the 2014/51/EU Directive (“Omnibus II”). The regime is designed to implement solvency requirements that better reflect the risks that insurance companies face and deliver a supervisory system that is consistent across all European member States. The Solvency II framework is based on three main pillars: (1) Pillar 1 consists of the quantitative requirements around own funds, valuation rules for assets and liabilities and capital requirements, (2) Pillar 2 sets out qualitative requirements for the governance and risk management of insurers, as well as for the effective supervision of insurers including the requirement for insurers to submit an Own Risk and Solvency Assessment (ORSA) which will be used by the regulator as part of the supervisory review process; and (3) Pillar 3 focuses on enhanced reporting and disclosure requirements. The Solvency II framework covers, among other matters, valuation of assets and liabilities, the treatment of insurance groups, the definition of capital and the overall level of required capital.

/ Key Figures

(In Euro million except solvency ratio data)	2016	2015
Income Statement Data		
Total Revenues	2,275	2,307
Operating income before investment results	-31	6
Net investment results	221	196
Net income	169	178
Balance Sheet Data		
Total assets	10,651	10,478
Available capital (AFR – Available Financial Resources)	1,636	1,675
Capital Requirement Data		
Solvency Capital Requirement (SCR)	1,087	1,114
Solvency II ratio	**151%**	**150%**

/ Key Highlights

ACTIVITY INDICATORS	**Gross revenues** decreased by €32 million (-1.4%) to €2,275 million notably in Marine/Aviation (-4%), Construction (-16%) and Motor (-14%) due to the actions undertaken to protect profitability (reduction of shares and lapses), partly offset by growth in Property (+3%) and Liability (+5%). **Total operating income** stands at €-31m in 2016 vs. €+6m in 2015 significantly impacted by the large losses in Construction and Aviation and higher major losses in Property not covered by the Net Frequency Protection treaty. **Total net investment results** amounted to €221 million. Investment results increased by €25 million (or +13%) due to impairment recognized in 2015.
SYSTEM OF GOVERNANCE	Since July 2002, AXA Corporate Solutions has operated with a unitary Board of Directors with a Chair and a Chief Executive Officer. The Board of Directors has two specialized Committees that review specific matters: (1) the Audit Committee, (2) the Compensation Committee. In order to preserve a well-balanced governance, the Board of Directors ensures that independent directors have a major role in all Board Committees. As further described in Section B.1 of this report, AXA Corporate Solutions has four key functions, in compliance with Solvency II regulation: 1) risk-management; 2) compliance; 3) internal audit and 4) actuarial function. Each of these functions has a direct link to one of the persons who effectively run the Company (*dirigeants effectifs*), and each of these functions has direct access to the Board Committees. AXA Corporate Solutions is engaged in the financial protection and on a global scale. As such, it is exposed to a very wide variety of risks – insurance risks, financial risks, operational risks and other types of risks. As an integrated part of all business processes, Risk Management is responsible for the definition and the deployment of the Enterprise Risk Management (ERM) framework within AXA Corporate Solutions, including the conduct of the Own Risk & Solvency Assessment (ORSA). This framework is based on the four following pillars, cemented by a strong risk culture: - risk Management independence and comprehensiveness: Chief Risk Officer is independent from operations ("first line of defence") and Internal Audit Department ("third line of defence"). Risk Management Department, together with Legal, Compliance, Internal Financial Control, Human Resources and Security Departments constitute the "second line of defence" which objective is to develop, coordinate and monitor a consistent risk framework across the Company, - risk appetite framework, - systematic second opinion on key processes, and - robust economic capital model. In order to manage these risks, AXA Corporate Solutions has put in place a comprehensive system of internal controls designed to ensure that executives are informed of significant risks on a timely and continuing basis, have the necessary information and tools to appropriately analyse and manage these risks.

	These mechanisms and procedures principally include: • AXA Corporate Solutions' corporate governance structures which are designed to ensure appropriate supervision and management of the Company's business as well as clear allocation of roles and responsibilities at the highest level; • Management structures and control mechanisms designed to ensure that the executives have a clear view of the principal risks the Company faces and the tools necessary to analyse and manage these risks; • Internal Control Over Financial Reporting (ICOFR), designed to ensure the accuracy, completeness and timeliness of the Group's consolidated financial statements and the Company's financial statements; and • Disclosure controls and procedures designed to ensure that executives have the necessary information to make fully informed disclosure decisions on a timely basis and that the Company's disclosures on material information (both financial and non-financial) to the markets are timely, accurate and complete. These mechanisms and procedures, taken together, constitute a comprehensive control environment that executives believe is appropriate and well adapted to the Company's business.
RISK PROFILE	AXA's economic capital model (AXA's Internal Model) offers a concrete and powerful tool to control and measure exposure to most risks, in line with the Solvency II framework. In presenting the risks set forth below, management has prioritized the three categories of risks in a manner that corresponds to management's current view as to the potential impact of risks for AXA Corporate Solutions. **Risks relating to the financial markets and financial position** A wide variety of risk management techniques are used to control and mitigate the financial risks to which AXA Corporate Solutions is exposed. These techniques include: Asset & Liability Management (ALM), disciplined investment process, hedging strategies and regular monitoring of the financial risks on the economic and solvency position of AXA Corporate Solutions. The main financial risks for AXA Corporate Solutions are as follows: ▪ equity risk, spread risk and real estate risk related to the invested assets of AXA Corporate Solutions; ▪ foreign exchange-rate risk related to the operating activities of AXA Corporate Solutions branches and subsidiaries in foreign countries; ▪ credit risk related to reinsurance operations and financial position to receivables; and ▪ liquidity risk. **Risks relating to the scope and nature of our business, the products we offer and our operations** Insurance risks for Property & Casualty businesses are covered through four major processes: ▪ risk controls on new product complementing underwriting rules and product profitability analyses; ▪ optimization of reinsurance strategies in order to cap AXA Corporate Solutions peak exposures, thereby protecting its solvency by reducing volatility; ▪ reviewing technical reserves; and ▪ monitoring emerging risks to share expertise within the underwriting and risk communities.

	Risks relating to the evolving regulatory and competitive environment in which we operate In addition to risks that bear a capital charge through SCR calculation, AXA Corporate Solutions also considers liquidity risk, reputation risk, strategic risk, regulatory risk as well as emerging threats and impact of transversal adverse scenarios.
VALUATION FOR SOLVENCY PURPOSES	AXA Corporate Solutions' Solvency II balance sheet is prepared as of December 31 in compliance with the Regulation. Assets and liabilities are valued based on the assumption that the Company will pursue its business as a going concern. The Solvency II balance sheet only includes the value of business in force and therefore only presents a partial view of the value of the Company. Technical provisions are recognized with respect to all of insurance and reinsurance obligations towards policyholders and beneficiaries of insurance or reinsurance contracts. The value of technical provisions corresponds to the current amount that the Company would have to pay if it was to transfer its insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking. Other assets and liabilities are recognized in compliance with IFRS standards and interpretations of the IFRS Interpretations Committee that are endorsed by the European Union before the balance sheet date with a compulsory date of January 1, 2016, provided that those standards and interpretations include valuation methods that are in accordance with the following market consistent valuation approach set out in Article 75 of Directive: ▪ Assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction; and ▪ Liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction (without adjustment to take account of the Company own credit standing).
CAPITAL MANAGEMENT	**Solvency II ratio at December 31, 2016** amounted to 151%, up 1 point as compared to December 31, 2015, based on a combined decrease of SCR and AFR. **Available Financial Resources** decreased by €39 million to €1,636 million, during the reporting period reflecting a positive net income of €169 million, partially offset by a dividend to be paid of €132 million*. Other adjustments on AFR during the period represent a decrease of €76 million. **Solvency Capital Requirement** decreased by €27 million to €1,087 million, during the reporting period reflecting a decrease of credit risk by €78 million, and a decreased operational risk by €45 million, partially offset by an increase in market risk by €50 million and P&C risk by €18 million.

** Calculation is based on a foreseeable dividend of €132m.*

The Board of Directors in its meeting dated April 19, 2017 eventually decided to propose to the General meeting a dividend of €110m.

With this new dividend proposition, the AFR would be €1,658m and the Solvency II ratio would be 153%.

The General meeting will take place on May 31, 2017.

Additional data about QRTs may be found in the « Quantitative Reporting Templates 2016 » document which is also online.

A BUSINESS AND PERFORMANCE

A.1 Business

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A.1 BUSINESS

/ General Information

The Company is a subsidiary of AXA Group, a worldwide leader in financial protection. Based on available information at December 31, 2016, the AXA Group was the world's largest insurance group with total assets of €893 billion and consolidated gross revenues of €100 billion. AXA operates primarily in Europe, North America, the Asia- Pacific Region and, to a lesser extent, in other regions including the Middle East, Africa, and Latin America.

With 1,500 employees and a global network that covers up to 150 countries, AXA Corporate Solutions is the AXA Group company dedicated to providing risk management and insurance to large cap companies (generally with revenues over €600 million).

/ Information on the Company

AXA Corporate Solutions, société anonyme

AXA Corporate Solutions is a French corporation (société anonyme) existing under the laws of France. The Company's registered office is located at 4 rue Jules Lefebvre, 75009 Paris, France and its telephone number is +33 (0) 1 56 92 85 33.

Supervisory authority

AXA Corporate Solutions is engaged in regulated business activities on a global basis through several branches in the world. Given that AXA Corporate Solutions is headquartered in Paris, France, this supervision is based to a significant extent on European Union directives and on the French regulatory system. The principal supervisor is the French Autorité de Contrôle Prudentiel et de Résolution ("ACPR").

AUTORITE DE CONTROLE PRUDENTIEL ET DE RESOLUTION
61, rue Taitbout – 75436 Paris Cedex, 9

AXA Group is engaged in regulated business activities on a global basis through numerous operating subsidiaries and the Group's principal business activities of insurance and asset management are subject to comprehensive regulation and supervision in each of the various jurisdictions where the Group operates. Given that the AXA Group is headquartered in Paris, France, this supervision is based to a significant extent on European Union directives and on the French regulatory system. The AXA Group's principal supervisor is the French Autorité de Contrôle Prudentiel et de Résolution ("ACPR").

AUTORITE DE CONTROLE PRUDENTIEL ET DE RESOLUTION
61, rue Taitbout – 75436 Paris Cedex, 9.

Statutory auditors

Incumbent auditors

MAZARS:

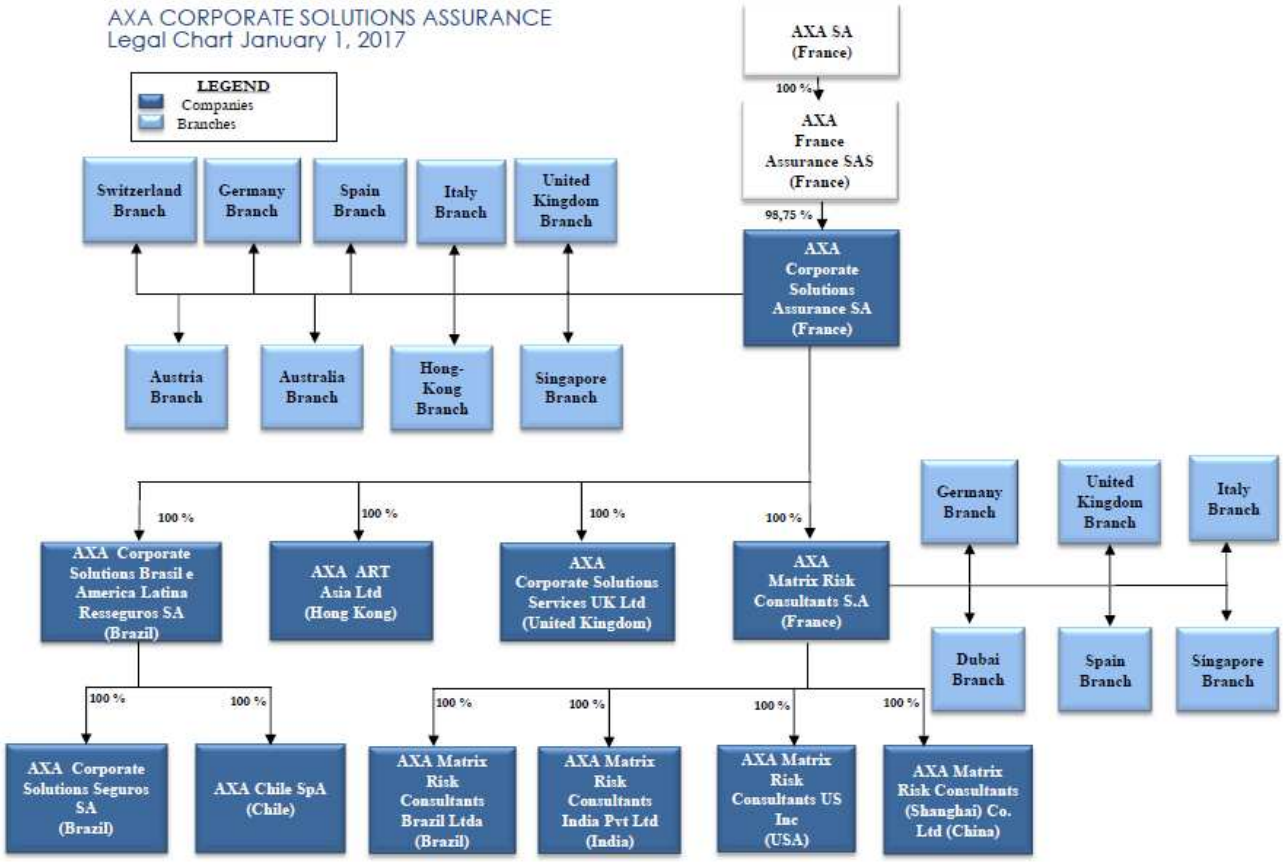
61, rue Henri-Regnault – 92400 Courbevoie, represented by Messrs. Antoine Esquieu and Jean-Claude Pauly, first appointed on June 7, 2004. The current appointment is for a term of 6 years, until the Shareholders' General Meeting called to approve the financial statements for the fiscal year 2022.

Mazars is registered as an independent auditor with the Compagnie Régionale des Commissaires aux Comptes de Versailles.

Alternate auditors

Mr. Lionel Gotlib: 61 rue Henri-Regnault – 92400 Courbevoie, first appointed on June 3, 2010. The current appointment is for a period of 6 years, until the Shareholders' General Meeting called to approve the financial statements for the fiscal year 2022.

Mr Lionel Gotlib is registered as an independent auditor with the *Compagnie Régionale des Commissaires aux Comptes* of Versailles.



/ Major Shareholders and Related Parties

Capital ownership

On December 31, 2016, AXA Corporate Solutions fully paid up and issued share capital amounted to €190,069,080 divided into 23,758,635 ordinary shares, each with a par value of €8.

The table below summarizes the ownership of its issued outstanding ordinary shares and related voting rights on December 31, 2016:

	Number of shares	% of capital ownership	% of voting rights
AXA France Assurance SAS (France)	23,461,719	98.750%	98.750%
AXA Assurances IARD Mutuelle (France)	296,375	1.247%	1.247%
Other shareholders	541	0.003%	0.003%
TOTAL	**23,758,635**	**100%**	**100%**

Material Related companies

			December 31, 2016		December 31, 2015	
Parent and Holding Companies	Legal Form	Country	Voting rights percentage	Ownership Interests	Voting rights percentage	Ownership Interests
AXA Corporate Solutions Assurance SA			Parent Company		Parent Company	
AXA Matrix Risk Consultants SA	société anonyme	France	100.00	100.00	100.00	100.00
AXA Corporate Solutions Brasil e America Latina Resseguros SA	Sociedade anónima	Brazil	100.00	100.00	100.00	100.00
AXA Art Asia Ltd	private company	Hong Kong	100.00	100.00	100.00	100.00
AXA Corporate Solutions Services UK Ltd	limited company	United Kingdom	100.00	100.00	100.00	100.00

/ Business Overview

MATERIAL LINES AND GEOGRAPHICAL AREAS OF BUSINESS

AXA Corporate Solutions is the AXA Group subsidiary dedicated to large corporations for Property and Casualty (P&C) insurance, including specialty markets (Marine, Aviation, Space, Parametric) worldwide. AXA Corporate Solutions offers a comprehensive range of coverage and services.

In the global P&C risks market, AXA Corporate Solutions acts at a worldwide level with multinational clients placing their risks outside their country of origin via international programs or in key global market places. AXA Corporate Solutions underwrites large insurance risks such as Property damage, Liability, Construction risks, Motor fleet, Marine, Aviation, Space and Parametric.

In this market, AXA Corporate Solutions ranks amongst the main carriers worldwide.

AXA Corporate Solutions Assurance mainly distributes its products through international brokers. Marine and Aviation business is distributed through specialized brokers.

AXA Corporate Solutions operates worldwide. The main branches are located in Germany, UK and Italy.

/ Significant Business and Other Events

After the acquisition of AXA Corporate Solutions Seguros IT migration has been concluded in 2016.

A.2 UNDERWRITING PERFORMANCE

/ Underwriting performance by product line

The table below presents gross revenues by major line of business:

Gross revenues by product line

(in Euro million except percentages)	2016		2015	
Property	683	30%	661	29%
Liability	517	23%	492	21%
Marine, Aviation	640	28%	667	29%
Motor	193	8%	224	10%
Construction	194	9%	232	10%
Other	48	2%	31	1%
TOTAL	**2 275**	**100%**	**2 307**	**100%**

Gross revenues decreased by €32 million (-1.4%) to €2,275 million notably in Marine/Aviation (-4%), Construction (-16%) and Motor (-14%) due to the actions undertaken to protect profitability (reduction of shares and lapses), partly offset by growth in Property (+3%) and Liability (+5%).

/ Underwriting performance by geographical area

Gross revenues by geographical area

AXA Corporate Solutions is headquartered in Paris and operates worldwide through its branches and its international network of AXA and non AXA partners to fulfil its clients' needs.

Gross revenues are shown in the table below:

(in Euro million except percentages)	2016		2015	
Australia	19	1%	15	1%
Austria	14	1%	12	1%
Germany	522	23%	511	22%
Hong-Kong	29	1%	26	1%
Italy	167	7%	147	6%
Singapore	46	2%	43	2%
Spain	35	2%	32	1%
Switzerland	74	3%	62	3%
UK	203	9%	216	9%
France	1 166	51%	1 241	54%
TOTAL	**2 275**	**100%**	**2 307**	**100%**

The business is underwritten generally locally depending on the origin of the client and includes risks located in other countries.

There has been no material change in the Company's geographical mix in 2016.

/ Aggregate underwriting performance

Operating income and expenses

(in Euro million except percentages)	December 31, 2016	December 31, 2015
Gross revenues	**2,275**	**2,307**
Current accident year loss ratio (net)	90.9%	89.0%
All accident year loss ratio (net)	84.1%	83.5%
Net technical result before expenses	**362**	**381**
Expense ratio	17.3%	16.2%
Operating income before investment results	**-31**	**6**
Combined ratio	101.4%	99.7%

Net technical result before expenses decreased by €19 million (-5%) to €362 million:

■ the *current accident year loss ratio* increased by 1.9 points to 90.9% driven by higher large losses in Construction and Liability.

■ the *all accident year loss ratio* increased by 0.6 points to 84.1% mainly due to a higher current accident year loss ratio.

Expense ratio increased by 1.1 point to 17.3% of which 0.7 point on management expenses ratio, mainly driven by higher project investment costs.

As a result, the **combined ratio** increased by 1.7 point to 101.4%.

Total operating income stood at €-31m in 2016 vs. €+6m in 2015 driven by lower revenues and higher combined ratio.

A.3 INVESTMENT PERFORMANCE

/ Net investment result

Net investment result from the financial assets of AXA Corporate Solutions was as follows:

(In Euro million)	December 2016			
	Net investment income	Net realized gains and losses	Change in investments impairment	Net investment result
Investment in real estate properties	18.1	0.0	-0.3	17.8
Debt instruments	114.2	0.8	0.0	115.1
Equity instruments	4.8	21.1	0.0	25.9
Investment funds	34.2	1.7	-0.1	35.8
Loans	3.7	0.3	-0.5	3.5
Derivative instruments	0.4	1.1	0.0	1.5
Borrowings	-1.4			-1.4
Asset management fees	-3.3			-3.3
Other	0.0	26.1		26.1
TOTAL	170.7	51.2	-0.9	221.1

(In Euro million)	December 2015			
	Net investment income	Net realized gains and losses	Change in investments impairment	Net investment result
Investment in real estate properties	17.5	0.1	0.0	17.5
Debt instruments	122.0	13.2	0.0	135.2
Equity instruments	4.0	12.1	0.0	16.1
Investment funds	25.5	35.1	-22.2	38.4
Loans	3.3	0.4	-0.9	2.8
Derivative instruments	0.4	0.0	0.0	0.4
Borrowings	-1.8			-1.8
Asset management fees	-3.3			-3.3
Other	0.0	-9.7		-9.7
TOTAL	167.5	51.2	-23.1	195.6

Investment income net of expenses amounted to € 221.1 million in 2016, up €25.5 million (+13%) from €195.6 million in 2015.

This increase is mainly due to:

- An increase in financial income of €3.2 million due to exceptional dividends from mutual funds, partially offset by a decrease in bonds revenues in a low interest rate environment,
- No variation on net realized capital gains, mainly due to a positive foreign exchange impact offset by lower realized gains on bonds and mutual funds,
- An increase of €22.2 million due to impairments on mutual funds in 2015.

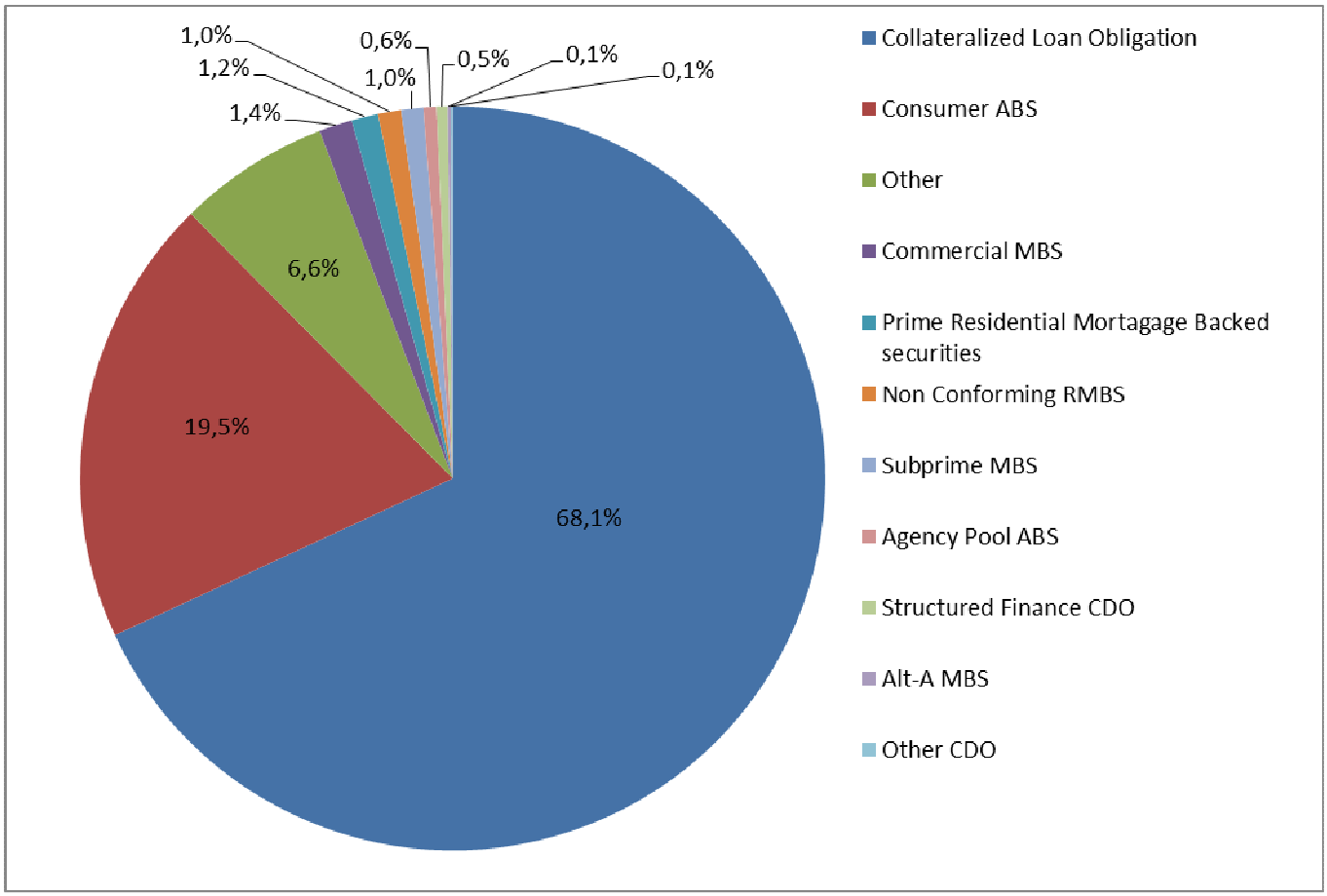
/ Gains and losses directly recognized in Equity

Not applicable

/ Investments in securitization

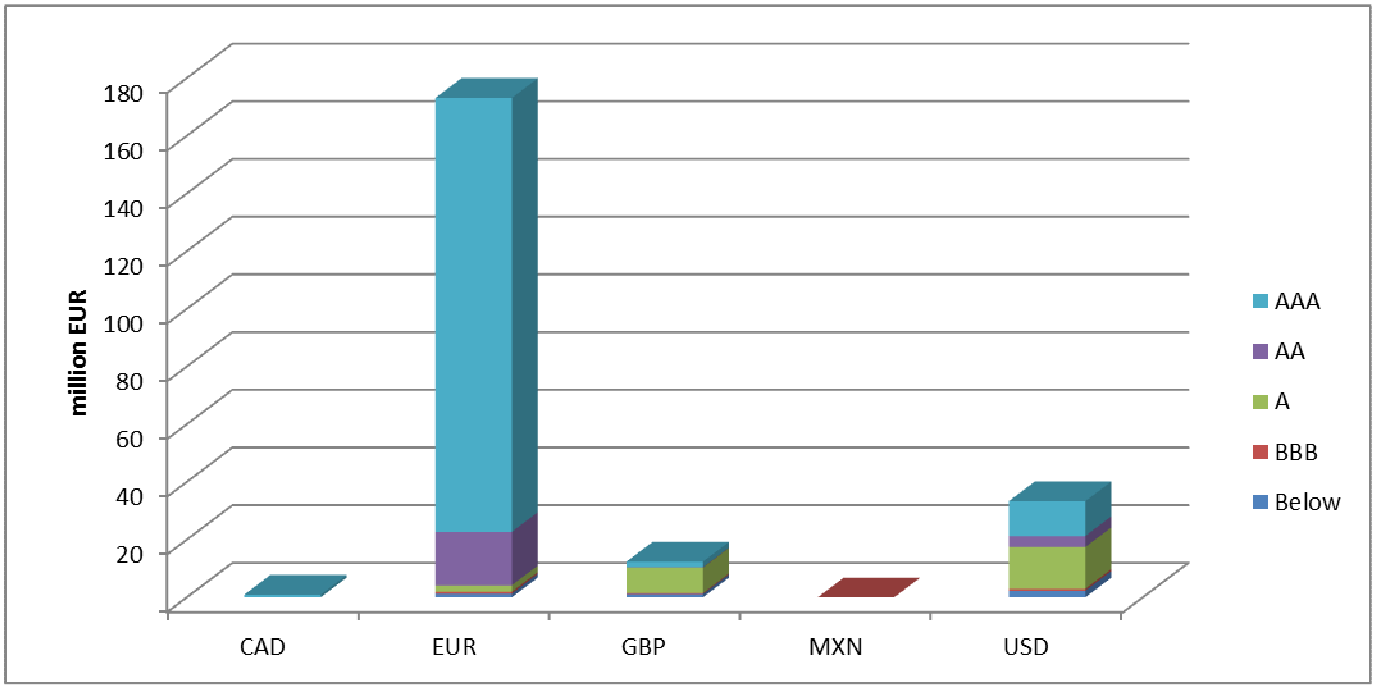
Investments in securitized instruments are closely monitored by different analyses performed at Group level by issuer, sector and geographic region, in addition to local procedures and by a set of Group and local issuer limits.

At December 31, 2016, the economic breakdown of the total value of Asset Backed Securities ("ABS") within AXA Corporate Solutions (€220 million) was as follows:



At December 31, 2016, the economic breakdown of the total value of ABS was: 68% in CLO, 20% Consumer ABS, 1% in Prime Residential; 1% in NC Residential; 1% in US Subprime; 1% in Commercial MBS, 0.6% in CDO; 0.6% in Agency Pool ABS; 0.1% in US Alt-A MBS; 7% in others.

Here below, the split per Currency and Rating of ABS investments:



A.4 PERFORMANCE OF OTHER ACTIVITIES

/ Net income

The following tables present the net income of the Company for the periods indicated.

(in Euro million)	December 31, 2016	December 31, 2015
Gross revenues	**2,275**	**2,307**
Current accident year loss ratio	90.9%	89.0%
All accident year loss ratio	84.1%	83.5%
Net technical result before expense	**362**	**381**
Expense ratio	17.3%	16.2%
Net investment result	**221**	**196**
Income tax expenses/benefits	-21	-26
Other income / expenses	0	2
NET INCOME	**169**	**178**

Income tax expenses decreased by €5 million (-18%) to €-21 million mainly relating to France and Italy.

Other income/expenses decreased by 2 million driven by the change in law on capitalization reserve.

Net income decreased by €9 million (-5%) to €169 million.

/ Leasing arrangements

As of December 31, 2016, there were no leasing arrangements deemed material at Company level.

A.5 ANY OTHER INFORMATION

Not applicable

B SYSTEM OF GOVERNANCE

B.1 General information on the system of governance

Governance

Material transactions with shareholders, persons who exercise a significant influence and corporate officers or executives

Assessment of the adequacy of the system of governance

Compensation policy

LTI

Executive officers' benefits

B.2 Fit and proper requirements

Fit and Proper assessment process for the persons who effectively run the undertaking and heads of key functions

B.3 Risk management system including the own risk and solvency assessment

AXA Corporate Solutions Risk management system

AXA Group Internal model

Own Risk and Solvency Assessment

B.4 Internal control system

Internal control objectives

Corporate governance structures

Management structures and controls

Disclosures, controls and procedures

B.5 Internal audit function

Internal audit function

B.6 Actuarial function

Actuarial function

B.7 Outsourcing

Outsourcing arrangements

B.8 Any other information

B1 - General information on the system of governance

/ Governance

Board of Directors

ROLE AND POWERS

Since July 2002, AXA Corporate Solutions has operated with a unitary Board of Directors with two distinct functions: a Chair and a Chief Executive Officer.

The Board of Directors determines the strategic orientations of the Company's activities and ensures their implementation. Subject to the powers specifically reserved to shareholders under French law and within the limit of the Company's purpose, the Board is responsible for considering all material questions and taking all material decisions related to the Company and its business. It exercises the following powers in particular:

- chooses between the two forms of Executive Management (separation or combination of the roles of Chair & Chief Executive Officer);
- reviews and sets the Company's half-year and annual financial statements;
- convenes Shareholders' Meetings;
- authorizes related-party agreements (*conventions réglementées*).

The Board of Directors has the ultimate responsibility of the Internal Control and Risk Management Systems, monitoring in time its comprehensiveness, functionality and efficiency, including outsourcing activities.

The Board of Directors ensures that the risk management framework defined allows to identify, assess and monitor, in a forward looking approach, the risks the Company is exposed to, in order to maintain an adequate level of its solvency in a medium-long term view.

The Board of Directors is also required to approve certain types of material transactions including acquisitions and opening of a business in a foreign country, where the Company does not yet have a license.

The Board of Directors also undertakes all controls and verifications as it deems appropriate from time to time.

OPERATING PROCEDURES

The guidelines governing the operation, organization and compensation of the Board of Directors and its Committees are set out in the Board's Bylaws. The Bylaws detail, in particular, the powers, missions and obligations of the Board of Directors and its Committees.

The Board of Directors meets as often as it deems necessary. Prior to each meeting, the Board members receive documentation concerning matters to be reviewed.

COMPOSITION OF THE BOARD

Pursuant to Article 10 of the Company's Bylaws, the members of the Board of Directors are appointed by the Shareholders' Meeting for six years.

On December 31, 2016, the Board of Directors was comprised of eight members. Six directors were citizens of countries other than France, and three of them were independent.

The directors are: Gaëlle Olivier, Rob Brown, Jürgen Kurth, AXA represented by Christian Thimann, Jean-Luc Montané, Gert-Hartwig Lescow, Bruce Hepburn and Vittorio Vellano.

BOARD OF DIRECTORS' COMMITTEES

The Board of Directors has two specialized Committees that review specific matters: the Audit Committee and the Compensation Committee.

In order to preserve a well-balanced governance, the Board of Directors ensures that independent directors have a major role in all Board Committees. In this context:

- the Audit Committee is chaired by an independent director;
- all members of the Audit Committee and the Compensation Committee are independent directors;
- AXA's executive officers cannot be members of the Committees.

The role, organization and operating procedures of each Committee are set forth in the Board of Directors' Bylaws and in the Audit Committee Terms of Reference.

All the Board Committees constitute an important part of AXA Corporate Solutions' overall internal control environment and plays a particularly important role in reviewing internal control and risk related issues.

Each Committee issues opinions, proposals or recommendations to the Board of Directors on matters within the scope of its responsibilities. Nevertheless, under French law, Board Committees do not have any formal decision making power.

Each Committee is empowered to undertake or commission specific studies or reviews within the scope of its responsibilities. The Committees may request external consulting expertise if necessary. They may also invite external participants to attend their meetings. Committees Chairmen report to the Board of Directors at the following Board meeting.

The Audit Committee has a critical role in reviewing financial results and other financial information prepared by the management, financial reporting and control processes, critical accounting policies, particular accounting issues, key risks and systems of internal control, fraud and similar issues.

Board of Directors' Committees	**Principal responsibilities**	**Principal activities in 2016**
Audit Committee *Composition on December 31, 2016:* *Gert-Hartwig Lescow, Chair* *Bruce Hepburn* *Jean-Luc Montané*	The scope of the Audit Committee's responsibilities is set out in its Terms of Reference which are reviewed and approved each year by the Board of Directors. The Audit Committee assists the oversight of the: • adequacy and effectiveness of the internal control and Risk Management frameworks; • financial reporting process; and • effectiveness, performance and independence of the internal and external auditors. The Committee also examines the compliance with the risk appetite limits. The Committee meets during specific sessions the Statutory Auditors and the Head of Audit.	The Audit Committee met four times in 2016. The average attendance rate was 100%. The Committee focused, in particular, on the following issues: • the full year financial statements for 2015; • the strategic plan 2017 -2020; • the half-year financial statements for 2016; • internal control and Risk Management: regular reports from Compliance and Legal department, from Risk Management, on the Internal Financial Control (IFC) function…; • main litigation cases;

Board of Directors' Committees	Principal responsibilities	Principal activities in 2016
	The review of financial statements by the Audit Committee is accompanied by a presentation from the Statutory Auditors stressing the essential points of the results of the statutory audit and the accounting methods chosen. The Chief Financial Officer, the Head of Audit, the Chief Risk Officer, the Chief Accounting Officer as well as the Company's Statutory Auditors attend each Audit Committee meeting. The General Counsel also attends the Committee's meetings on a regular basis.	• Solvency II and ORSA (Own Risk and Solvency Assessment) report; • Risk Management Framework, Risk Appetite and Reporting; • the results of internal and external audit work; • reports from Internal Audit, • the internal and external audit plans and resources.

Board of Directors' Committees	Principal responsibilities	Principal activities in 2016
Compensation Committee *Composition on December 31, 2016:* *- The Chair of the Board of Directors who is Chair of the Compensation Committee* *- Vittorio Vellano* *- a second member will be appointed shortly*	- The Committee shall examine the appointments and remuneration of the main executives of the Company, - It shall report to the Board on its actions on an annual basis.	The Committee met once in 2016. The Committee focused, in particular, on the following issues: 1. Context & events for 2016 2. Performance and compensation process and planning 3. Performance and potential assessment overview 4. Compensation review : figures for 2016, benchmark 5. Individual proposals and performance rates 6. Proposed nominations for 2016

Executive Management

AXA Corporate Solutions' Executive Management is constituted by the Chief Executive Officer and other persons who effectively run the Company. An Executive Committee also supports the operational management of the Company.

THE CHIEF EXECUTIVE OFFICER

Mr. Rob Brown was appointed Chief Executive Officer by the Board of Directors of February 22, 2016, for the duration of the term of office of his predecessor, *i.e.* five years.

AXA Corporate Solutions is organised according to the principle of separation of the powers of Chair of the Board of Directors and Chief Executive Officer.

The Chair of the Board of Directors organises and directs the Board's work. He ensures the proper operation of the Company's bodies.

The General Management of the Company is the responsibility of the Chief Executive Officer, under the control of the Board of Directors and subject to the guidelines approved by the Board.

The Chief Executive Officer is appointed by the Board of Directors and is vested with full powers to act on behalf of the Company in all circumstances. He exercises his powers within the limits of the corporate purpose and subject to the powers that the law expressly assigns to the General Meeting and the Board of Directors.

In addition, the Bylaws of the Board of Directors provide for specific limitations of the powers of the Chief Executive Officer and require prior Board approval for certain significant transactions (sale of some or all of the ownership interests held by the Company, acquisitions, opening of a business in a foreign country, where the Company does not yet have a license).

As part of the proper governance of the Company reviewed beginning 2016, the Chief Executive Officer also chairs the Risk Committee, which is described in section B3.

THE PERSONS WHO EFFECTIVELY RUN THE COMPANY ("DIRIGEANTS EFFECTIFS")

Within AXA Corporate Solutions, the persons who effectively run the Company are:

- the Chief Executive Officer,
- the Global Chief Underwriting Officer, and
- the Chief Financial Officer.

The Company's persons who effectively run the Company must fulfil the requirements of a fit and proper assessment, as set forth in the Company's internal procedure, and each such person's appointment must be notified to the ACPR.

THE EXECUTIVE COMMITTEE

On December 31, 2016, AXA Corporate Solutions had a 12-member Executive Committee composed of the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Human Resource Director, the Global Chief Underwriting Officer, the Deputy Global Chief Underwriting Officer, the Chief Commercial Officer, the Chief Transformation Officer, the Chief Claims Officer and CEOs of Mature Countries such as UK, Germany and Italy.

This committee assists the Board in the operational management of the company. It plays an important role in managing the operating businesses, considers strategic initiatives, addresses compliance and legal topics and other subjects that seem appropriate to the Board from time to time. The Executive Committee usually meets every six to eight weeks.

During the fourth quarter, AXA Corporate Solutions presents its strategic plan to the Group. The strategic plan is reviewed by the Executive Committee before being presented to the Board of Directors.

Main roles and responsibilities of key functions

The Solvency II regulations, which became effective on January 1, 2016, require AXA Corporate Solutions to have in place a governance system designed to guarantee a sound and prudent management. This governance system is based on a clear separation of responsibilities and must be proportionate to the nature, extent and complexity of the Company's operations.

In this context AXA Corporate Solutions has (i) put in place a control framework with three lines of defence with boundaries between each of them clearly defined and (ii) established four key functions:

- **the risk-management function** which is, in particular, responsible for the definition and the deployment of the Enterprise Risk Management (ERM) framework within AXA Corporate Solutions. In particular, it is in charge of the design, implementation and validation of the internal model, the documentation of this model and any subsequent changes made to it as well as the analysis of the performance of this model and the production of summary reports thereof;
- **the compliance function**, which is, in particular responsible for advising on compliance with the laws, regulations and administrative provisions regarding insurance and reinsurance activities as well as ensuring that compliance is effective;
- **the internal audit function**, which is, in particular, responsible for performing an evaluation of the adequacy and effectiveness of AXA Corporate Solutions' internal control system and other elements of the system of governance. The internal audit function must be objective and independent from the operational functions; and
- **the actuarial function**, which is, in particular, responsible for overseeing the calculation of technical provisions (including ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions), assessing the sufficiency and quality of the data used in this calculation and comparing best estimates against experience, expressing an opinion on the overall underwriting policy and on the adequacy of reinsurance arrangements.

Within AXA Corporation Solutions, the key function holders are:

- the Chief Risk Officer,
- the Head of Internal Audit,
- the Head of Compliance,
- the Head of the Actuarial Function.

Each person in charge of a key function must, as for the persons who effectively run the Company fulfil the requirements of the fit and proper assessment mentioned hereinabove, as set forth in the Company's internal procedure, and each key function's appointment must also be notified to the ACPR. As required by Solvency II regulations, AXA Corporate Solutions has established procedures whereby the key function holders have direct access to the Board of Directors.

To secure the operational independence of the key functions, the key function holders also have a reporting line to one of the persons who effectively run the Company (i.e., the Chief Executive Officer and the Chief Financial Officer).

In order to ensure the necessary authority and resources to carry out their tasks, the key function holders have a right to report to the Board of Directors directly and at their own initiative when events of a nature to justify such report occur, and have the same direct access to the Executive Committee, and the Audit Committee. In addition, the key functions have available dedicated staffs and other resources appropriate to their tasks.

Material changes in the system of governance in 2016

The Chief Financial Officer, Frédéric Fischer, was designated in 2016 as the third person who runs effectively the Company.

/ Material transactions with shareholders, persons who exercise a significant influence and corporate officers or executives

SHAREHOLDERS

Not applicable

PERSONS WHO EXERCISE A SIGNIFICANT INFLUENCE ON THE COMPANY

Not applicable

EXECUTIVE MANAGEMENT AND DIRECTORS

To the best of the Company's knowledge, based on information reported to it, there were no material transactions between the Company and any member of the Company's executive management or Board of Directors as of December 31, 2016.

Various members of the Company's Board of Directors as well as various other executive officers of the Company may, from time to time, purchase insurance, wealth management or other products or services offered by AXA in the ordinary course of its business. The terms and conditions of these transactions are similar to the terms and conditions generally available to the public or to AXA employees in general.

/ Assessment of the adequacy of the system of governance

The Company believes that its system of governance described herein is adequate in light of the nature, scale and complexity of the risks inherent in the Company's business.

Detailed information on the internal control mechanisms and procedures implemented by the Company is provided in section B.4.

/ Compensation policy

AXA Corporate Solutions applies AXA Group Remuneration policy.

AXA's global executive compensation policy is designed to align the interests of the Company's executives with those of its shareholders while establishing a clear and straightforward link between performance and compensation. In this context, its main objective is to encourage the achievement of ambitious objectives and the creation of long-term value by setting challenging performance criteria.

AXA's executive compensation structure is based on an in-depth analysis of market practices in France and abroad, within the financial services sector (insurance companies, banks, asset managers, etc.) and compared to the compensation practices of other international groups.

AXA's overall policy on executive compensation focuses on the variable part of the compensation package, which is the compensation. The structure of AXA's executive compensation is composed of a variable portion which represents a significant portion of the aggregate remuneration. This is designed to align executive compensation more directly with the operational strategy of the Group and the interests of the shareholders while encouraging performance:

- both on an individual and collective level; and
- over the short, medium and long term.

Remuneration policy

The AXA Group Remuneration policy became applicable to all AXA Group companies and their employees as of January 1, 2016.

This compensation policy is designed to support the Group's long-term business strategy and to align the interests of its employees with those of the shareholders by (i) establishing a clear link between performance and remuneration over the short, medium and long term, (ii) ensuring that the Group can offer competitive compensation arrangements across the multiple markets in which it operates while avoiding potential conflicts of interest that may lead to undue risk taking for short-term gain, and (iii) ensuring compliance with Solvency II regulations and any other applicable regulatory requirement.

The AXA Group compensation policy is designed to:

- attract, develop, retain and motivate critical skills and best talents;
- drive superior performance;
- align compensation levels with business performance;
- ensure that employees are not incentivised to take inappropriate and/or excessive risks and that they operate within AXA's overall risk framework; and
- ensure compliance of our practices with all applicable regulatory requirements.

It follows three guiding principles:

- competitiveness and market consistency of the remuneration practices;
- internal equity, based on individual and collective performance, in order to ensure fair and balanced compensation reflecting employee's individual quantitative and qualitative achievements and impact; and
- achievement of the Group's overall financial and operational objectives over the short, medium and long term as well as execution of medium and long term strategic objectives as a prerequisite to fund any mid-to-long term award.

The requirements set out in the Group Remuneration policy may be supplemented where necessary in order to comply with local regulatory requirements or identified best practices.

COMPENSATION OF THE EXECUTIVE OFFICERS

Compensation structure

AXA broadly applies a "pay-for-performance" approach which (i) recognizes achievement of defined financial and operational targets aligned with AXA's business plan (ii) promotes sustainable performance by incorporating risk adjustment measures in performance metrics (such as cash Return-On-Equity which takes into account the capital required to deliver performance) and (iii) determines individual compensation amounts on the basis of both financial results and demonstrated individual leadership and behaviours.

The overall remuneration structure is based on the following components, which are designed to provide balance and avoid excessive risk taking for short term financial gain:

- a fixed component which comprises guaranteed elements, such as base salary and any other fixed allowances. It takes into account the position, responsibilities, experience, market practices, technical skills and leadership competences, and also sustained individual performance and criticality or scarcity of skills;
- a variable component which comprises an upfront cash element (Short Term Incentive) and a deferred element which is awarded through equity based instruments or equivalents such as stock options and/or performance shares (Long Term Incentive). This variable component depends on the AXA Group's global performance, on the AXA Corporate Solutions performance, and on the achievement of the executive's individual objectives including demonstrated abilities for leadership.

AXA ensures a suitable balance between fixed and variable components so that the fixed component represents a sufficiently high proportion of the total remuneration to avoid employees being overly dependent on the variable components and to allow AXA to operate a fully flexible bonus policy, including the possibility of paying no variable compensation. All variable remuneration amounts are awarded in accordance with performance and there is no minimum payment guaranteed.

The target level of the executives' compensation and the structure of the elements which compose such compensation are based on a detailed analysis of market practices as well as potentially applicable national and international regulations, and also take into consideration various other factors including the Group's internal equity principles and the previous compensation level of executives.

Long Term Incentive (LTI) annual allotment

Each year, LTI is granted to the AXA Group executives.

AXA recognizes the importance of aligning remuneration over long term value creation by deferring a substantial portion of the individual's total variable compensation (i.e. Short Term Incentive (STI) plus LTI). Two main deferred LTI instruments are currently used: Performance Shares and Stock Options.

These LTIs are subject to performance conditions and therefore do not guarantee any grant or minimum gain for the beneficiaries.

/ LTI

Performance Shares

Performance Shares are designed to recognize and retain the Group's best talents and critical skills by aligning the individuals' interests with the overall performance of the Group, and the corresponding operational Entity/Business Unit, as well as with the Group's stock performance over the medium-term (3-5 years).

Performance shares are subject to a minimum deferral period ranging from 4 to 5 years[1].

[1] Participants can receive AXA shares after a 3-year acquisition period (4-year acquisition period outside of France) depending on performance achievement. Under French law, once the shares are acquired, an additional holding period of 2 years is required.

In addition Performance Shares are subject to performance conditions over a period of 3 years. The performance indicators measure both (i) the Group's overall financial and operational performance and (ii) the participant's operational Entity/Business Unit performance.

Under the terms of the plan, the initial number of performance shares granted is adjusted to reflect achievement against the defined performance conditions. Final individual pay-outs range from 0% to 130% of the initial grant amount depending on the level of achievement against the performance conditions[2].

In the event that no dividend payment is proposed by the Board of Directors with respect to any year during the three year performance period, a malus provision applies and automatically reduces by 50% the number of performance shares that would have otherwise been acquired by the beneficiary at the end of the three year performance period[3].

Stock Options

Stock Options are designed to align long term interests of Group Senior Executives with shareholders through the performance of AXA's share price.

Stock options are valid for a maximum period of 10 years. They are granted at market value, with no discount, and become exercisable by tranches between 3 and 5 years following the grant date.

Stock Options granted to members of the Executive Committee as well as the last third of all other grants are subject to performance conditions. In the event the performance condition is not met during the performance period, all the corresponding Stock Options will be forfeited.

ADDITIONAL PROVISION ON PERFORMANCE CONDITIONS

In addition to the conditions noted above, under the terms of the plans, all unvested Performance Shares and all unexercised Stock Options (both vested and unvested) are automatically forfeited in the event a participant's employment is terminated for any reason including, without limitation:

- Where an employee has materially violated AXA's Code of Conduct or other key Risk and Compliance policies; or
- There is evidence of serious misconduct or misbehaviour and/or the employee causes material detriment to the business or reputation of AXA or one of its subsidiaries.

LTI GRANT PROCEDURE

Within the global cap authorized by Group shareholders, AXA Board of Directors approves LTI programs prior to their implementation.

Each year, AXA Board of Directors, acting upon recommendation of its Compensation & Governance Committee, approves a global LTI pool to be granted.

The recommendations for individual grants (Performance Shares and Stock-Options) are made by the beneficiary's Entity-level management. These recommendations are reviewed by AXA Executive Management to ensure global coherence and respect of the Group's internal equity principles. Individual grants of Performance Shares are then decided by AXA Board of Directors.

[2] The threshold which currently applies is respectively 65% for Group and 60% for Entity performance.

[3] A performance score ranging from 0%-130% is divided by two in the event no dividend has been proposed by the Board of Directors during any of the 3 year performance period, providing the beneficiary with only 50% of the adjusted number of Performance Shares.

DIRECTORS' FEES

Directors' fees

Only external Directors are entitled to fees. The directors exercising executive functions within the Company or within the Group do not receive any specific compensation for their directorship.

The total amount of the attendance fees set by the General Shareholders' Meeting is distributed by the Board of Directors between its members and those of its various special Committees according to the following procedures:

- Only external Directors are entitled to fees,
- The total amount of fees shall be divided into two parts, a fixed part and a variable part,
- Concerning the variable part, the attendance at the Board meetings shall be considered,
- A specific amount shall be allocated to the attendance at the Audit and Compensation committees,
- The Chair of the Audit Committee receives the double amount of fees the other Audit Committee members are entitled to ,
- In case of a change of director during the year, the fixed part shall be calculated on a pro rata temporis for each director.

The Board may, in accordance with the provisions of applicable legislation, allocate exceptional remuneration for assignments or mandates with which the Directors are entrusted.

/ Executive officers benefits

PENSION

The three "dirigeants effectifs" pension schemes are determined within the framework of their country of origin, depending on local regulations and local company frameworks.

B2 – Fit and proper requirements

/ Fit and Proper assessment process for the persons who effectively run the Company and key functions holders –

The AXA Group has put in place practical guidance on what AXA entities need to do in order to meet its Fit and Proper Standards, adopted in compliance with the requirements of Solvency II regulations.

According to these guidelines, AXA Corporate Solutions has implemented appropriate and regular assessments to ensure that the persons who effectively run the Company and key functions holders meet the following requirements both at appointment stage and on an on-going basis:

- Appropriate competence and capability, taking into account professional qualifications, training, knowledge and relevant experience including understanding of regulatory requirements to enable sound and prudent management (fit); and

- Propriety, taking into account reputation and personal characteristics such as integrity and transparency (proper).

Furthermore, appointment of each person who effectively runs the Company or key function holder is required to be notified to the ACPR, through a formal process, including submission of a detailed questionnaire with several questions on the fitness and propriety of each person, to which are attached several identification documents such as a copy of the person's passport, a resume, a check of public records, and a declaration of absence of criminal convictions.

B3 - Risk management system including the own risk and solvency assessment

/ AXA Corporate Solutions Risk Management system

Risk management missions and department

As an integrated part of all business processes, Risk Management is responsible for the definition and the deployment of the Enterprise Risk Management (ERM) framework within AXA Corporate Solutions. Risk Management is responsible for developing the Enterprise Risk Management framework in terms of limits/thresholds (covering Financial, Insurance and Operational risks), policies, guidelines and monitoring of the risk exposure, subject to Group standards and within a clearly defined Risk Appetite consistent with the Group's Risk Appetite.

Risk Management oversees the various AXA Corporate Solutions' branches and affiliates' adherence to the framework, developing risk culture throughout the Company.

AXA Corporate Solutions' Chief Risk Officer heads the local Risk Management team and reports both to the CEO of the Company and to the Group Chief Risk Officer. The roles and responsibilities of Risk Management are validated jointly by the Executive Committee of the Company and the Group Chief Risk Officer to ensure a better alignment of central and local interests.

The Chief Risk Officer is independent from operations and Internal Audit Departments.

AXA Corporate Solutions' Chief Risk Officer has a regular reporting to the Audit Committee and the Board of Directors on risk management matters.

The risk management team is responsible for controlling and managing risks within Group and Company policies and limits, validating investment or underwriting decisions through Local Risk Committees.

The Chief Risk Officer chairs or is a member of all AXA Corporate Solutions' Risk Committees, defining risk standards, controlling Risk Appetite limits and recommending actions to mitigate risks. The Chief Risk Officer reports key risk matters directly to the Risk Committee, which establishes the risk control framework by validating both Risk Policy and Risk Strategy.

This framework is based on the five following pillars, cemented by a strong risk culture:

1. Risk Management independence and comprehensiveness:

The Chief Risk Officer is independent from operations ("first line of defence") and Internal Audit Departments ("third line of defence"). Risk Management Department, together with Legal, Compliance, Internal Financial Control, Human Resources and Security Departments constitute the "second line of defence" which objective is to develop, coordinate and monitor a consistent risk framework across the Company.

2. Shared risk appetite framework: the Chief Risk Officer is responsible for ensuring that the top management reviews and approves the risks carried in the Company, understand the consequences of an adverse development of these risks, and have action plans that can be implemented in case of unfavourable developments. Such process is driven by the Risk Appetite framework which represents a set of appropriate rules on governance, limits, reporting and decision processes, set up to drive risk management decisions. The risk appetite framework considers the potential impacts of risks on 4 financial dimensions: IFRS Earnings; Value; Solvency and Liquidity.

3. Systematic second opinion on key processes: the Chief Risk Officer ensures a systematic and independent second opinion, on AXA Corporate Solutions material decision processes, like P&C new product characteristics (risk-adjusted pricing and profitability), P&C and Life Economic reserves, Asset and Liability Management studies, Asset allocation and new investments, and Reinsurance strategy.

4. Robust economic capital model: AXA's economic capital model (STEC – Short Term Economic Capital) offers a concrete and powerful tool to control and measure exposure to most risks, in line with the Solvency II framework. AXA STEC model is designed as a consistent and comprehensive risk management tool, which also forms an important element in the capital management and planning process. Risk Management is responsible for reviewing the adequacy of the risk profile; implement, test and validate the economic capital model.

5. Proactive Risk Management: Chief Risk Officers are responsible for early detection of risks. This is ensured through challenge of and constant dialogue with the relevant business, and supported by AXA's emerging risks management framework.

Other functions

Business line management and staff are responsible for day to day risk management and decision making and therefore have primary responsibility for establishing and maintaining an effective control environment (first line of defence).

Legal, Compliance, Internal Financial Control, Human Resources and Security Departments are responsible for developing, facilitating and monitoring effective risk and control framework and strategy (second line of defence), in coordination with Risk Management.

Internal Audit performs, as part of its role, an assessment of risks and governance processes on a periodic basis to provide independent opinion on the effectiveness of the system of internal control (third line of defence).

Risk governance within AXA Corporate Solutions

In order to efficiently manage local and global risks, the decision process within the risk governance structure is divided into 2 main levels:

1. The **Risk Committee** defines business objectives and capital allocation with respect to investment return and risk. It also defines the Company appetite for risks in terms of impact on its key financial indicators. The Risk Appetite is endorsed by the Board of Directors upon review by its Risk Committee with the Audit Committee considering the effectiveness of the Company's internal control and risk management frameworks supporting it. A report on the Company's performance against the key financial indicators is presented on a regular basis to the Risk Committee, to the Audit Committee and to the Board of Directors. The overall risk framework is governed by the Risk Committee, co-chaired by the AXA Corporate Solutions CEO and CRO. The members of the Risk Committee are the members of the Executive Committee, the CRO, and the Head of Actuarial Function. The organization and the main assignments of the Risk Committee are described in the Risk Management Policy.
2. Four Company internal committees contribute to risk management covering the following risk categories:
   - For P&C insurance risks: The decision process relating to the management of insurance risk is governed by the **Insurance Risk Committee**, chaired by the AXA Corporate Solutions CRO. The members of the Insurance Risk Committee are some members of the Executive Committee, the CRO, the Head of Actuarial Function, the Head of Reinsurance and other business representative. The Committee mainly analyses and monitors the insurance STEC/SCR risk profile, its components and the related changes towards risk appetite limits defined; validates all launches or portfolio reviews of products or lines of businesses: analyses the results of the second opinion provided by Risk Management on technical reserves.
     The organisation and the main assignments of the Insurance Risk Committee are described in the Risk Management Policy.
   - For Financial risks:
     - The **Asset & Liability Management Committee** is primarily responsible for the management of Assets & Liabilities. It specifically includes members of the Executive Committee (the CEO and the CFO), the CRO and the Chief Investment Officer (CIO). The Committee approves the strategic asset allocations and the interest-rate hedging programmes. It delegates the determination of the level of tolerance to financial risk and the monitoring of compliance with the related limits to the Investment Committee,

as part of the Risk Appetite process. This committee determines the ALM policies and ensures that the Company exposures are within the risks limits defined.

The organisation and main assignments of the ALM Committee are described in the Risk Management Policy.

- The **Investment Committee** defines the implementation of investment strategy, steers tactical asset allocation, evaluates new investment opportunities and monitors the Company's investment performance. It includes the CFO, the CRO, AXA France CIO and AXA France Financial Risk Manager.

  The Investment Committee approves the tactical aspects of investment decisions. It manages the financial Risk Appetite and Investment Approval Processes.
  The organisation and the main assignments of the Investment Committee are described in the Financial Risk Management Policy.

- For Operational and Reputation risks: The **Operational Risk & Compliance Committee**, chaired by the CRO, is responsible of reviewing the risk assessments performed by the various 2nd line of defence functions, validate mitigation action plans, validate the policies related to such functions and review reputation and emerging risks. The members of the Operational Risk & Compliance Committee are some members of the Executive Committee, the CRO, the Head of Legal & Compliance, and several other business areas.

The Risk Management function at Group level is also reinforced by AXA Global P&C, which advise and support local entities in their reinsurance strategy (Property & Casualty), and centralize the Group's purchasing of reinsurance.

/ AXA Group Internal model

AXA has developed a robust economic capital model since 2007. This model has been used since 2009 in its Risk Management system and decision making processes. AXA's main goal of using an internal model as opposed to the standard formula is to better reflect the company's risk profile in its Solvency Capital Requirement. This is reflected through several objectives:

- Taking into account local specificities – The Group is a global company, and caters to a wide range of insurance markets with a variety of products offered that target distinct demographics and with differing risk exposures. It is therefore appropriate, to the extent possible, to calibrate stresses specific for these risk profiles and to allow for the benefits of diversification of risks which arise as a result of being spread over these markets;

- Addressing shortcomings of the standard formula – Based on its expertise, the Group can improve on the approach of the standard formula, which is naturally constrained by its general scope, and have models more appropriate to the scope of the Group;

- Allowing for better evolution of the model over time – As the Group experience increases, business expands to new markets and product innovations create different risks to consider, the flexibility of an internal model allows the specificities of these developments to be reflected.

Internal model governance

Group provides guidance on internal model design and operational processes that are defined locally.

In AXA Corporate Solutions, a similar governance to the Group one on the Internal Model has been defined and implemented**.** The governance bodies are the following ones:

- The Board of Directors and its Audit Committee
- The Risk Committee

The internal model is reviewed, challenged and approved on an on-going basis by the Risk Committee, co-chaired by the CEO and the CRO. The Risk Committee is supported by assumptions committees, technical working groups, the Investment Committee and the Operational risks and Compliance Committee, which review the overall features of the internal model and allow for

presenting conclusions on the overall Company risk profile and related mitigation actions to the Risk Committee.
The Risk Committee also reviews internal model validation and model changes processes, based on existing policies, and the conclusions of the regular validation activities.

Internal model validation

The Group has implemented and documented an overall regular validation process of its Internal Model to monitor its performance and continued adequacy. This process and associated governance are documented in the Group Validation policy, endorsed by the Management Committee.

The Group Validation Policy is complemented by AXA Corporate Solutions Validation Policy which specifies the local validation activities and responsibilities.

AXA Corporate Solutions' Internal Validation Policy is endorsed by the Risk Committee.

Validation is processed to all parts of the Internal Model. Hence, it does not only apply to the quantitative aspects of the model (input data, theory & methodology, parameters & assumptions, data, results) but encompasses the qualitative aspects of the model: expert judgment, documentation, model governance, use test, systems/IT.

Risk management performs regular integrated validation activities, described in the Internal Model Validation Policy, mostly organized around:

- validation of the model structure, modelling choices, parameters and assumptions; and
- validation of the internal capital model calculation and results

These tasks are performed mostly within the Risk Management department in charge of the model, through controls and validation activities using validation tools as sensitivity tests, back testing, scenario testing, and stability analysis and any other relevant activity. A four eyes principle is applied for these validation activities with the Technical Department.

These validation procedures are complemented by independent challenge and validation of assumptions, key parameters and results through committees (such as assumptions committees, calibration committees, clearance committees) providing the adequate level of expertise and seniority.

In particular, Group risk management teams provide to AXA Corporate Solutions independent challenge of the local model choices, local parameters, assumptions or calibration as well as local results.

Apart from this line-integrated validation, sanctioned by CRO review and sign-off of numbers, a comprehensive independent review process has been defined and implemented to provide adequate confidence to AXA management and Board of Directors on the fit for purpose quality of the model and its outputs.

The independent reviews are performed by two internal teams and by external auditors:

- IFC team responsible for assessing the effectiveness of internal control framework over Solvency II, on the basis of the testing of processes and controls over the AFR and SCR, at least annually;
- Internal Model Review (IMR) team, a Group team responsible for the in-depth actuarial review of the model under local teams responsibility, the conception and methodology when locally developed, and the local implementation of the Group principles when relevant. IMR controls are performed on a three-year rolling basis, independently from closing agenda.

Both IMR and IFC are fully independent from the development, the governance and the processing of the internal model. At the end of the annual validation process, the Board of Directors is provided with a report summarizing the conclusions of the internal review by Risk Management and the conclusion of the independent review by IMR and IFC as well as a review by an independent third party.

Material changes to the internal model

Several model changes have been implemented at AXA Group level but none of these changes has been applied at AXA Corporate Solutions level in 2016.

The most relevant model change with respect to the Company business is related to the internal rating on captives' criterions and is still under review.

/ Own Risk and Solvency Assessment

The Own Risk & Solvency Assessment (ORSA) encompasses processes to identify, assess, monitor, manage and report the short to medium term risks of AXA Corporate Solutions and to ensure the level of own funds adequacy with AXA Corporate Solutions solvency targets, taking into account the risk profile, approved risk tolerance limits and business strategy. As an important component of the risk management system, it is intended to give a comprehensive and complete vision of the risks embedded in the businesses of AXA Corporate Solutions.

ORSA mainly encompasses risk management and financial activities, which are organized around the following processes:

- SCR and AFR quarterly calculation,
- Liquidity risk reporting,
- Strategic planning and financial projections,
- Risk appetite process,
- Stress and scenario testing analysis and monitoring (Transversal stress scenario and Reverse stress test)
- Reputation and strategic risk assessment and review.

The Group has established a policy on the Own Risk and Solvency Assessment (ORSA) to set and describe the common framework and rules to consistently run and report on the ORSA across the Group.

The Chief Risk Officer of AXA Corporate Solutions is responsible for developing the ORSA Policy, implementing ORSA process and coordinating Company's ORSA reporting.

Executive Management approves the policy, ensures that procedures are in place to implement and monitor the ORSA process and approves the ORSA report.

Board of Directors is presented annually with the results and conclusions of the ORSA for approval.

Board of Directors

ORSA is a top-down process reviewed by the Board of Directors. The AXA Corporate Solutions ORSA report is presented to the Risk Committee and the Audit Committee to prepare the approval by the Board of Directors. The Board of Directors grants the Risk Management team the authorization to file the ORSA report to the supervisor, ACPR.

This review encompasses Solvency II coverage ratio results at end of year and targets, risk and solvency management internal best practices and conclusions on management actions for material risks assessed out of the economic capital requirement.

The risk appetite framework developed by the Management is reviewed by the Risk Committee, the Audit Committee and endorsed by the Board of Directors.

Executive Committee – Risk Committee

The Risk Committee, which members are the Executive Committee members, the CRO and Head of Actuarial Function has ownership of the ORSA process and validates the ORSA conclusive report. The Risk Committee is also involved in the validation of some inputs (e.g. strategic plan hypotheses, risk appetite and tolerance, risk grid, reputation risks assessment).

Based on previous review of AXA Corporate Solutions ORSA report by all key contributors of the ORSA process defined, the Risk Committee is responsible for reviewing qualitative and quantitative ORSA results and conclusions.

Beyond the annual ORSA report, a bi-annually assessment is performed to update the risk profile and adapt management actions accordingly. This information is reported to the Risk Committee.

The ORSA report provides assessment on:

a) The overall solvency needs through the assessment using the internal model of economic capital for quantifiable risks considering risk mitigation actions implemented in current economic context, in light of an approved business strategy and within approved risk appetite limits. Stress scenario analyses are performed to ensure adequacy of the economic capital assessed. This is supported by enterprise risk management including the identification and monitoring of non-quantifiable risks.
b) The compliance, on a continuous basis, with the regulatory capital requirements, through the assessment of the ability to meet capital requirements over the strategic plan horizon, both for the initial base case and for two additional scenarios.
c) The extent to which the risk profile of AXA Corporate Solutions deviates from the assumptions underlying the Solvency Capital Requirement calculated with the internal model. Extensive validation tests are performed to assess the relevance of the internal model and its assumptions for AXA Group including stress and scenario testing. Any limitation of the internal model or evolution plan resulting from the validation activities is presented. Also, the extensive use of the internal model outputs for key decision making processes provides a feedback loop for improving the modelling according to the evolution of the risk profile.

B4 – Internal control system

/Internal control objectives

AXA Corporate Solutions is engaged in the financial protection on a global scale. As such, it is exposed to a very wide variety of risks – insurance risks, financial risks, operational risks and other types of risks.

In order to manage these risks, AXA Corporate Solutions has put in place a comprehensive system of internal controls designed to ensure that executives are informed of significant risks on a timely and continuing basis, have the necessary information and tools to appropriately analyse and manage these risks, and that Company's and Group's financial statements and other market disclosures are timely and accurate.

These mechanisms and procedures principally include:

- the Company's corporate governance structures which are designed to ensure appropriate supervision and management of AXA Corporate Solutions' business as well as clear allocation of roles and responsibilities at the highest level;
- management structures and control mechanisms designed to ensure that AXA Corporate Solutions' executives have a clear view of the principal risks the Company faces and the tools necessary to analyse and manage these risks;
- Internal Control Over Financial Reporting (ICOFR), designed to ensure the accuracy, completeness and timeliness of the Company's and Group's consolidated financial statements; and
- disclosure controls and procedures designed to ensure that executives have the necessary information to make fully informed disclosure decisions on a timely basis and that the Company's disclosures on material information (both financial and non-financial) to the markets are timely, accurate and complete.

These mechanisms and procedures, taken together, constitute a comprehensive control environment that executives believe is appropriate and well adapted to AXA Corporate Solutions' business.

The internal control framework has been adapted at AXA Corporate Solutions' level through similar mechanisms and procedures to the Group ones, to provide reasonable assurance that the Company's operating efficiency, financial reporting and regulatory compliance goals will be achieved.

The internal control process at AXA Corporate Solutions primarily relies on:

- The entity's general operating and organisational principles;
- Controls implemented within each operating, functional and financial department, which contribute to the effectiveness of the permanent control system;
- Control functions that enable an independent and objective assessment of the Company's security and operating quality to be provided to management.

/Corporate governance structures

AXA has taken steps designed to harmonize corporate governance standards throughout the Group. This effort is focused, among other matters, on standardizing, to the extent practicable, principles relating to various corporate governance matters including board composition and size, directors' independence criteria, board committees and their roles, and directors' fees.

The Group Governance Standards are part of a larger set of Group standards that apply to all AXA Group companies (the Group Standards Handbook). These Group Standards are designed to ensure that all the companies of the Group have effective Risk Management processes and appropriate governance structures, and meet the Group's minimum control requirements. The Chief Executive Officer is therefore required to annually certify that AXA Corporate Solutions is in compliance with the Group Standards.

Based on AXA Group corporate governance standards, AXA Corporate Solutions general organisational principles contributing to the management of the internal control system are primarily based on:

- An organisational structure that respects the segregation of duties;
- AXA Corporate Solutions' compliance with AXA Group standards, included in the Group Standards Handbook (GSH) and in the Professional Family Policy Manuals (PFPMs). These standards are applied via:
  - the risk management policies, which specify the procedures to be implemented in order to identify, assess, monitor and manage all the risks included in AXA Corporate Solutions' risk profile (financial risk, insurance risk, operational risk, liquidity risk, emerging risks and reputational risk);
  - the compliance policy, which specifies the role and assignments of the Compliance Function
  - the internal IFC program, which specifies the internal control system for the financial reporting process;
- Familiarity with the processes in place through an on-going improvement of operating processes;
- And the introduction of preventive measures such as the promotion of corporate ethics, which aims to encourage all employees to abide by the principles of professional ethics, integrity and fairness.

Board of Directors

The Board of Directors determines the Company's business strategy and oversees its implementation. The Board considers all material questions related to the proper functioning of the Company and takes decisions it deems appropriate for the Company's business. The Board of Directors also undertakes all controls and verifications as it deems appropriate from time to time.

The Board of Directors is responsible of the internal control framework, ensuring their implementation, maintenance and continuous improvements in order to achieve the business objectives, managing the risks that can affect the key business processes.

The Board of Directors has established two Committees to assist it in fulfilling its responsibilities: an Audit Committee and a Compensation Committee. These Committees exercise their activities under the responsibility of the Board of Directors and report regularly to the Board of Directors on matters within the scope of their respective responsibilities.

Audit Committee

All the Board Committees constitute an important part of AXA Corporate Solutions' overall internal control environment and plays a particularly important role in reviewing internal control and risk related issues.

The audit committee has a critical role in reviewing financial results and other financial information prepared by the management, financial reporting and control processes, critical accounting policies, particular accounting issues, key risks and systems of internal control, fraud and similar issues.

The scope of the Audit Committee's responsibilities is set forth in the Audit Committee Terms of Reference, approved by the Board of Directors.

/ Management structures and controls

An internal control framework with three lines of defence has been designed and the boundaries between them are clearly defined. The objective is to ensure that this framework is in place to systematically identify measure, manage, and control all the risks that AXA Corporate Solutions may face.

The control framework with the three lines of defence is described below the Internal Audit (level 3) being the line that provides independent assurance on the effectiveness of the system of internal control.

Executive Management oversees implementation of the internal control system and the existence and appropriateness of internal control and Risk Management monitoring systems within AXA Corporate Solutions.

There are three levels of responsibility in the internal control framework:

- 1st Line of Defence owns and manages the risks. Line Management and staff are responsible for day to day risk-taking management and decision-making and have primary responsibility for establishing and maintaining an effective control environment. The 1st line of defence is the one responsible for identifying and managing the risks inherent in the products, services and activities.
  Management, as the primary risk owner and first line of defence, should design, implement, maintain, monitor, evaluate, and report on the organization's internal control system in accordance with risk strategy and policies on internal control as approved by the governing body.
  Each person within the organization – management and other employees alike – should be held accountable for proper understanding and execution of risk management and internal control within his or her span of authority.

- 2nd Line of Defence: Risk Management, Internal Financial Control (IFC), Legal, Compliance, Human Resources, Security.., are set as functions of second level control, independent of business.
  The 2nd line of defence is responsible for developing, facilitating and monitoring effective risks control framework and strategies.

- 3rd Line of Defence is providing independent assurance on the effectiveness of the internal control system. Internal Audit exists to help the Board and Executive Management protect the assets, reputation and sustainability of the organization.

In order to manage the various risks to which it is exposed, AXA Corporate Solutions has a management structure and control mechanisms designed to ensure that executives have a clear and timely view of the principal risks the Company faces and the tools necessary to analyse and manage these risks.

These management structures and controls include the following:

A chief Executive Officer and other persons who effectively run the Company

The General Management of the Company is the responsibility of the Chief Executive Officer, under the control of the Board of Directors and subject to the guidelines approved by the Board.

The Chief Executive Officer is appointed by the Board of Directors and is vested with full powers to act on behalf of the Company in all circumstances. He exercises his powers within the limits of the corporate purpose and subject to the powers that the law expressly assigns to the General Meeting and the Board of Directors.

Within AXA Corporate Solutions, the persons who effectively run the Company are the Chief Executive Officer, the Global Chief Underwriting Officer, and the Chief Financial Officer.

Executive Committee

On December 31, 2016, AXA Corporate Solutions had a 12-member Executive Committee composed of the Chief Executive Officer, the Chief Financial Officer, the Global Chief Operating Officer, the Human Resource Director, the Global Chief Underwriting Officer, the Deputy Global Chief Underwriting Officer, the Global Chief Commercial Officer, the Chief Transformation Officer, the Global Chief Claims Officer and CEOs of Mature Countries such as UK, Germany and Italy.

This committee assists the Board in the operational management of the company. It plays an important role in managing the operating businesses, considers strategic initiatives, addresses compliance and legal topics and other subjects that seem appropriate to the Board from time to time. The Executive Committee usually meets every 6/8 weeks.

During the fourth quarter, AXA Corporate Solutions presents its strategic plan to the Group. The strategic plan is reviewed by the Executive Committee before being presented to the Board of Directors.

Departments focused principally on internal control and risk related matters

Such departments are responsible for managing and/or monitoring some aspects of internal control and/or risk related matters. However, they are primarily focused on these matters as part of their principal day-to-day management responsibilities:

RISK MANAGEMENT

The role of Risk Management (RM) is to identify, quantify and manage the main risks to which the Company is exposed. To this end, Group Risk Management (GRM) develops and deploys a number of risk measurements, monitoring instruments and methods, including a standardized methodology and framework for stochastic modelling (through AXA's Solvency II internal model) including the ORSA (Own Risk & Solvency Assessment) required under Solvency II. Such framework is fully deployed within AXA Corporate Solutions by Risk Management department.

The Risk Management activities aim to create and maintain an appropriate risk management system in order to identify, assess, monitor and mitigate the most significant risks to which AXA Corporate Solutions' branches and subsidiaries are exposed, and which could jeopardise its solvency, in accordance with the AXA Group's "Risk Management" standards.

To that end, all the Company's operating technical and cross-divisional functions contribute to this system depending on their expertise and business sector.

When appropriate, this work leads to the implementation of decisions that affect the Company's risk profile, helping to monitor the solvency position and manage the volatility of AXA's earnings through improved understanding of the risks taken and optimization of capital allocation.

The types of risks covered include risks coming from the invested assets, from the insurance liabilities, asset/liability mismatch risks and operational risks. Under the Solvency II regulation, AXA Corporate Solutions is required to produce an ORSA Report which is filed with the regulator. GRM has defined and implemented a set of policies and procedures to ensure that all risks embedded in the business processes are appropriately reviewed on a yearly basis.

The AXA Corporate Solutions ORSA Report is reviewed by the Risk Committee and then presented to the Audit Committee and the Board of Directors which approves the conclusions of the Company ORSA Report and authorizes the filing of the ORSA Report to the ACPR.

FINANCE

The Finance Division complies with the principle of segregation of duties, while encouraging synergies between:

- its internal departments (Accounting, Tax, Reinsurance Operations, Financial Planning, Expense controlling, etc.);

- and the departments of other AXA entities (financial accounting, which is performed by the Centre of Expertise Team, and the AXA France Investment, Treasury, Suppliers' accounting and Corporate Finance Department).

The individuals or accounting teams responsible for the accounting process at the AXA Corporate Solutions branches (Spain, Italy, UK, Germany, Switzerland, Australia, Hong Kong, Austria and Singapore) report to the branch CEOs or financial directors.

The Finance Division's role of AXA Corporate Solutions encompasses the following principal activities:

- development of both accounting and reporting standards;
- managing instructions to process with the branches and the subsidiaries for the various exercises;
- managing the Group's financial consolidation and reporting systems;
- producing the statutory accounts and consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and analysing key performance indicators;
- producing the economic balance sheet;
- managing the Internal Financial Control (IFC) program;
- developing and using management control tools;
- budget and strategic planning
- monitoring of business performance and target
- coordinating the production of reports filed with the ACPR related to Solvency;
- liaising with the Statutory Auditors and contributing to Audit Committee meetings as required; and
- fostering convergence of accounting and financial reporting processes, systems and organizations for insurance activities in Europe.

These missions are performed for regular closings, forecasts and strategic plan exercises.

Based on group standards, the Finance Division has defined and implemented a set of policies and procedures to ensure that the consolidation process leading to the consolidated financial statements is timely and accurate. This consolidation process is based on the following:

Definition of standards and maintenance of an information system

Group accounting standards, which are consistent with accounting and regulatory principles, are set forth in the "AXA Group Accounting Manual" and updated regularly by Group PBRC (Central Planning Budgeting and Reporting) experts. These guidelines are submitted to AXA's Statutory Auditors for review before being made available to AXA subsidiaries.

The information system is based on "Magnitude", a consolidation tool managed and updated by a dedicated team. This system is also used to deliver management reporting information used to produce an economic perspective on the consolidated financial statements and the economic balance sheet. The process through which this management reporting information and the economic balance sheet are produced and validated is the same as the one used to prepare consolidated financial information.

Operating control mechanisms

At entity level, AXA Corporate Solutions is responsible for entering and controlling accounting and financial data that comply with the "AXA Group Accounting Manual" and reflect consolidation rules under IFRS accounting standards. In this respect, the Chief Financial Officer of the Company signs off on the accuracy of its respective contribution to the consolidated figures and their compliance with both the Group accounting manual and instructions in all frameworks produced (IFRS, actuarial indicators and economic balance sheet). This sign-off process is reviewed within the internal financial control program.

At PBRC level, accounting, financial and economic information reported by entities are analysed by teams that liaise with subsidiaries. In particular, these teams analyse the compliance with the "AXA Group Accounting Manual" and Group actuarial standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

AXA Corporate Solutions' Internal Control Over Financial Reporting (ICOFR) is a process designed under the supervision of the Chief Financial Officer (CFO) to provide reasonable regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements.

AXA Corporate Solutions' ICOFR includes policies and procedures that provide reasonable assurance that:

- the maintenance of records accurately and fairly reflects the transactions and disposition of Group assets;
- the transactions are recorded as necessary to permit the preparation of financial statements in accordance with the applicable generally accepted accounting principles;
- the receipts and expenditures are being made in accordance with the authorization processes in effect.

Based on Group guidance, AXA Corporate Solutions has implemented a program, managed by a dedicated team within the Finance Department, entitled Internal Financial Control (IFC), designed to ensure that AXA Corporate Solution's Chief Executive Officer has a reasonable basis to conclude that AXA Corporate Solutions' ICOFR is effective as of the end of each year.

The IFC program is based on AXA Group's IFC Standard, which is an internal control and governance standard. AXA Group's IFC Standard is based on the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). It is designed to define the IFC scope and governance, ensure consistency and quality in AXA Corporate Solutions' and AXA Group financial reporting, and provide an overall framework for the annual IFC program.

In accordance with AXA Group's IFC Standard, AXA Corporate Solutions (i) documents significant processes and controls, as well as the rationale of how the associated risk of material misstatement due to error or fraud can be reduced to an acceptable level and (ii) tests the design and operational effectiveness of key controls based on the test plans.

These tests form part of a continuous improvement process in the internal control exercised over financial reporting. Areas for improvement are identified by specific test plans designed by management with insight into the risks covered. These processes then help remediate the identified potential control deficiencies and maintain high standards of internal control within AXA Corporate Solutions.

At each year-end, AXA Corporate Solutions is required to perform an evaluation of its ICOFR as part of an internal certification process. This process involves formal sign-off by the process owners and culminates with a formal management report from the CFO sent to Group PBRC stating their conclusion as to the effectiveness of the Company's ICOFR.

LEGAL AND COMPLIANCE

The Legal and Compliance Department is responsible for identifying and managing the significant legal, regulatory and compliance risks to which AXA Corporate Solutions is exposed. Covering compliance, legal and data privacy matters, it provides expertise and advice on all significant legal matters at AXA Corporate Solutions and supports the management and the various operational teams with respect to significant litigation, regulatory, and compliance matters. It provides support and expertise to various departments of the Company to assess situations, analyse legal risk and contribute to design of solutions that mitigate those risks.

This department reports to the Company's CFO and is composed of a legal team and a compliance team. Both work very closely.

Compliance function

Within the Legal and Compliance Department, the Compliance function is responsible for advising the entity's management and board on compliance with applicable laws, regulations and administrative provisions adopted in accordance with the Solvency II Directive and other local laws and regulations, and on the impact of changes in the legal and regulatory environment applicable to AXA Corporate Solutions operations. The function provides expertise, advice and support to various departments of the Company to assess situations and compliance matters, analyse compliance risk and contribute to design solutions to mitigate those risks to which AXA Corporate Solutions is exposed.

The Chief Compliance Officer reports to the General Counsel who is accountable for the Compliance key function. The Chief Compliance Officer of AXA Corporate Solutions has (as of December 2016) a team of 2 dedicated persons and also can count on the support of other members of the International Legal Department to help on compliance matters. In branches and subsidiaries, there are local compliance correspondents who are involved and relay compliance matters having a dual reporting line, one to the local management and one to the General Counsel of AXA Corporate Solutions. Also, within the Legal and Compliance Department, the Data Privacy Officer (who also reports to the General Counsel) focuses on data privacy matters.

The compliance function manages a wide range of compliance related matters including (i) regular reporting on significant compliance and regulatory matters to senior management of AXA Corporate Solutions or to Group (ii) financial crime matters (which include anti-corruption, anti-bribery, anti-money laundering programs as well as international sanctions/embargo compliance), (iii) data privacy, (iv) employee Compliance & Ethics Guide, (v) the monitoring of compliance and regulatory risks. The compliance function also oversees AXA Corporate Solutions branches and subsidiaries on these subjects (if applicable) to ensure they contribute to the reporting, assessments and mappings required and to ensure sufficient consistency in the implementation of the compliance framework globally at AXA Corporate Solutions. The Compliance function of AXA Corporate Solutions speaks on a regular basis with the local compliance correspondents, through different means to favour exchanges and promote awareness with AXA Corporate Solutions branches and subsidiaries (such as the regular bi-monthly compliance calls, the international compliance day or the local compliance visits carried out occasionally by members of the central Legal and Compliance Department).

The compliance function undertakes an update of the annual Compliance Risk Assessment to identify/update the most significant compliance risks to which the business is exposed. Based on this assessment as well as other aspects (such as the Group requirements or the recommendations from the internal audit team), a list of key objectives is developed for the current or following year.

The compliance activities within AXA Corporate Solutions are articulated around a number of policies and procedures which set the minimum requirements expected to be covered. The Compliance Group Standards Handbook (GSH) and the Compliance Professional Family Policy Manual (PFPM) contain standards and policies on significant risks affecting the compliance activities as well as the high level control and monitoring principles to which AXA Corporate Solutions must adhere. Both the standards and policies contained in the GSH and PFPM (e.g. Compliance Governance, Sanctions, Anti-Bribery, Data Privacy…) are mandatory. In addition, the compliance function has adapted the Group requirements and developed local policies to align with the relevant laws and regulations in the jurisdiction in which AXA Corporate Solutions operates and conducts business. These local policies are reviewed regularly by the Legal and Compliance Department with the key support of the local compliance correspondents.

On a regular basis and not less frequently than twice a year, the compliance function reports directly to the Operational Risk and Compliance Committee, to the Audit Committee or to the Executive Committee on significant compliance matters. These include major regulatory changes that have compliance implications, results of the Compliance Risk Assessment, the annual action plan, outstanding Compliance Support and Development Program (CSDP) remediation plans and any other significant issues that require escalation.

INTERNAL AUDIT

See section B5.

Committees focused principally on internal control and risk related matters

RISK COMMITTEE

In 2009, a Risk Committee was established to ensure that the Company has: (i) a comprehensive view of the various risks facing it on a continuing basis, (ii) a dedicated forum for reviewing, analysing and prioritizing these risks, (iii) a defined action plan to manage these risks and (iv) an optimal coordination and communication between the different departments managing these risks.

The Risk Committee is co-chaired by the CEO and CRO. The Risk Committee is comprised of the members of the Executive Committee, the Chief Risk Officer and the Head of Actuarial Function, and meets on a quarterly basis.

Its specific purpose is to:

- determine the “risk appetite” system, including the limits for financial and insurance risk, and the operational risk tolerance limit that will be presented to the Board of Directors;
- ensure that exposure to risk is aligned with these limits and determine any mitigation measures to be implemented;
- check the consistency of the Company’s risk profile, obtained via the adoption of a risk quantification model, with its operations, in order to facilitate the Board of Directors’ task of approving the instruments used;
- monitor the changes to reputational, strategic, emerging and compliance risk;
- approve the launch of major new products;
- approve the reinsurance plans;
- guarantee the existence of an effective second line of defence.

OPERATIONAL RISK AND COMPLIANCE COMMITTEE

The Operational Risk and Compliance Committee (ORCC) is chaired by the Chief Risk Officer. It is comprised of the following departments, each of which responsible for presenting to the Committee the significant risks within its scope: Risk Management, Finance, Audit, Legal & Compliance, Information Technology (IT) (including Information Security), Operations (including Fraud and Outsourcing), Human Resources and Communication Department. Additional guests might be invited to participate depending on the topics.

The ORCC is mainly responsible for monitoring operational risks, compliance risks, regulatory risks, fraud risks, data privacy risk, country risks and reputation risks. The ORCC provides guidelines and challenges the risk assessments performed by control functions and proposed action plan.

It also approves the operational risk profile of the Company. It performs a review of any internal or external fraud, customer disputes and complaints, progress towards implementing recommendations arising from independent reviews (ACPR, Internal Audit, IFC, etc.), progress towards implementing Group Standards, and anomalies that could impair the compliance of AXA Corporate Solutions’ operations.

This ORCC Committee reports to the Risk Committee.

/ Disclosure controls and procedures

AXA SA has implemented a formal internal review and sign-off process pursuant to which all Management Committee members, CFOs and certain other senior executives are required to certify various matters covered in AXA's Annual Report.

This process is based on the following four pillars:

1. CFO Sign-Off Certificates required to be submitted by all local CFOs to Group PBRC, together with the required subsidiary financial reporting & consolidation information;
2. IFC Management reports are required to be submitted by the Chief Financial Officer or another senior executive of every in-scope entity, as part of the IFC program dedicated to ICOFR;
3. Disclosure Controls & Procedures Certificates required to be submitted by AXA's Management Committee members, regional CFOs and certain other senior executives (including heads of General Management Services Departments) pursuant to which each of these executives is required to review the Group's Annual Report and formally certify (i) the accuracy and completeness of the information in the Annual Report with respect to the companies under his/her responsibility, and (ii) the effectiveness of disclosure controls and procedures and ICOFR at companies under his/her responsibility (with specific disclosure of any significant deficiencies or material weaknesses). In addition, as part of this "sub-certification" process, these executives are required to review and comment on a number of transversal disclosures in the Annual Report relating to risk and other matters; and
4. CFO Sign-Off on notes to the Consolidated Financial Statements: PBRC provided regional CFOs with the contribution of the companies under their responsibility to the consolidated financial statements in order to facilitate their certification on the accuracy and completeness of the information in the Annual Report of the Group.

In order to fulfil such requirements, a sign-off process has been defined under the responsibility of AXA Corporate Solutions' CFO throughout the Company including its branches, involving all contributors to the financial statements in order to finalize its own sign-off to the Group.

The Accounting, Tax and Reinsurance Department within the Finance Division are responsible for preparing the financial statements. This department pools the information required to prepare the financial statements, by issuing instructions at each period-end date for the teams that contribute the period-end statements in France and abroad. These instructions ensure consistency of financial reporting; the correct application of these instructions is formally set down by a sign-off letter from each entity. The Chief Financial Officer uses the sign-off letters from the various contributors to the financial statements to produce the sign-off letter related to AXA Corporate Solutions' consolidated financial statements for the attention of the AXA Group.

Conclusion

The AXA Group and AXA Corporate Solutions believe that they have established a comprehensive system of internal control procedures and mechanisms that the management believes appropriate and well adapted to their business and the global scale of their operations.

However, all internal control systems, no matter how well designed, have inherent limitations and cannot provide absolute certainty or guarantee against materialization of risks and control failures. Even systems determined to be effective by the Management may not prevent or detect all human errors, all system malfunctions, all fraud or all misstatements and can provide only reasonable assurance. In addition, effective controls may become inadequate over time because of changes in conditions, deterioration of compliance with procedures or other factors.

B5 – Internal audit function

/ Internal audit function

AXA Corporate Solutions Internal Audit exists to help the Board and Executive Management protect the assets, reputation and sustainability of the organization by providing an independent and objective assurance activity designed to add value and improve the organization's operations. It helps the organisation meet its objectives by bringing a systematic, disciplined approach to challenge Executive Management and evaluate the effectiveness of risk management, control and governance processes.

The AXA Corporate Solutions internal audit function has an audit charter to document its mission, independence, scope, accountabilities, responsibilities, authorities and standards. The charter is approved by the Audit Committee.

The Head of the AXA Corporate Solutions Internal Audit function has a direct and unfettered reporting line directly to her respective Audit Committee Chair.

The Head of the AXA Corporate Solutions Internal Audit functionally reports through to the Global Head of Audit who reports to the Group Audit Committee Chair.

AXA Corporate Solutions Internal Audit annually sets up an internal audit plan of work, based on an assessment of both the inherent risk and the adequacy of controls. Its performance is formally monitored and reported to the Audit Committee.

Over a five year period, all applicable Common Audit Universe categories for each entity are expected to be audited.

Any exceptions identified are notified to the Audit Committee for ratification.

A report is issued at the conclusion of each audit assignment to the relevant senior management. The results of the audits and resolution status of internal audit issues are presented to the Audit Committee and Executive Management on a regular basis.

B6 – Actuarial function

/ Actuarial function

To comply with Solvency II regulation, an effective Actuarial Function has been set up with the specific role of performing the following tasks:

a) coordinate the calculation of technical provisions;
b) ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
c) assess the sufficiency and quality of the data used in the calculation of technical provisions;
d) compare best estimates against experience;
e) inform the management and the Board of the reliability and adequacy of the calculation of technical provisions;
f) oversee the calculation of technical provisions;
g) express an opinion on the overall underwriting policy;
h) express an opinion on the adequacy of reinsurance arrangements; and
i) contribute to the effective implementation of the risk-management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements.

AXA Corporate Solutions' Head of Actuarial Function, who is also Head of AXA Corporate Solutions Actuarial Division, directly reports to AXA Corporate Solutions Chief Financial Officer (CFO). In addition, as defined in AXA Group Actuarial Framework, his appointment is subject to Group Head of Actuarial Function agreement to whom he reports any major problem related to actuarial function responsibilities.

AXA Corporate Solutions' Head of Actuarial Function:

- is a permanent member of the Risk Committee and presents the actuarial function report to this Committee
- is an occasional member of the Audit Committee, through which he informs the Board about his conclusions and potential concerns on the tasks undertaken by the actuarial function;

AXA Corporate Solutions' Head of Actuarial Function prepares the actuarial function report to inform the Executive Management and the Board on its conclusions about the reliability and adequacy of the calculation of technical provisions. This report also provides an overview of the activities undertaken by the actuarial function in each of its areas of responsibility during the reporting period, with the exception of the contribution to the implementation of the risk-management system which is described in separate documents. This actuarial function report is also communicated to the Group Actuarial Function Holder.

B7 – Outsourcing

/ Outsourcing arrangements

Outsourcing refers to delegation to a third party of the execution of certain ongoing activities as part of the service agreement. The AXA outsourcing policy describes the mandatory Group requirements to comply with Solvency II directives and requires that material relationships with third party providers are subjected to appropriate due diligence, approval and on-going monitoring. The objective of the policy is to ensure that “AXA does not abdicate responsibility” for the functions delegated to an AXA internal subsidiary or external third party and that risks inherent in the outsourcing of material relationships (i.e. those deemed critical to the principal activities to the business) are identified, monitored and appropriately mitigated.

AXA Corporate Solutions has entered into contractual outsourcing arrangements with third-party service providers for services required in connection with the day-to-day operation of businesses. Thorough due diligences are conducted regularly to ensure the Company maintains full responsibility over the outsourced functions or activities.

Based on a self-assessment conducted as of year-end 2016, AXA Corporate Solutions’ most significant outsourced activities are operated within the AXA Group and relate to: (i) Data centre services, (ii) IT Operation and Maintenance, (iii) Risk Engineering activities and (iv) investment management.

The main providers of outsourced operational functions or activities are mainly located in France, Italy, Brazil, Australia and India.

B8 – Any other information

Not applicable

C RISK PROFILE

C.1 Underwriting risk

Insurance risk exposure

Risk control and risk mitigation

C.2 Market risk

Market risk exposure

Risk control and risk mitigation

Governance of Investment strategy and asset & liability management (ALM)

C.3 Credit risk

Credit risk exposure

Risk control and risk mitigation

C.4 Liquidity risk

Liquidity position and risk management framework

C.5 Operational risk

General principles

C.6 Other material risks

Strategic risk

Reputation risk

Emerging risks

C.7 Any other information

/ Solvency II capital position and internal model

SOLVENCY II CAPITAL REQUIREMENT

The Solvency II regime introduces a risk based capital requirement which can be assessed either using an internal model or a standard formula.

The AXA Group economic capital model (Internal Model) aims to cover all the material and quantifiable risks the entity is exposed to. The Internal Model offers a concrete and powerful tool to control and measure exposure to most risks, in line with the Solvency II framework.

The Internal Model is based on a common definition of risks used consistently throughout the Group. It aims to ensure that the Company risk mapping is comprehensive and is followed in a consistent way across the Company and that efficient procedures and reporting are in place so that roles and responsibilities are allocated to identify, measure, monitor, manage and report key risks.

The Group risk grid[4] identifies all material risks applicable for the Company's insurance businesses. The Internal Model is intended to capture all material risks to which the Company is exposed from the risk assessment performed at sub-risk level to the overall aggregation of risk categories.

The underlying methodologies used in the economic capital model are regularly reviewed to ensure that they accurately reflect AXA Corporate Solutions' risk profile and new methods are developed and integrated regularly (in accordance with the Internal Model change policy).

The Solvency Capital Requirement, calculated on the basis of the Internal Model, represents the value at risk of Group Available Financial Resources at the 99.5th percentile over a one-year horizon. In other words, the Solvency Capital Requirement is the capital needed to sustain a 1-in-200-year shock. It strives to include all measurable risks (market, credit, insurance and operational) and reflects AXA's unique diversified profile.

In addition to the risks that result in a Solvency Capital Requirement through the Internal Model calculation, the Group also considers liquidity risk, reputation risk, strategic risk, regulatory risks as well as emerging threats.

[4] The Group risk grid identifies all applicable risks for AXA businesses. Risk categories are further split into sub-risks. The risk assessment is performed at the sub-risk level. The risk grid is regularly reviewed and validated at Group Level.

The table below details the Solvency Capital Requirement at AXA Corporate Solutions level and per risk category.

Figure 1- Solvency Capital Requirement for AXA Corporate Solutions on full internal model (QRT TEMPLATE S25.03.21)

Unique number of component (*)	Components Description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
1.	MARKET	433,935,044
2.	CREDIT	308,865,576
3.	LIFE INSURANCE	5,956,938
4.	P&C INSURANCE	949,598,962
5.	OPERATIONAL RISK	90,683,672
6.	TAX ADJUSTMENT	-262,769,466

Calculation of Solvency Capital Requirement

		C0100
Total undiversified components	R0110	1,526,270,726
Diversification	R0060	-439,366,053
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	1,086,904,674
Solvency capital requirement excluding capital add-on	R0200	1,086,904,674
Capital add-ons already set	R0210	0
Solvency capital requirement	R0220	1,086,904,674
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	0
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	-262,769,466
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirement for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0
Net future discretionary benefits	R0460	0

All amounts are in Euro.

AXA Corporate Solutions' target capital and risk sensitivity

Under Solvency II Regulations, AXA Corporate Solutions is required to hold eligible own funds that cover its Solvency Capital Requirement to absorb significant losses and to comply with the Solvency II requirements. AXA Corporate Solutions' Solvency Capital Requirement is calibrated so as to ensure that all quantifiable risks to which AXA Corporate Solutions is exposed are taken into account.[5]
Under normal conditions, AXA Corporate Solutions should maintain its Solvency II ratio above 100%, allowing AXA Corporate Solutions to have sufficient eligible own funds to sustain a 1 in 200 years shock.
In addition, to ensure a comfort level over a 100% Solvency II ratio, AXA Corporate Solutions monitors its ability to absorb possible severe financial or technical shocks. In this context, AXA Corporate Solutions assess the sensitivities of its Solvency II ratio to financial shocks on corporate bond spreads, on interest rates, and on equity (as detailed in the figure below). These sensitivity analyses do not take into account pre-emptive management actions that might be taken by the management to mitigate the effects of the defined shocks, but ensure through the risk appetite framework that local executive management reviews and approves the risk carried by the company, understands the consequences

[5] In order to ensure the robustness of the economic capital model, reverse stress tests are performed at the Company level. Reverse stress scenarios exhibit combinations of Market, Credit, Life, P&C and Operational events (occurring simultaneously) that would lead to a loss amount equal to the Solvency Capital Requirement. These scenarios consist in a back-testing for the correlation coefficients' accuracy. Indeed, performing such scenarios permits highlighting potential cross and non-linearity effects and thus adjusting the correlations to take into account such impacts. It results in conservative correlation coefficients. These stress tests are complemented by Transversal Stress scenarios which bring to light appropriate measures that may be taken in order to mitigate their effects under the stress scenarios including, if relevant, activating the crisis management governance of the Company.

of any adverse development of these risks, and have action plans that can be implemented in case of unfavourable developments.

The severe shock to have material impact on the Solvency II ratio is a 25% fall in equities, lowering the coverage ratio by 7 pts.

Ratio as at FY 2016	**151%**	
	Shock	**Change in ratio**
Equities	-25%	**-7 pts**
Equities	+25%	**+7 pts**
Interest rates down	-50bps	**+2 pts**
Interest rates up	+50bps	**- 1 pt**
Corporate Spread	+75bps	**- 3 pts**

C1. Underwriting risk

AXA Corporate Solutions' overall exposure to underwriting risks is covered by AXA's Solvency Capital Requirement metric, as detailed in the above Section "Solvency II capital position and internal model", and taken into account in AXA's liquidity risk management framework (please refer to Section C4 of this Report). Sensitivity analyses of its Solvency II ratio to material risks are detailed in the above Section "AXA Corporate Solutions' Target Capital and risk sensitivity"

AXA's asset management policies and investment strategy, which covers investments of assets to address underwriting risks, are addressed in the Section "Governance of Investment strategy and asset & liability management (ALM)."

/ Insurance Risk Exposure

AXA Corporate Solutions is primarily responsible for managing its insurance risks linked to underwriting, pricing and reserving. It is also responsible for taking appropriate actions in response to changes in insurance cycles and to the political and economic environments in which it operates.

In the context of the business performed, as described in section A1 (3) (and in the beginning of section C) of this Report, AXA Corporate Solutions is exposed to the following main risks:

- Reserve risk resulting from fluctuations in the timing and amount of claim settlements and relating to the insufficiency of claims reserves, which includes:
    - misestimating claims reserves (average payments), and
    - fluctuation of payments around their statistical average;
- Premium risk resulting from fluctuations in the timing, frequency and severity of insured events, and relating to:
    - unexpired risks on existing contracts (insufficient premium reserves),
    - mispricing of policies to be written (including renewals) during the period, and
- expense payments; Catastrophe risk embedding both natural event disasters such as climatic events (including windstorms, hurricanes, floodor earthquakes), and man-made ones, such as terrorist attacks.

/ Risk Control and Risk Mitigation

Insurance risks for Property & Casualty businesses are covered through 4 major processes, defined at Group level but performed jointly by central and local teams:

- implementing a product approval process, which entails risk controls on new products that complement underwriting rules and product profitability analyses;
- optimizing of reinsurance strategies in order to limit the peak exposures of the Company thereby protecting its solvency by reducing volatility and to mitigate risk within the Company to benefit from diversification;
- reviewing technical reserves including a roll forward analysis;
- monitoring emerging risks to share expertise within the underwriting and risk communities.

PRODUCT APPROVAL

Group Risk Management (GRM) has defined a set of procedures to approve new products launches. These procedures, adapted and implemented locally, foster product innovation across the Group while maintaining risks under control.

This validation framework notably relies on the results of the Solvency Capital Requirement's assessment, based on the AXA Corporate Solutions' Internal Model, to ensure that new products or lines of business undergo a thorough approval process before they are brought to market.

In Property & Casualty, methods are adapted to the underwriting of risks, while maintaining the principle of local decision making based on a documented approval procedure and using the output of the economic capital model. The aim is twofold:

- for pre-launch business, the aim is to ensure that new risks underwritten have been scrutinized before proposing them to customers;
- for post-launch business, appropriate profitability and risk control analyses are performed to check that the business remains in line with the Company's risk framework.

This framework complements underwriting rules and ensures that no risks are taken outside pre-defined tolerance levels and that value is created by adequate risk pricing.

EXPOSURE ANALYSIS

AXA Corporate Solutions reviews regularly its exposure to ensure that the risks underwritten are diversified geographically and by lines of business in order to manage risk concentration, and to verify adequacy of reinsurance.

GRM has developed and deployed common models and metrics to consistently measure risks throughout the Group (in particular via its economic capital framework). These models and metrics are implemented locally. This enables AXA Corporate Solutions to check that its exposure complies with consolidated risk appetite limits along the dimensions of earnings, value, capital and liquidity. These tools also contribute substantially to monitoring the major risks (claims frequency deviation, claims severity, reinsurance, pricing consistency and natural catastrophes).

This framework is included in the governance set out previously for product development control.

Concentration risk studies are developed to ensure no single-peril (i.e. windstorm, earthquake, hurricane or typhoon) affects the company above the tolerance levels set.

REINSURANCE

Together with the business lines, Risk Management contributes to the elaboration of AXA Corporate Solutions reinsurance cover. In alignment with Group Standards, AXA Corporate Solutions reinsurance treaties are placed through AXA Group global business lines, unless a documented approval to place the treaty outside the Group is obtained.

Reinsurance programs are set up as follows:

- risks are modelled through in-depth actuarial analyses conducted on each portfolio and protected with reinsurance cover adequate to the risk appetite limits set at Group and AXA Corporate Solutions level;
- specifically for P&C natural catastrophe modelling, via the Group economic capital model, GRM uses several external models for assessing the risk associated with the main natural perils (storms, floods, earthquake etc.).

TECHNICAL RESERVES

AXA Corporate Solutions specifically monitors its reserve risks. Claims reserves are firstly estimated and booked on a file by file basis by the claims handlers. Additional reserves are also booked by the reserving actuaries using various statistical and actuarial methods. These calculations are initially carried out by the actuarial department in charge, and are then reviewed for a second opinion by the Risk Management team.

Actuaries are in charge of assessing reserves, notably ensuring that:

- A sufficient number of elements have been scrutinized (including contracts, premiums and claims patterns, handling, and reinsurance effects);
- The technical assumptions and actuarial methodologies are in line with professional practices and sensitivity analyses are performed at least for the most significant ones;

- A roll-forward analysis of reserves including Boni-Mali back-testings has been performed, the regulatory and economic context references are taken into account and material deviations are explained;
- The operational losses relating to the reserving process have been adequately quantified;
- The Best Estimate Liabilities have been calculated in accordance with Articles 75 to 86 of the Solvency II Directive and Group guidelines.

As part of the Solvency II framework, the local Actuarial Function Holder (AFH) for AXA Corporate Solutions coordinates the calculation of technical provisions ensuring the appropriateness of the methodologies and underlying models used, and the sufficiency and quality of the data used in the calculation of technical provisions. As part of his annual report, the AFH also gives an opinion on the overall underwriting policy and on the adequacy of reinsurance arrangements.

C2. Market Risk

AXA Corporate Solutions' overall exposure to market risks is covered by AXA's Solvency Capital Requirement metric, as detailed in the above Section "Solvency II capital position and internal model", and taken into account in AXA's liquidity risk management framework (please refer to Section C4 of this Report). Sensitivity analyses of its Solvency II ratio to material market risks are detailed in the above Section "AXA Corporate Solutions' Target Capital and risk sensitivity"

AXA's asset management policies and investment strategy, which covers investments of assets to address market risks, are addressed in the Section "Governance of Investment strategy and asset & liability management (ALM)."

/ Market Risk Exposure

AXA Corporate Solutions is exposed to financial market risks through its core business of financial protection (i.e. insurance) and through the financing of its activities as part of its equity and debt management.

Description of market risks for Property & Casualty

The market risks to which long-tail Property & Casualty (P&C) portfolios are exposed arise from a variety of factors including:

- a rise in yields on fixed-income investments (linked to interest rates or in spreads) reduces the market value of fixed-income investments and could impact adversely the solvency margin,
- a decline in asset market value (equity, real estate, alternatives, etc.) could adversely impact the solvency margin, as well as available surplus;
- a change in foreign-exchange rates would have limited impact for the operating units since foreign-currency commitments are matched to a large extent by assets in the same currency or covered by hedges, but it could affect the earnings contribution in euros;
- furthermore, P&C activities are subject to inflation which may increase the compensation payable to policyholders, so that the actual payments may exceed the associated reserves set aside. This risk can be significant for long-tail businesses but is managed through regular pricing adjustments or specific protections against peaks of inflation.

Regarding foreign exchange risk, the implemented policy's objective is to limit variations in net foreign currency-denominated assets resulting from movements in exchange rates. The purpose of the policy is therefore to protect partially or in full the value of AXA Corporate Solutions' net foreign-currency investments in its subsidiaries and thus reduce the variability of Company's consolidated shareholders' equity against currency fluctuations, but also of other key indicators such as liquidity, gearing and solvency ratios at Company level.

AXA Group regularly monitors its exchange rate hedging strategy and will continue to review its effectiveness and the potential need to adapt it taking into account impacts on earnings, value, solvency, gearing ratio and liquidity.

/ Risk Control and Risk Mitigation

AXA Corporate Solutions is primarily responsible for managing its financial risks (market risk, credit risk, liquidity risk), while abiding by the risk framework defined at Group level, in terms of limits/ thresholds and standards. This approach aims to allow reacting swiftly in an accurate and targeted manner to changes in financial markets, political and economic environments in which the Company operates.

A wide variety of Risk Management techniques are used to control and mitigate the market risks to which the Company is exposed. These techniques include:

- a local risk appetite governance and processes, including functional limits on market risks defined in AXA Corporate Solutions and approved by its Risk Committee and Board of Directors;

- Asset Liability Management (ALM), i.e. defining an optimal strategic asset allocation with respect to the liabilities' structure, to reduce the risk to a desired level;
- a disciplined investment process, requiring for any sophisticated investment a formal thorough analysis by the Investment Department, and a second opinion by Risk Management;
- hedging of financial risks when they exceed the tolerance levels set by AXA Corporate Solutions or by the Group. Operational management of derivatives is based on stringent rules and is mainly performed by Group asset managers, AXA Investment Managers and AllianceBernstein;
- a regular monitoring of the financial risks on the economic and solvency position of the Company; and
- reinsurance which also offers solutions to mitigate certain financial risks.

/ Governance of Investment strategy and asset & liability management (ALM)

Group and Local Guidance on Investments

Investment & ALM activities are steered by AXA France Chief Investment Officer (CIO) through a delegation given by AXA Corporate Solutions. AXA France CIO manages local portfolios, aiming at an optimized risk-return ratio, maintains reporting lines to the Group, and manages close relationships with CRO and CFO of AXA Corporate Solutions. Moreover, they are responsible for the investment performance and for implementing and executing a sound asset liability management.

Group and Local Governance Bodies

In order to efficiently coordinate local and global investment processes, decisions within the investment community are taken by two main governance bodies:

- the Group Investment Committee which is chaired by the Group Chief Financial Officer. This committee defines investment strategies, steers tactical asset allocation, evaluates new investment opportunities and monitors the Group's investment performance;
- the Group Asset Liability Management Supervisory Committee for which the Group Investment and ALM Management Department is an important member. It is co-chaired by the Group Chief Financial Officer and the Group Chief Risk Officer.

AXA Corporate Solutions has a local Investment and ALM committee whose terms of reference are approved by the local Risk Committee.
This committee is responsible for, inter alia, defining the entity's Strategic Asset Allocation, approving and monitoring investments, meeting local compliance obligations and reviewing the participation to investment proposals syndicated by the Group, as well as local investment proposals.

ALM Studies and Strategic Asset Allocation

ALM aims at matching assets with the liabilities generated by the sale of insurance policies. The objective is to define the optimal asset allocation so that all liabilities can be met with the highest degree of confidence while maximizing the expected investment return.

ALM studies are performed by AXA France Investment & ALM Department with the support of internal asset managers when appropriate and a second opinion provided by the Risk Management Department. They use methodologies and modelling tools that develop deterministic and stochastic scenarios, embedding policyholders' behaviour considerations for the liabilities, financial market evolution for the assets and taking into account existing interaction between the two. This process aims at maximizing expected returns given a defined level of risk. Furthermore, a series of additional constraints are taken into account, such as Solvency II economic capital model considerations, earnings stability, protection of the solvency margin, preservation of liquidity, as well as local and consolidated capital adequacy and requirement.

At AXA Corporate Solutions level, the strategic asset allocation issued from the ALM study must be reviewed by the local risk management, and approved with regards to predefined risk appetite limits, before being fully endorsed by the local Investment and ALM committee. The strategic asset allocation allows for taking a tactical stance within a given leeway.

Investment Approval Process

Investment opportunities, like non-standard investments, new strategies or new structures, are subject to an Investment Approval Process (IAP). The IAP ensures key characteristics of the investment are analysed, such as risk and return expectations, experience and expertise of the investment management teams, as well as accounting, tax, legal and reputational issues.
The IAP is completed at Group level for any significant investment, notably if several local entities are participating in the same investment. In that case, the successful completion of an IAP is done after the production of a second independent opinion by GRM. The IAP is used and completed at local level to cover local characteristics (tax, statutory accounting, etc.).

Local IAP is also run for investments in new asset classes for local entities under the same principles.

Governance Framework for Derivatives

Products involving hedging programs based on derivative instruments are designed with the support of dedicated teams at AXA Bank Europe, AXA Investment Managers, AB, AXA US and AXA SA. In a similar way, this set-up ensures all entities benefit from technical expertise, legal protection and good execution of such transactions within the following governance framework for derivatives.

Derivative strategies are systematically reviewed and validated by local Investment and ALM committees. In addition, there is a segregation of duties between those responsible for making investment decisions, executing transactions, processing trades and instructing the custodian. This segregation of duties aims in particular at avoiding conflicts of interest.

The market risks arising from derivatives are regularly monitored taking into account the Group's various constraints (Risk appetite, Economic capital model, etc.). Such monitoring is designed to ensure market risks, coming either from cash or derivative instruments, are properly controlled and remain within approved limits.

Legal risk is addressed by defining a standardized master agreement. AXA Corporate Solutions may trade derivatives only if they are covered by legal documentation which complies with the requirements set out in the Group standard. Any change to certain mandatory provisions defined in the Group standards must be approved by GRM.

Additionally, there is a centralized counterparty risk policy. GRM has established rules on authorized counterparties, minimum requirements regarding collateral and counterparty exposure limits.

The operational risk related to derivatives is measured and managed in the context of AXA's global operational risk framework. Furthermore, execution and management of derivatives are centralized within dedicated teams, reducing AXA Group's and AXA Corporate Solutions operational risk.

Valuation Risk is addressed through the use of expert teams. They independently counter-valuate the derivatives positions so as to get appropriate accounting, payment and collateral management. They also challenge the prices proposed by counterparties in case AXA Corporate Solutions wishes to initiate, early terminate or restructure derivatives. Such capacity in pricing requires high-level expertise, which relies on rigorous market analysis and the ability to follow the most up-to-date market developments for new derivatives instruments.

Investment and Asset Management

For a large proportion of its assets, AXA Corporate Solutions utilizes the services of asset managers to invest in the market:

- AXA Corporate Solutions mandates the day-to-day management of its asset portfolios primarily to AXA's asset management subsidiaries, i.e. AXA Investment Managers and AB. AXA France CIO continuously monitors, analyses, and challenges asset managers' performances for AXA Corporate Solutions portfolio;
- in order to benefit from a more asset specific and/or geographical expertise, AXA Corporate Solutions can also decide to invest through external asset managers. In these cases, thorough due diligence analyses are performed by the Investment and the Risk Management communities and a continuous monitoring is implemented.

C3. Credit Risk

AXA Corporate Solutions' overall exposure to credit risks is covered by AXA's Solvency Capital Requirement metric, as detailed in the above Section "Solvency II capital position and internal model", and taken into account in AXA's liquidity Risk Management framework (please refer to Section C4 of this Report). Sensitivity analyses of its Solvency II ratio to material credit risks are detailed in the above Section "AXA Corporate Solutions' Target Capital and risk sensitivity"

AXA's asset management policies and investment strategy, which covers investments of assets to address credit risks, are addressed in the Section "AXA's Investment Strategy and Asset & Liability Management (ALM)."

/ Credit Risk Exposure

Counterparty credit risk is defined as the risk that a third party in a transaction will default on its commitments. Given the nature of its core business activities, AXA Corporate Solutions monitors all types of counterparties, using methods suitable to each type:

- investment portfolios held by its insurance operations (excluding assets backing separate-account products where the financial risk is borne by policyholders),
- ceded risks to reinsurers resulting from reinsurance directly ceded by AXA Corporate Solutions
- receivables deriving from direct insurance operations, including policyholders and brokers

/ Risk Control and Risk Mitigation

/ Invested Assets

Concentration risk is monitored by different analyses performed at Group level by issuer, sector and geographic region, in addition to local procedures and by a set of Group and local issuer limits.

These limits aim at managing the default risk of a given issuer, depending on its rating and on the maturity and seniority of all bonds issued by the issuer and held by AXA Corporate Solutions (corporate, Government agency and sub sovereign).

The limits also take into account all exposure on issuers through debt securities, equity, derivatives and reinsurance counterparty risk.
For Sovereign exposures, specific limits have also been defined on government bonds and government-guaranteed bonds and are monitored at Group and local levels.

Compliance with the limits is ensured through defined governance processes. The Financial Risk Management and the Investment Department handles, on a monthly basis, any issuer exposure breaches to the Group's limit tolerances and determines coordinated actions for excessive credit concentrations. Also, a Group Credit Team reporting to the Group CIO provides credit analysis independently from Group asset managers, in addition to local CIO teams. The ALM Supervisory Committee is regularly kept informed of the work performed. At AXA Corporate Solutions level, any breach of limits is presented for remediation at the local Investment and ALM committee.

Credit Derivatives

AXA Corporate Solutions, as part of its investment and credit risk management activities, uses strategies that involve credit derivatives (mostly Credit Default Swaps or CDS), which are mainly used as an alternative to debt security portfolios, when coupled with government debt securities, but also as a protection on single corporate names or specific portfolios.

Limits applied to issuers take into account the credit derivative positions.

Credit risk relating to CDOs (Collateralised Debt Obligation) is monitored separately, depending on the tranches held, and regardless of the type of assets held (debt securities or credit derivatives).

Counterparty Risk arising from Over-The-Counter (OTC) Derivatives

AXA Corporate Solutions actively manages counterparty risk generated by OTC derivatives through a specific Group-wide policy. This policy includes:

- rules on derivative contracts (ISDA, CSA);
- mandatory collateralization;
- a list of authorized counterparties;
- a limit framework and an exposure monitoring process.

Receivables from Reinsurers: Rating Processes and Factors

At Group level, to manage the risk of reinsurers' insolvency, a Security Committee is in charge of assessing reinsurers' quality and acceptable commitments. The Committee is under joint authority of GRM and AXA Global P&C. This risk is monitored to avoid any excessive exposure to any specific reinsurer. The Group Security Committee meets monthly – and more frequently during renewal periods – and decides on any action to be taken with the aim of limiting AXA's exposure to the risk of default by any of its reinsurers.

Other receivables

Receivables risk arises from the risk of default of counterparties related to insurance operations. The exposures are monitored by nature of counterparty (policyholders, intermediaries, intragroup, taxes, others, etc.) and are actively managed to ensure the correct representation of the risk in the balance sheet on a quarterly basis.

The Risk Management team assesses on an annual basis the capital charge for each type of counterparty, using internal risk factors or standard factors.

C4. Liquidity risk

/ Liquidity position and risk management framework

Liquidity risk is the uncertainty, emanating from business operations, investments or financing activities, that AXA Corporate Solutions will have the ability to meet payment obligations in a full and timely manner, in current or stressed environments. Liquidity risk concerns assets and liabilities as well as their interplay.

Liquidity is a key dimension of the Risk Appetite Framework allowing AXA Corporate Solutions to ensure that the Company has at all times sufficient liquidity buffer to withstand a severe shock.

At AXA Corporate Solutions level, the liquidity risk is measured on the basis of a metric called “Excess Liquidity”, i.e. the difference between liquidity resources and liquidity needs calculated under severe stress conditions and over different time horizons: 1 week, 1month, 3 months and 12 months.

For each time horizon, the post-stress liquidity resources available and the post-stress liquidity needs (i.e. net outflows) to be paid are projected to measure the excess liquidity. The stressed conditions are calibrated so as to reflect extreme circumstances, and include:

- Distressed financial markets (in terms of asset prices, liquidity and access to funding through capital markets);
- Confidence crisis towards AXA (increase in lapses, decrease of premiums received, no new business);
- Natural catastrophes (windstorm, flood, etc.).

In addition, all these events are considered to occur simultaneously. Therefore, the calibration of the liquidity stress is a very prudent metric.

As at the end of 2016, the entity shows significant positive excess liquidity which is monitored on a quarterly basis. The main liquidity resources are the assets mainly driven by corporate bonds, listed equities and domestic government bonds and the main needs are coming from a change of P&C CAT scenario and an increase of cession rate for traditional reinsurance due to the implementation of new Quota Share treaties.

The liquidity position remains relatively stable over time.

As of December 31, 2016 the expected profit included in future premiums as calculated in accordance with Article 260(2) of the Solvency II Regulation totalled €17.4 million.

C5. Operational risk

AXA Group has defined a framework to identify and measure its operational risks that may arise from a failure in its organization, systems and resources or from external events. Ensuring an adequate mitigation of these risks across the Group is a key pillar of the Risk Management functions.

AXA Corporate Solutions' overall exposure to operational risks is covered by AXA's Solvency Capital Requirement metric, as detailed in the above Section "Solvency II capital position and internal model". Sensitivity analyses of its Solvency II ratio to material risks are detailed in the above Section "Governance of Investment strategy and asset & liability management (ALM)"

/ General principles

One objective of the AXA Corporate Solutions' operational risk economic capital model is to understand and reduce losses resulting from operational failures and to define an appropriate risk response strategy for major Operational risk scenarios.

Based on the Solvency II definition, AXA Corporate Solutions defines operational risk as the risk of loss arising from inadequate or failed internal processes, personnel or systems or from external events. Operational risk includes legal risks and excludes risks arising from strategic decisions, as well as reputation risks.

AXA Group has defined a single framework for identifying, quantifying and monitoring the main operational risks, involving the deployment of a common system, dedicated operational risk teams and a common operational risk typology classifying operational risks into seven risk categories: internal fraud, external fraud, employment practices and workplace safety, clients, products and business practices, damages to physical assets, business disruption and system failures and execution, delivery and process management.

Both quantitative and qualitative requirements are defined.

- The most critical operational risks of AXA Corporate Solutions and a set of stress scenarios are identified and assessed following a forward-looking and expert-opinion approach. These risk scenarios are then used to estimate the capital requirement needed to cover operational risks based on advanced models based on Solvency II principles. The operational risk management process is embedded into local governance through senior management validation to ensure the adequacy, appropriateness and comprehensiveness of the risk assessment but also to ensure that adequate corrective and pre-emptive actions are defined and implemented in front of the main risks;
- In addition, a loss data collection process is progressively in place within AXA Corporate Solutions in order to track and appropriately mitigate actual operational risk losses. This process is also used as a valuable source of information to back-test the assumptions taken in risk assessments.

A key objective of the AXA Corporate Solutions' operational risk economic capital model is to understand and reduce losses resulting from operational failures and to define an appropriate risk response strategy for major Operational risk scenarios. AXA Corporate Solutions' Operational Risk profile is presented to the Operational Risk and Compliance Committee for decisions and actions to be taken.

The implementation of the operational risk framework covers all AXA Corporate Solutions' branches.

In 2016, the AXA Corporate Solutions Operational Risk Profile is reasonably well spread out with all seven operational risk categories covered.

The following main risks and main remedial actions are implemented:

1. Errors in P&C technical provisions calculation process – specific quality assurance activities on the technical provision calculation process have been implemented in 2016 and planned for 2017. These should increase the automation capability, reducing exposure to data quality errors.

2. International Sanctions – structured governance is implemented at AXA CS, involving UW, Claims and Compliance department. UW and Claims audit activities include the International Sanction verification. Nevertheless, the exposure of AXA CS to this risk is expected to stay at high levels.
3. Contractual Default – specific signature check process is under implementation, according to similar experiences in other AXA Entities. Further analysis to be performed in 2017 by the risk owner to ensure remedial actions are addressing the full scope of risk exposure.
4. Exceeding underwriting limits on treaties and facultative reinsurance – In 2015 and 2016 relevant actions have implemented to improve data quality check at Reinsurance team. Further extension of the remedial actions to UW and Client Service is expected in 2017.
5. Cyber risk – structured remedial action plan is implemented since 2016. Remedial actions are addressing the full scope of ISO 27001 control domains and they are regularly reported to the local Information Security committee.

Specific actions are identified at AXA Corporate Solutions to mitigate these risks. Also, as regards Information and IT risks, AXA Corporate Solutions has decided to strengthen the management of information and technology risks within the second line of defence with the creation of an Information Security team reporting to the Chief IT Officer.

C6. Other material risk

/ Strategic risk

A strategic risk is the risk that a negative impact (current or prospective) on earnings or capital, material at the Group level, arises from a lack of responsiveness to industry changes or adverse business decisions regarding:

- significant changes in footprint, including through mergers and acquisitions;
- product offering and client segmentation;
- distribution model (channel mix including alliances/partnerships, multi-access and digital distribution).

Given the nature of strategic risks, there is no capital charge assessment but rather a strong strategic risk management framework in place in order to assess, anticipate and mitigate these risks.

/ Reputation risk

Reputation risk is the risk that an event, internal or external, will negatively influence the stakeholders' perceptions of the Company or where there is a gap between stakeholders' expectation and the Company's behaviours, attitudes, values, actions, or inactions.

AXA Group has defined a global framework with a two-fold approach to reactively protect and proactively identify, monitor, manage and mitigate reputational issues in order to not only minimize value destruction, but also to build and maintain brand equity and trust among stakeholders.

AXA Group has a Global Reputation Network whose purpose is to implement locally a reputation risk management framework. The objectives of the reputation Risk Management approach are in line with AXA's overall enterprise Risk Management approach aiming to develop a reputation risk culture and risk intelligence.

Three main objectives drive the reputation Risk Management approach:

- proactively manage reputation risks, avoid or minimize negative issues impacting the reputation of AXA and build trust among all AXA stakeholders;
- define accountability for reputation risks across the organization (Marketing, HR, Finance / Investors Relations, etc.), at Group and local levels;
- implement a common reputation Risk Management framework throughout the organization.

The implementation of the Reputation Risk Framework encompasses all AXA Group activities including insurance, asset management, banking as well as internal service providers.

/ Emerging risks

Emerging risks are risks which may develop or which already exist and are continuously evolving. Emerging risks are marked by a high degree of uncertainty, as some of them may even never emerge.

AXA Group has established processes to qualify and quantify emerging risks which could develop over-time and become significant. The emerging risk framework encompasses a network of circa 50 people within AXA Group (based in insurance, bank, Asset Management and supporting entities such as AXA Technology Services), including AXA Corporate Solutions, which allows expertise to be shared within the business (including underwriting) and risk communities and ensures adequate underwriting policies are defined.

Emerging risks surveillance is organized through a detection process including watch on scientific publications, court decisions, etc. Risks are monitored and classified within a risk mapping constituted of six sub-groups (regulatory & legal, environmental, socio & political, economic & financial, medical and technological). After prioritization of the monitored risks or after a warning from an entity, a working group is launched on a yearly basis by GRM to review a specific risk and its potential impact in terms of insurance.

By developing relationships with researchers and supporting innovative projects in environmental, socio-economic and life risks, the AXA Research Fund is a key contributor to AXA Group's commitment to better understand the evolution of these risks.

By seeking to develop new solutions, acting as an advisor on Risk Management and actively contributing to the overall debate about the issues involved, along with other major market players, AXA Group intends to promote a better understanding and better forecasting of emerging risks and to support sustainable development.

C7. Any other information

Not applicable.

D VALUATION FOR SOLVENCY PURPOSES

Basis for preparation

D.1 Assets

Fair Value Measurement

Intangible Assets

Property, Plant & Equipment held for own use

Investments and loans

Derivative instruments

Deferred taxes

Leasing arrangements

Assets held for index-linked and unit-linked funds

Reinsurance recoveries

Other assets

D.2 Technical provisions

General principles

Best Estimate Liabilities

Statement on the use of the volatility adjustment

Statement on the use of the transitional measures for technical provisions

Risk margin

Reinsurance recoveries

D.3 Valuation of other liabilities

Contingent liabilities

Provisions other than technical provisions

Pension benefit obligations

Deferred taxes

Financial liabilities

Other liabilities

D.4 Alternative methods for valuation

D.5 Any other information

/ Basis for preparation

AXA Corporate Solutions' Solvency II balance sheet is prepared as of December 31, in compliance with the Solvency II Regulation.

Assets and liabilities are valued based on the assumption that the Company will pursue its business as a going concern.

The Solvency II balance sheet only includes the value of business in force and therefore only presents a partial view of the value of the Company.

Technical provisions are recognized with respect to all insurance and reinsurance obligations towards policyholders and beneficiaries of insurance or reinsurance contracts. The value of technical provisions corresponds to the current amount that the Company would have to pay if it was to transfer its insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking.

Other assets and liabilities are recognized in compliance with IFRS standards and interpretations of the IFRS Interpretations Committee that are endorsed by the European Union before the balance sheet date with a compulsory date of January 1, 2016, provided that those standards and interpretations include valuation methods that are in accordance with the following market consistent valuation approach set out in Article 75 of the Solvency II Directive 2009/138/EC:

- Assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;
- Liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction (without adjustment to take account of the Company own credit standing).

The main adjustments between local statutory GAAP and Solvency II assets and liabilities relate to:

- The re-measurement of the market value of assets, related to the recognition of unrealized gain and losses of assets, recognized at cost in the statutory Balance Sheet;
- The re-measurement in the Solvency II framework of technical reserves as compared to those of the Statutory Balance Sheet, for the liabilities side.

Other minor adjustments come from the removal of intangibles within the Solvency II balance-sheet, or the reclassification of subordinated debt.

These adjustments are detailed hereafter in this section.

The preparation of the balance sheet in accordance with Solvency II requires the use of estimates and assumptions. It requires a degree of judgment in the application of Solvency II principles described below. The main balance sheet captions concerned are assets accounted at fair value, deferred tax assets, assets and liabilities relating to the insurance business, pension benefit obligations and balances related to share-based compensation. The principles set out below specify the measurement methods used for these items.

Unless otherwise stated, AXA's valuation principles have been consistently applied by AXA Corporate Solutions to all the periods presented.

The Solvency II balance sheet is presented in Euro, the Euro being the Company's presentational currency. Assets and liabilities resulting from transactions denominated in foreign currencies are translated at the local closing exchange rate.

D1 – Assets

/ Fair value measurement

The table below summarizes for each material class of assets, the value of the assets of the Company according to Solvency II provisions together with the values of the assets recognized and valued on a statutory account basis as at December 31, 2016:

(in Euro million)	Fair Value (Solvency II)	Statutory Value (French GAAP)	% (value Balance Sheet)
Goodwill	0	0	0%
Deferred acquisition costs	0	20	0%
Intangible assets	0	17	0%
Deferred tax assets	0	0	0%
Pension benefit surplus	0	0	0%
Property, plant & equipment held for own use	6	6	0%
Investments (other than assets held for index-linked and unit-linked contracts)	**5,677**	**4,902**	**53%**
Investment in real estate properties	0	0	0%
Holdings in related undertakings, including participations	98	77	1%
Equities	234	211	2%
Debt Instruments	3,633	3,148	34%
Investment funds	1,709	1,432	16%
Derivatives	4	33	0%
Other investments	0	0	0%
Assets held for index-linked and unit-linked contracts	**0**	**0**	**0%**
Loans and mortgages	**225**	**226**	**2%**
Reinsurance recoverables	**2,137**	**2,289**	**20%**
Receivables	**2,312**	**2,311**	**22%**
Cash and cash equivalents	**265**	**268**	**32%**
Other	29	28	0%
Total Assets	**10,651**	**10,067**	**100%**

The Company applies the IFRS 13 fair value hierarchy as described below for all assets and liabilities (excluding technical provisions). This fair value hierarchy is consistent with the one defined in the Solvency II regulation.

a) Active market: quoted price

Fair values of assets and liabilities traded on active markets are determined using quoted market prices when available. An instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis between a willing seller and a willing buyer. For financial instruments traded in active markets, quotes received from external pricing services represent consensus prices, i.e. using similar models and inputs resulting in a very limited dispersion.

b) Active versus inactive markets – financial instruments

Equity instruments quoted on exchange traded markets and bonds actively traded on liquid markets for which prices are regularly provided by external pricing services that represent consensus with limited dispersion and for which quotes are readily available are generally considered as being quoted in an active market. Liquidity may be defined as the possibility to sell or dispose of the asset in the ordinary course of business within a certain limited time period at approximately the price at which the investment is valued. Liquidity for debt instruments is assessed using a multi criteria approach including the number of quotes available, the place of issuance and the evolution of the widening of bid ask spreads.

A financial instrument is regarded as not quoted in an active market if:

- there is little observation of transaction prices as an inherent characteristic of the instrument;
- when there is a significant decline in the volume and level of trading activity;
- in case of significant illiquidity or if;
- observable prices cannot be considered as representing fair value because of dislocated market conditions.

Characteristics of inactive markets can therefore be very different in nature, inherent to the instrument or indicative of a change in the conditions prevailing in certain markets.

c) Assets and liabilities not quoted in an active market

The fair values of assets and liabilities that are not traded in an active market are estimated:

- Using external and independent pricing services; or
- Using valuation techniques.

■ No active market: use of external pricing services.

External pricing services may be fund asset managers in the case of investments in funds. To the extent possible, the Company collects quotes from external pricing providers as inputs to measure fair value. Prices received may form tight clusters or dispersed quotes which may then lead to the use of valuation techniques. The dispersion of quotes received may be an indication of the large range of assumptions used by external pricing providers given the limited number of transactions to be observed or reflect the existence of distress transactions. In addition, given current market conditions since the financial crisis and the persistency of complete inactivity of some markets since then, many financial institutions closed their desks dedicated to structured assets deals and are no longer in a position to deliver meaningful quotes.

■ No active market: use of valuation techniques

The objective of valuation techniques is to arrive at the price at which an orderly transaction would take place between market participants (a willing buyer and a willing seller) at the measurement date. Valuation technique models include:

1. Market approach: The consideration of recent prices and other relevant information generated by market transactions involving substantially similar assets or liabilities.
2. Income approach: Use of discounted cash flow analysis, option pricing models, and other present value techniques to convert future amounts to a single current (i.e. discounted) amount.
3. Cost approach: The consideration of amounts that would currently be required to construct or replace the service capacity of an asset.

Valuation techniques are subjective in nature and significant judgment is involved in establishing fair values. They include recent arm's length transactions between knowledgeable willing parties on similar assets if available and representative of fair value and involve various assumptions regarding the underlying price, yield curve, correlations, volatility, default rates and other factors. Unlisted equity instruments are based on cross checks using different methodologies such as discounted cash flows techniques, price earnings ratios multiples, adjusted net asset values, taking into account recent transactions on instruments which are substantially the same if concluded at arm's length between knowledgeable willing parties, if any. The use of valuation techniques and assumptions could produce different estimates of fair value. However, valuations are determined using generally accepted models (discounted cash flows, Black & Scholes models, etc.) based on quoted market prices for similar instruments or underlying factors (index, credit spread, etc.) whenever such directly observable data are available and valuations are adjusted for liquidity and credit risk.

Valuation techniques may be used when there is little observation of transaction prices as an inherent characteristic of the market, when quotes made available by external pricing providers are too dispersed or when market conditions are so dislocated that observed data cannot be used or need significant adjustments. Internal marks to model valuations are therefore normal market practices for certain assets and liabilities scarcely traded or for exceptional processes implemented due to specific market conditions.

■ Use of valuation techniques in dislocated markets

The dislocation of certain markets may be evidenced by various factors, such as very large widening of bid ask spreads which may be helpful indicators in understanding whether market participants are willing to transact, wide dispersion in the prices of the small number of current transactions, varying prices over time or among market participants, inexistence of secondary markets, disappearance of primary markets, closing down of dedicated desks in financial institutions, distress and forced transactions motivated by strong needs of liquidity or other difficult financial conditions implying the necessity to dispose of assets immediately with insufficient time to market the assets to be sold, and large bulk sales to exit such markets at all costs and that may involve side arrangements (such as sellers providing finance for a sale to a buyer). Primary transactions' prices in markets supported by government through specific measures following the financial crisis do not represent fair value.

In such cases, the Company uses valuation techniques including observable data whenever possible and relevant, adjusted if needed to develop the best estimate of fair value, including adequate risk premiums or develops a valuation model based on unobservable data representing estimates of assumptions that willing market participants would use when prices are not current, relevant or available without undue costs and efforts: in inactive markets, transactions may be inputs when measuring fair value, but would likely not be determinative and unobservable data may be more appropriate than observable inputs.

/ Intangible assets

Under Solvency II, only intangible assets related to the business in force, that are separable and for which there is evidence of exchange transactions for the same or similar assets, indicating they are saleable in the market place, are recognized. That may includes software developed for internal use. It is booked at fair value with therefore possible differences with the local statutory GAAP carrying values, based on cost less amortization over the assets' estimated useful lives. As a result of Solvency II principles, deferred acquisition costs and other intangible assets recognized under local statutory GAAP have no value in the Solvency II consolidated balance sheet.

/ Property, Plant & Equipment held for own use

Under Solvency II, property, plant & equipment held for own use is recognized at fair value whereas under local statutory GAAP, it is recognized at cost. Assets components are depreciated over their estimated useful lives and reversible impairment is recognized if conditions are met.

When an asset is intended to be sold, the net book value of the asset is compared to the realisable value, based on the annual independent valuation of the asset, or, if lower, the sales price net of selling costs.

In case the asset is held for long term, the net book value of the asset is compared to the annual independent valuation thereof.

If the loss in value exceeds 15% of the net book value, there is deemed to be a risk of long-term impairment and an impairment charge is booked.

/ Investments and loans

The investments aggregate on the Solvency II balance sheet include investment in real estate properties (other than for own use), participations (including entities other than investment funds that are accounted for under the equity method), equity instruments, bonds, investment funds, derivatives and deposits other than cash equivalents.

Property

Under Solvency II, investment in real estate properties is recognized at fair value. Under local statutory GAAP, it is recognized at cost. Properties components are depreciated over their estimated useful lives and reversible impairment is recognized if conditions are met. When a property is intended to be sold, the net book value of the asset is compared to the realisable value, based on the annual independent valuation of the asset, or, if lower, the sales price net of selling costs.

In case the asset is held for long term, the net book value of the asset is compared to the annual independent valuation thereof.

If the loss in value exceeds 15% of the net book value, there is deemed to be a risk of long-term impairment and an impairment charge is booked.

Financial assets including loans

Under Solvency II, financial assets are recognized at fair value.

Under local statutory GAAP, the valuation depends on the classification of the investment:

- Investments in related companies and affiliates:
  - On acquisition:
    These investments are stated based on purchase cost (Art. R 343-10 of the French Insurance Code).
  - Book value at balance sheet date:
    Listed investments are valued applying the closing quoted price at the balance sheet date and unlisted investments are valued at fair value, which corresponds to the price that would be obtained under arm's length conditions and based on their value in use for the company (Art. R 343-11 of the French Insurance Code).
- Other investments:
  - On acquisition:
    - Assets covered by Article R 343-9 of the French Insurance Code

These assets are stated at purchase cost as at the acquisition date. The purchase cost excludes earned interest expense.

For assets covered by Article R 343-9 of the French Insurance Code, the premium or discount is amortised on an actuarial basis over the remaining term of the security.

The premium or discount represents the actuarial difference between the purchase price and the redemption value of the security.

Accumulated amortisation is included under balance sheet asset or liability accruals and changes during the year are included under 'Other investment income' and 'Other investment expenses' in the income statement.

- Assets covered by Article R 343-10 of the French Insurance Code

These assets are stated at purchase or production cost.

Pursuant to Article 123-3 of the French Accounting Standards Authority (ANC) Regulation No. 2015-11 on fixed income investments covered by Article R 343-10 of the French Insurance Code, the premium or discount is amortised on an actuarial basis over the remaining term of the security.

The premium or discount represents the actuarial difference between the purchase price and the redemption value of the investment.

Accumulated amortisation is included under balance sheet asset or liability accruals and changes during the year are included under 'Other investment income' and 'Other investment expenses' in the income statement.

- Book value at balance sheet date:

  Valuation of assets covered by Articles R 343-9 and R 343-10 of the French Insurance Code is based on the type of asset in question and the Company's holding strategy as follows:

  - Realisable value (i.e. quoted market price or probable sales value) is used for investments that will soon be sold,
  - Value in use, which depends on how the asset is used for the shareholder, is applied to value investments in affiliates which the insurance company intends to hold for the long term,
  - If the issuer's earnings potential is compromised for the long term, e.g. if the company has filed a bankruptcy petition, long-term impairment is recorded.

  Accordingly, listed securities are stated at their last quoted price and mutual funds are stated at the last redemption price published. Unlisted securities are stated at fair value based on arm's length conditions and taking account of their value in use for the company.

  The valuation of mutual fund units communicated by asset management companies, predominately AXA Investment Manager, includes the value of debt instruments such as CDO (Collateralised Debt Obligations), CLO (Collateralised Loan Obligations) and other ABS (Asset-Backed Securities) as well as credit derivatives. The valuation of ABS debt tranches is mainly based on prices communicated by third party counterparties. ABS equity tranches and CDOs are valued largely based on the values communicated by the structurers.

  CDS (Credit Default Swaps) transactions are valued using standard models based on market spreads provided daily by an outside supplier (Markit). These market values are then included in the relevant mutual fund unit value.

  In all circumstances, the asset management company carries out controls and consistency checks on these valuations.

/ Derivative instruments

All derivatives represent financial futures.

Under statutory local GAAP, the rules for recognising financial futures instruments applicable to companies governed by the French Insurance Code as of January 1, 2003 are defined by the "Comité de Réglementation Comptable" (CRC) Regulation No. 2002-09 dated December 12, 2002, supplemented by "Comité National de la Comptabilité" (CNC) Opinion No. 2004-04 dated March 25, 2004.

The accounting treatment is based on the business strategy for contracting the instruments as follows:

- Investment or divestment strategy: the purpose of these strategies is to set the value of a future investment or planned divestment. During the term of the financial futures instruments, the premiums or intermediate flows are recorded under asset or liability accruals. When the strategy is unwound, the profits or losses realised on the financial futures instruments are included in the purchase price or sale price;

- Yield strategy: a strategy that is not intended to set the value of a future investment or planned divestment is a yield strategy. The effect of the strategy is smoothed out during the term and does not change the accounting of the assets or liabilities affected by the strategy. The related expenses and income, whether received or paid, or whether underlying, are recognised and scheduled in the income statement over the duration of the strategy, taking into consideration the effective yield on the financial futures instrument.

Under Solvency II, derivatives are recognized at fair value.

/ Deferred taxes

Differences arise between local accounts and Solvency II deferred tax balances due to differences in underlying valuation principles for assets and liabilities.

Under local statutory GAAP, no deferred taxes are recognised except for the German branch for which a deferred tax liability (DTL) was recognised in the accounts.

Under Solvency II, deferred tax assets and liabilities emerge from temporary differences with tax values of assets and liabilities, and when applicable from tax loss carry forwards. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available to offset the temporary differences, taking into account the existence of tax groups and any legal or regulatory requirements on the limits (in terms of amounts or timing) relating to the carry forward of unused tax losses or the carry forward of unused tax credits. The recoverability of deferred tax assets recognized in previous periods is re-assessed at each closing.

The measurement of deferred tax liabilities and deferred tax assets reflects the expected tax impact, at the balance sheet date that would follow the way the Company expects to recover or settle the carrying amount of its assets and liabilities. When income taxes are calculated at a different rate if dividends are paid, deferred taxes are measured at the tax rate applicable to undistributed profits. The income tax consequences of dividends are only accounted when a liability to pay the dividend is recognized.

For presentation purpose of the balance sheet, deferred tax assets are offset with deferred tax liabilities at fiscal entity level.

/Leasing arrangements

Not applicable

/ Reinsurance recoveries

As technical provisions are reported gross of reinsurance, a reinsurance asset is identified separately. Transactions related to ceded reinsurance are accounted in the balance sheet in a similar way to direct and assumed business transactions in agreement with contractual clauses. Indeed, the methods used to value reinsurance balances depend on the type of reinsurance contracts (e.g. treaties / facultatives, proportional/non-proportional), the nature of the business and the ceded portion.

Under Solvency II, reinsurance provisions are adjusted from their local GAAP value with similar assumptions as direct and assumed provisions to obtain a best estimate. In addition, they are adjusted downward in order to take into account the expected losses due to default of the counterparty.

No material changes in assumptions have been made in the calculation of reinsurance provisions compared to the previous reporting period.

No special purpose vehicles recoverables have been booked.

/ Reinsurance receivables

Receivables from reinsurance contracts are booked at their IFRS value.

/ Other assets

All other assets (tangibles assets and other long term assets) are recorded at fair value under Solvency II but by default, the local statutory GAAP value is kept.

With regard to share-based compensation plans, the following approach prevails under Solvency II frameworks: the Company's share-based compensation plans are predominantly settled in equities. These plans, by nature, do not have an impact on assets and liabilities except for the related tax effect; cash-settled share-based compensation plans are recognized at fair value, which is re-measured at each balance sheet date.

D2 - Technical provisions

/ General principles

Technical provisions are split between Non-life (excluding health), Health (similar to non-life), Health (similar to life), Life (excluding health, index-linked and unit-linked), index-linked and unit-linked.

Technical provisions are measured using a two “building blocks” approach:

- Best Estimate Liabilities (BEL), and
- Risk margin for non-hedgeable risks that is added to the best estimate liabilities.

The Best Estimate Liabilities correspond to the probability-weighted average of future cash flows, including policyholder’s benefit payments, expenses, taxes, premiums related to existing insurance and reinsurance contracts taking into account the time value of money (i.e. by discounting these future cash flows to present value). The calculation of the Best Estimate Liability is based upon up-to-date reliable information and realistic assumptions. The cash-flow projection used in the calculation includes all the cash in- and out-flows required to settle the insurance and reinsurance obligations over their lifetime.

The Best Estimate Liabilities are recognized on a gross of reinsurance basis, without deduction of amounts recoverable from reinsurance contracts and special purpose vehicles. The latter are recognized separately.

The risk margin is defined as the cost of non-hedgeable risk, i.e. a margin in addition to the expected present value of liability cash flows required to manage the business on an on-going basis. It is deemed to be the present value of the cost of future economic capital requirements for non-hedgeable risks.

This valuation requires deep analysis of the underlying obligations, collection of qualitative and quantitative information, projection tools and models, and expert judgment in a number of areas.

The table below summarizes AXA Corporate Solutions’ technical provisions under Solvency II together with a comparison on a local statutory account basis as of December 31, 2016.

(in Euro million)	**Fair Value** (Solvency II)	**Statutory Value** (French GAAP)
Technical provisions – non life	**6,169**	**6,605**
Technical provisions – non life (excluding health)	0	**0**
Best Estimate	5,885	**6,605**
risk margin	284	**0**
Technical provisions - health (similar to non-life)	0	**0**
Best Estimate	0	**0**
risk margin	0	**0**
Technical provisions - life (excluding index-linked and unit-linked)	**61**	**69**
Technical provisions - health (similar to life)	0	**0**
Best Estimate	0	**0**
risk margin	0	**0**
Technical provisions - (excluding health and index-linked and unit-linked)	61	**69**
Best Estimate	57	**69**
risk margin	4	**0**
Technical provisions - index-linked and unit-linked	**0**	**0**
Best Estimate	0	**0**
risk margin	0	**0**

/ Best Estimate Liabilities

A best estimate assumption is defined as one where there is as much probability that the actual experience develops over the assumption as below it. It is neither a prudent nor an optimistic assumption. It is set at a level that is neither deliberately overstated nor deliberately understated. Due to the inherent uncertainties, if two assumptions are equally reasonable the more prudent one is retained.

Assumptions and framework

Assumptions regarding future experience should be reasonable, and, to the extent possible, should take into account the actual historical and current experience of the Company, adjusted to reflect known changes in the environment and identifiable trends. Experience studies should be reviewed. If experience studies are not available, they should be developed where appropriate and practical. In some instances, data may not be available or may be insufficient to provide a credible basis on which to develop assumptions. Consequently, it may be necessary to rely more on judgment, taking into consideration the Company's pricing and/or reserving assumptions and the experience of other companies with comparable products, markets, and operating procedures.

Assumptions are used to project future cash flows, and are therefore selected with due regard to the future context or expected future operating environment of the Company. Thus, they may or may not be consistent with past experience.

The analysis of future experience will depend on the context and the risk characteristics of the products analysed. The impact of the external environment on the future cash flows and financial statements must also be recognised. Setting corresponding assumptions requires sound knowledge of the current and projected policies of management in charge of investment, underwriting, reinsurance, claim settlement, marketing, pricing, policyholder dividend/bonus declaration and administration. Specific considerations include economic factors such as inflation or recession as well as the regulatory, legislative and political environments.

Assumptions in respect of best estimate metrics are derived consistently over time and within homogeneous risk groups and lines of business without arbitrary changes. The assumptions are designated to adequately reflect any uncertainty underlying the cash flows.

Non market assumptions, based on latest best estimate assumptions (historical data and expert judgment), include the following:

- Loss ratio and best estimate claims payment;
- Boundary of contracts; and
- Risk of default of reinsurers.

Characteristics of some assumptions

Expenses

Expenses include administrative expenses, investment management expenses, claims management expenses and acquisition expenses which relate to recognized insurance and reinsurance obligations.

The assumptions underlying expenses projections are consistent with the strategy of the Company, taking into account future new business and any change in the expenses agreed by the management.

Expenses are inflated over the duration of the projection. The inflation assumption is assessed on the basis of the economic environment and the specifics of the Company, and generally varies across economic scenarios.

Boundary of an insurance or reinsurance contract

The Solvency II balance sheet excludes all premiums expected from new business not yet written and some future premiums expected from existing contracts if the Company has the power to either reject them or fully re-price them.

Management actions

There is no relevant assumption about future management actions that has been implemented in BEL calculations as at end 2016.

Reference rate curve

Discount rates used for both life and non-life reserves are basic risk free rates adjusted to mitigate the effect of exaggeration of bonds spread by a volatility adjustment.

/ Statement on the use of the volatility adjustment

The volatility adjustment is an adjustment to the basic risk free rate term-structure that prevents pro-cyclical investment behaviour by mitigating the effect of the volatility of asset spreads (mainly corporate and government bonds) on liabilities valuation. The volatility adjustment is applied to all businesses and is added to the zero-coupon spot rates of the basic risk-free interest rate term structure obtained after using the Smith-Wilson method until the last liquid point observable in the market.

In order to derive the relevant risk free curve beyond the last observable liquid forward rate, an interpolation is performed between this point and the ultimate forward rate (UFR). The UFR is specified by Solvency II regulation by currency zone and corresponds to the sum of expected long term inflation and real interest rate.

AXA Corporate Solutions' solvency ratio calculated without applying the volatility adjustment amounted to 140% at December 31, 2016 compared to 151% with volatility adjustment.

The basic own funds without considering the volatility adjustment would decrease by €16 million to €1,607 million, reflecting the increase in best estimate liabilities due to lower discount rate, and the increase in risk margin in line with higher non-hedgeable Solvency Capital Requirement

The total SCR would increase by €65 million mainly due to higher market risks and, notably, spread risks. The Minimum Capital Requirement would increase by € 29 million.

This calculation is performed to address a specific regulatory requirement. However, the results obtained through this approach are not considered to provide conclusions economically in line with the nature of the business underwritten and the related asset allocation strategy implemented within the Company.

/ Statement on the use of the transitional measures for technical provisions

AXA Corporate Solutions did not apply the transitional risk-free interest rate-term structure referred to in Article 308c of Directive 2009/138/EC nor the transitional deduction referred to in Article 308d of the same Directive.

Non-life Best Estimate Liabilities

Non-life Best Estimate Liabilities (BEL) represent expected future cash flows discounted to take into account the time value of money for non-life obligations and do not generally require stochastic projections and dynamic assumptions.

The valuation of Non-Life Best Estimate Liabilities is based on the application of a wide range of actuarial projection models, including a balanced mix of the following elements:

- Portfolio's main features in terms in particular of risks mapping, underwriting and claims policies, social, economic and legal context, local requirements (such as statutory, accounting, tax, etc…), market conditions and policyholders' behaviours;
- Quality, relevance and consistency over time of available statistical data;
- Consistency and limits of the set of selected forecasting methods, given the business features and the available data;

- Selection of relevant actuarial assumptions sets and their adequate application to actuarial projection models;
- Ability to economically document the projected range of results, both quantitatively and qualitatively;

The Company applies a wide range of actuarial and statistical methods. Analyses are performed by lines of business and projections are performed using tools developed either internally or externally.

Non-life Best Estimate Liabilities are valued based on internally modelled run-offs of projected out flows on the basis of past payment patterns adjusted whenever relevant.

Expected future cash flows

Under local GAAP, claims provisions are estimated above the mean value of expected future cash flows, which is required by the ACPR. Under Solvency II, these provisions are not included in Best Estimate Liabilities. Equalization provision under local GAAP which is booked to cover future catastrophic events is also excluded from Solvency II Best Estimate Liabilities.

Unearned premium reserves

In addition to the valuation above, the non-life BEL include the adjusted valuation of the accounting unearned premium reserves that aim to cover the unexpired risk period for which the Company received a premium.

Under local GAAP, unearned premium reserves are usually based on a pro-rata of premiums received related to the unexpired period of coverage plus an amount to cover deficiencies when the loss ratio based on technical reserves is higher than 100% (net of reinsurance).

Under Solvency II, such reserves are adjusted taking into account a best estimate expected loss ratio to the proportion of the premiums related to the unexpired period and the time value of money.

Discount impact

Under Solvency II, all technical provisions are discounted. Under local GAAP only the specific provision for decennial construction is discounted. In addition, rate curve used under Solvency II is different from the local regulatory rate curve used under local GAAP.

Life Best Estimate Liabilities

The only provision for the Company which is considered as Life Best Estimate Liabilities under Solvency II is the provisions for annuities.

Discount impact

Under Solvency II, provisions for annuities are discounted with a different rate curve than the one used under local GAAP.

/ Risk margin

In addition to the best estimate liabilities (BEL), a risk margin is recognized to obtain values consistent with the determination of market prices when there are no deep and liquid markets. The risk margin is defined as the cost of non-hedgeable risk, i.e. a margin in addition to the expected present value of liability cash flows required to manage the business on an ongoing basis. In general, most insurance risks (e.g. mortality or property risks) are deemed to be non-hedgeable risks.

The non-hedgeable risks comprise:

- Property & Casualty and Life insurance risks,
- Reinsurance default risks and
- Operational risks.

The Solvency Capital Requirement (SCR) for the non-hedgeable risks is projected for the future years until the run-off of the portfolio following suitable risk driver. The most appropriate risk drivers are the provisions for non-life and life risks, and the ceded provisions for reinsurance default risks.

The risk margin is determined as the present value at the basic risk free interest rate structure of the future capital charges using a 6% cost of capital for all lines of business.

The cost of capital is a premium over the risk free rate that represents the reduction in economic "value" (cost) linked to the risks considered.

D3 - Valuation of other liabilities

The table below summarizes AXA Corporate Solutions' other liabilities under Solvency II together with a comparison on a local statutory account basis as of December 31, 2016.

(in Euro million)	**Fair Value** (Solvency II)	**Statutory Value** (French GAAP)
Contingent liabilities	0	0
Provisions other than technical provisions	15	16
Pension benefit obligations	36	12
Deposits from reinsurers	75	77
Deferred tax liabilities	263	41
Derivatives	0	0
Debts owed to credit institutions	0	0
Financial liabilities other than debts owed to credit institutions	748	748
Payables	1,464	1,466
Subordinated liabilities	153	153
Other	53	53

/ Contingent liabilities

Contingent liabilities are:

- Possible obligation that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or
- A present obligation that arises from past events but for which it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Under Solvency II, contingent liabilities that are material are recognized as liabilities. Contingent liabilities are material where information about the current or potential size or nature of those liabilities could influence the decision-making or judgment of the intended user of that information, including the supervisory authorities.

The value of contingent liabilities is equal to the expected present value of future cash flows required to settle the contingent liability over the lifetime of that contingent liability, using the basic risk-free interest rate term structure.

AXA Corporate Solutions has no contingent liabilities as of December 31, 2016.

/ Provisions other than technical provisions

The same approach prevails under both local statutory GAAP and Solvency II frameworks. Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when the provision can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at management's best estimate, at the balance sheet date

/ Pension benefit obligations

Under local statutory GAAP, liabilities recognised on the balance sheet in respect of defined benefit plans correspond to the present value of the liability as at the balance sheet date less, where applicable, the fair value of the plan assets, both adjusted for actuarial gains/losses and the cost of past services not recognised. The present value of the liability is calculated annually using the projected unit credit method. It is determined by discounting expected future benefits based on the market rate of blue chip corporate bonds denominated in the same currency as the benefits to be paid and with a term comparable to the underlying obligation.

Actuarial gains or losses arising from adjustments based on experience and the effects of change in actuarial assumptions are recognised as expenses or income over the expected remaining average active life of staff members benefiting from the plan, in respect of the portion thereof exceeding 10% of the present value of the obligation or, if higher, the fair value of the plan assets.

The cost of past services generated when a defined benefit plan is adopted or amended is expensed on a straight line basis over the expected remaining average active life of staff members benefiting from the plans.

Under Solvency II, pension benefit obligations include the benefits payable to AXA Corporate Solutions' employees after they retire (retirement compensation, additional pension benefit, health insurance). In order to meet those obligations, some regulatory frameworks have allowed or enforced the set-up of dedicated funds (plan assets).

- Defined contribution plans: payments are made by the employer to a third party (e.g. pension trusts). These payments free the employer of any further commitment, and the obligation to pay acquired benefits to the employees is transferred. No liability needs to be recorded once contributions are made.
- Defined benefit plans: an actuarial assessment of the commitments based on each plan's internal rules is performed. The present value of the future benefits paid by the employer, known as the DBO (Defined Benefit Obligation), is calculated annually on the basis of long-term projections of rate of salary increase, inflation rate, mortality, staff turnover, pension indexation and remaining service lifetime. The amount recorded in the balance sheet for employee defined benefit plans is the difference between the present value of the Defined Benefit Obligation and the market value at the balance sheet date of the corresponding invested plan assets after adjustment for any minimum funding requirement or any asset ceiling effect. If the net result is positive, a provision is recorded. If the net result is negative, a prepaid pension asset is recorded in the balance sheet but not more than its recoverable amount (asset ceiling).

/ Deferred taxes

Please refer to section D.1 for valuation principles.

As of December 31, 2016 a net deferred tax liability position of €263 million has been recognized in the Solvency II Balance Sheet.

/ Financial liabilities

Under local statutory GAAP, financial liabilities, including financing debts issued to finance the solvency requirements of operational entities or to acquire a portfolio of contracts, are accounted for at amortized cost.

Under Solvency II, financial liabilities are re-measured at fair value except for some financing debts that are reclassified in own funds. However, financial liabilities are not subsequently adjusted to take account of the change in own credit standing of the issuer after initial recognition (frozen credit risk).

/ Other liabilities

All other debts are recorded at fair value under Solvency II but by default, the local statutory GAAP value is kept.

D4 – Alternative methods for valuation

For detailed information on alternative methods used for valuation of assets and other liabilities, please refer to the subsection Fair Value Measurement in section D1.

For detailed information on alternative methods used for valuation of liabilities other than technical provisions, please refer to the section D3.

D5 – Any other material information

Not applicable.

E CAPITAL MANAGEMENT

E.1 Own funds

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E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

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E.1 Own funds

/ Capital Management Objectives

The Executive Committee of AXA Corporate Solutions regularly reviews the adequacy of the risk management system and processes and has regular processes in place to identify and prioritize opportunities for further developing the risk management capabilities.

AXA Corporate Solutions has reviewed its capital resources and requirements on an economic basis as at the end of 2016. In performing this review, both the regulatory requirements and Executive Management's internal objective - including ability to meet key shareholder's requirements - have been considered. The Company ensures that the level of capital is appropriate to ensure an adequate position of the Company from a competitive point of view.

/ Information on the Capital Structure

As of December 31, 2016, available financial resources totalled €1,636 billion. The capital resources at December 31, 2016 and December 31, 2015 are presented in the table below:

(in Euro million)	At December 31, 2016	At December 31, 2015	Evolution
Share capital	271	271	0
Dated subordinated debt	153	153	0
Reconciliation reserve	1,212	1,251	(39)
Available Financial Resources	**1,636**	**1,675**	**(39)**

Reconciliation reserve represents the excess of asset over liabilities from the Solvency II balance sheet, reduced by capital items in the financial statements (share capital, excluding subordinated debts) and net of a dividend scheduled to be paid in 2017 of €132 million.

/ Change in capital resources in 2016

Available Financial Resources

€ million	Available Financial resources
AFR FY15	**1,675**
Modelling changes & opening adjustments	39
Total return	64
Dividend to be paid in year N+1	-132
Others	-10
AFR FY16	**1,636**

AXA Corporate Solution's Available Financial Resources decreased by -€39 million (-2.3%) to €1,636 million as a result of:

■ A positive impact of model changes and opening adjustments of €39 million,

■ A total return of €64 million driven by the performance generated by income on fixed-income securities, non-amortisable securities (equities and real estate) and the positive impacts of interest rates and spreads movements, partly offset by a combined ratio of over 100%, and

■ A €132 million estimation of dividend to be paid in 2017 based on 2016 results.

Calculation is based on a foreseeable dividend of €132m.

The Board of Directors in its meeting dated April 19, 2017 eventually decided to propose to the General meeting a dividend of €110m.

With this new dividend proposition, the AFR would be €1,658m and the Solvency II ratio would be 153%.

The General meeting will take place on May 31, 2017.

/ Tiering analysis of capital

Repartition of capital by tier

Solvency II available Own funds represent Available Financial Resources (AFR) available to the undertaking before any consideration for tiering eligibility restriction and after limitation over the potential non-availability of certain elements of capital.

Available own funds are split into tiers (this analysis is only done for the purpose of calculating the Solvency ratio), i.e. three different buckets of capital determined according to the quality of such components as defined in the Solvency II Regulation. Eligibility limits apply to those available elements to cover respectively the Solvency Capital Requirement (SCR) or the Minimum Capital Requirement (MCR).

As far as compliance with the Solvency Capital Requirement is concerned, the following quantitative limits shall apply: (a) the eligible amount of Tier 1 items shall be at least one half of the Solvency Capital Requirement; (b) the eligible amount of Tier 3 items shall be less than 15 % of the Solvency Capital Requirement; (c) the sum of the eligible amounts of Tier 2 and Tier 3 items shall not exceed 50 % of the Solvency Capital Requirement.

AFR is the eligible own fund amount after the tiering limits are applied. The structure of tiering is presented in the table below:

(in Euro million)	Total	Unrestricted Tier 1	Restricted Tier 1	Tier 2	Tier3
AFR (Eligible own fund) At December 31, 2016	**1,636**	**1,483**	**0**	**153**	**0**
Of which ancillary	0	0	0	0	0
Of which subject to transitional measures	0	0	0	0	0

The various components of what AXA Corporate Solutions considers as eligible capital are determined in accordance with Solvency II regulatory requirements. At December 31, 2016, eligible capital amounted to €1,636 million of which:

■ unrestricted Tier 1 capital after accounting for proposed dividend: €1 483 million mainly comprised of ordinary shares (€271 million), and a reconciliation reserve corresponding to €1 212 million;

■ Tier 2: dated subordinated debt of €153 million

As far as compliance with the Minimum Capital Requirements is concerned, the following quantitative limits shall apply: (a) the eligible amount of Tier 1 items shall be at least 80 % of the Minimum Capital Requirement; (b) the eligible amounts of Tier 2 items shall not exceed 20 % of the Minimum Capital Requirement.

In accordance with the methods of calculation implemented by AXA in line with existing regulations, AXA Corporate Solutions' eligible financial resources to cover its minimum capital requirement under the current Solvency II regime amounted to 335% at December 31, 2016.

Dated and undated subordinated debts description

Dated and undated subordinated debts issued by the Company qualify as available capital resources and most benefit from the transitional provision foreseen in the Directive 2014/51/EU (Omnibus II) as those instruments were eligible to meet the solvency I margin and were issued prior to the official adoption of the Solvency II Regulation.

As of December 31, 2016 and December 31, 2015, subordinated debt recognized in shareholders' equity broke down as follows:

(in Euro million)	At December 31, 2016	At December 31, 2015
Tier 1 restricted	**0**	**0**
Debt subject to transitional measures		
Debt not subject to transitional measures		
Tier 2	**153**	**153**
Debt subject to transitional measures	153	153
Borrowing AXA France IARD Euribor 3 month + margin 114 bps		
December 2013 - 100 M€ – no call before 2018	100	100
Borrowing AXA Global P&C Euribor 3 month + margin 114 bps		
December 2013 - 53 M€ – no call before 2018	53	53
Debt not subject to transitional measures:	0	0

/ Reconciliation to local Shareholders' equity

As of December 31, 2016, statutory shareholder's equity totalled €826 million. The reconciliation movements in capital resources between the shareholders' equity and the Solvency II Available Financial Resources are presented in the table below:

€ million	At December 31, 2016
Local Shareholders' Equity	**826**
Full market value of assets	570
Intangible assets	-25
Best Estimate Liabilities	274
Subordinated debt	153
Other	-162
Available Financial Resources (AFR)	**1,636**

The key differences between the Local Shareholders' Equity and the Solvency II frameworks are further explained below:

- intangibles elimination relates to the removal of Intangibles, and deferred acquisition costs that are re-measured through the Best Estimate Liabilities calculation;
- the adjustment of the market value of assets is related to the recognition of unrealized gain and losses of assets (loans and real estate) recognized at cost in the IFRS Balance Sheet, for a total amount of € 570 million;
- best Estimate Liabilities and Market Value Margin, €274 million adjustment is related to the re-measurement in the Solvency II framework of policyholder's reserves as compared to those of the local GAAP;

- subordinated Debt reclassification is related to Tier 2 subordinated debts held by AXA Corporate Solutions, and amounts to €153 million; and
- other relates mainly to deferred taxes and employee benefits adjustments.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

AXA Group received formal approval over its internal economic capital model application on November 2015. The AXA economic capital (AXA's Internal Model) is designed to allow AXA entities to choose the local calibrations which better reflect the local risk profile and to capture all the material risks to which AXA is exposed. As a result, it is believed the internal economic capital model better aligns the capital requirement metrics with the Management decision making.

/ General principles

The Solvency II directive provides for two separate levels of solvency margin: (i) the Minimum Capital Requirement (MCR), which is the amount of own funds below which policy holders and beneficiaries are exposed to an unacceptable level of risk should the Company be allowed to continue its operations, and (ii) the Solvency Capital Requirement (SCR), which corresponds to a level of eligible own funds that enables insurance and reinsurance companies to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made.

The French regulation has made use of the option not to disclose any capital add-on during a transitional period ending no later than December, 31 2020.

/ Solvency Capital Requirement (SCR)

On November 17, 2015, AXA received approval from the ACPR to use its internal model to calculate its regulatory capital under Solvency II. The solvency II capital ratio of AXA Corporate Solutions is equal to 151% as of December 31, 2016.

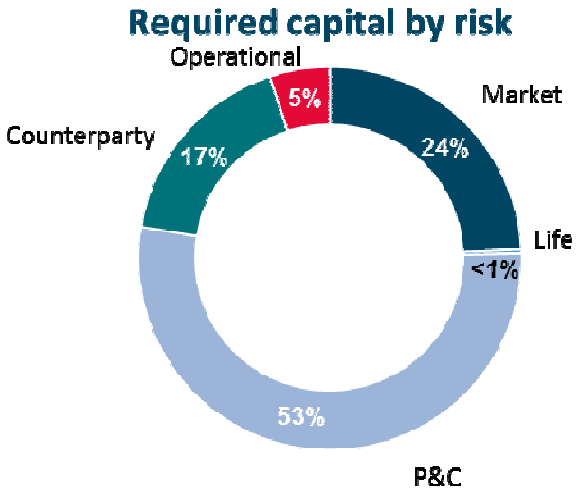
The ACPR continues to review regularly the underlying methodologies and assumptions of AXA Corporate Solutions' model for adequacy and such review may lead to adjustments to the level of capital required by the ACPR. The European Insurance and Occupational Pensions Authority (EIOPA) is also expected to carry out a review of the consistency of European insurer's models and any such review may lead to regulatory changes to increase convergence and to strengthen oversight of cross-border groups.

On December 31, 2016 the Company's solvency capital requirement was €1,087 million, split as follows by risk module: P&C risk €950 million, L&S risk €6 million, Market risk €434 million, Credit Risk €309 million, Operational Risk €91 million.

Total Solvency Capital Requirement (SCR) decreased from €1,114 million to €1,087 million from FY 2015 to FY 2016. The key drivers are:

- Market SCR increased by €30 million (+7.6%), including €+13 million due to the investments actions (€+18 million) and a higher impact of the Volatility Adjustment (€+13 million);
- Credit SCR decrease by €86 million (-21.8%) mainly explained by the Reinsurance SCR decrease (€83 million);
- P&C SCR increased by €17 million (+1.8%) mainly due to the increase of Premium Risk (€11 million) and an increase in Reserves Risk (€36 million) deriving from higher volatility on the reserves, offset by the decrease of CAT risk (€21 million), in particular the Man Made extreme scenario;
- Operational SCR decreased by €45 million (-33.3%) mainly explained by the update of the model parameters;
- Tax adjustment amounting to €+24 million impact on SCR post-tax. Tax position of the Company remains a deferred tax liability, as the last year.

As at December 31, 2016, the breakdown of the Solvency II required capital (€ 1,087 million) by risk categories was: 24% in Market, <1% in Life, 53% in Property & Casualty, 17% in Credit risk, and 5% in operational risk.



/ Minimum Capital Requirement

The Minimum Capital Requirement is meant to ensure a minimum level below which the amount of financial resources should not fall. That amount is calculated in accordance with a simple formula, which is subject to a defined floor and cap based on the Solvency Capital Requirement of the Company in order to allow for an escalating ladder of supervisory intervention, and that it is based on the data which can be audited.

In accordance with the methods of calculation implemented by AXA Corporate Solutions in line with existing regulations, AXA Corporate Solutions' Minimum Capital Requirement amounted to € 489 million at December 31, 2016 (-2.4% or € -12million) mainly driven by the decrease in the total Capital at risk (-2.4% or € -27 million).

The Minimum Capital Requirement is founded over a factor-based formula taking into consideration the amounts of Best Estimate Liabilities net of the amounts recoverable from reinsurance contracts and special purpose vehicles, and written premiums for each segment of business. Different factors are applied to those amounts according to each relevant segment.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

Not applicable

E.4 Differences between the standard formula and any internal model used

/ General information

AXA has developed a robust economic capital model since 2007 which has been implemented in AXA Corporate Solutions and used since 2009 in the risk management system and decision making processes. AXA Corporate Solutions main goal of using an internal model as opposed to the standard formula is to better reflect the Company's risk profile in the Solvency Capital Requirement. This is considered from several aspects.

- *Taking into account local specificities* – AXA Corporate Solutions is a global Company, and operates in a wide range of insurance markets offering a variety of products and targeting different demographics and different risk exposures. It is therefore appropriate, to the extent possible, to calibrate stresses specifically to these risk profiles and to allow for the benefits of diversification of the different risks across such markets.
- *Addressing shortcomings of the standard formula* – Based on its expertise, AXA Corporate Solutions can improve on the approach of the standard formula, which is naturally constrained by its general scope, to have models which are more appropriate for the scope of the AXA Corporate Solutions. For example, the internal economic capital model for market risks adds some risks not covered by the standard formula (government spread risk, into interest rate implied volatility and equity implied volatility risk).
- *Allowing for better evolution of the model over time* – As the AXA Corporate Solutions' experience increases, its business expands to new markets and product innovations create different risks, the flexibility of an internal model allows the specificities of these developments to be reflected.

AXA Internal Model is calibrated to represent the value-at-risk of the loss distribution of AXA Corporate Solutions over a one year time horizon at the 99.5th percentile.

- AXA's Internal Model forms an important piece of the AXA Corporate Solutions system of governance of which usage has been built and developed in strong relationship with the operating business lines and risk management department in a way to develop an internal model adapted to the undertaking's needs.
- AXA's Internal Model is used for assessing and managing the economic capital and is also a supportive decision-making tool in different business processes: strategic planning, underwriting, investment decisions, and project management. Besides, as integrated within the risk management system, the AXA's Internal Model provides information for implementing the Own Risk & Solvency Assessment (ORSA) process, formulating risk strategies, monitoring risk appetite or producing risk reporting.

/ Main differences between the Standard Formula and the Internal Model

AXA's Internal Model is a **centralized model** which is based on Group methodologies. This ensures a **full consistency** in the modelling of similar risks across the Group while still allowing for **local specificities** when they exist, in particular via the calibration of underwriting risks at local levels, these local calibrations being then presented and validated by Group Risk Management. Validation encompasses both quantitative and qualitative aspects of the internal model, amongst which, in particular data quality. AXA's data quality policy requires data used as input in the internal model to be complete, accurate and appropriate

The general architecture of the AXA's Internal Model consists in five main modules (Life, Market, Credit, P&C and operational risks).

In general in the 5 risks categories, the internal economic capital model provides models for sub-risks that are not adequately captured in the Standard Formula but are material to AXA.

Market risk: Interest rate implied volatility, Equity implied volatility, Government Spread and Inflation are explicitly modelled in AXA's Internal Model. The risk of concentrations in the portfolio is included in the Corporate Default calculation.

Due to the higher number of sub-risks and risk factors used in the internal model, the risks of the different asset classes and the diversifications among them can be captured more precisely than in the standard formula. For instance the shocks depend on the economy, which means that for volatile markets higher shocks are assumed.

Credit risks: AXA's Internal Model addresses separately the default risk of corporate bonds whereas it is included in the calibration of spreads in the standard formula.

Property & Casualty risks: Lapse risk is taken through the portfolio modelling, including Lapses and New Business evolution and through the volatility around the Unearned Premium Reserve.

Operational risk: The standard formula for operational risk is factor-based (percentage of gross written premiums or technical provisions) and is not risk sensitive. AXA internal model for operational risks follows a forward-looking and Scenario-Based Approach (SBA). It relies on the identification and assessment of the most critical Operational risks of each entity complemented by a set of transversal Group scenarios.

Modelling techniques

In the standard formula simple models are used for most risk categories in order to derive the SCR. In most cases an extreme scenario is defined, which represents the 99.5% quantile.

In the AXA Internal Model, sophisticated models are applied. In particular for Market, Credit Reinsurance, Property & Casualty and Operational risk Monte Carlo simulations are used. This allows deriving the whole loss distribution.

Diversification

In the standard formula, no geographical diversification is explicitly recognized. The internal economic capital model aggregation considers geographical diversification as AXA Group is operating globally.

The Solvency II framework requires the provision of a Probability Distribution Forecast (PDF) underlying the internal model that assigns probabilities to changes in the amount of Company's own funds. The following orientations have been chosen for the internal economic capital model assessment:

- The Property & Casualty and Market modules' modelling, using simulation-based approaches, allow exhibiting a full Probability Distribution Forecast.
- The modelling of the Credit risk leans on both simulation-based techniques and shock-approaches depending on the considered sub-risk. For the first techniques, full Probability Distribution Forecasts are available. Regarding shock-approaches, several percentiles, similarly to the approach performed for the life risk, are calculated.

The overall aggregation process is based on an **elliptical aggregation** of the Market, Life, Credit, Property & Casualty and Operational requirements. This modular approach allows for the **ranking of the main risks** or sub-risks and provides a **better understanding of the risks** (sub-risks) and their impacts.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

Not applicable

E.6 Any other information

Not applicable

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AXA CORPORATE SOLUTIONS
redefining / standards