

**AXA Life Europe dac**

Solvency and Financial Condition Report

For the year ended 31 December 2019

## Contents

---

Introduction.....	3
Summary .....	4
A: Business and Performance.....	8
B: System of Governance .....	19
C: Risk Profile.....	48
D: Valuation for Solvency Purposes .....	62
E: Capital Management .....	77
Appendix: Quantitative Reporting Templates.....	92

# Introduction

---

This report is the Solvency and Financial Condition Report (SFCR) of AXA Life Europe dac for the reporting period ended December 31, 2019, pursuant to Regulation 52 of Statutory Instrument no. 485 of 2015 and Articles 290 to 298 of the Delegated Regulation 2015/35.

## Certain preliminary information about this SFCR

In this Report, unless provided otherwise (i) the “Company”, “AXA Life Europe” or “ALE” refers to AXA Life Europe dac, a designated activity company limited by shares organised under the laws of Ireland, which is a direct subsidiary of AXA SA, the publicly traded parent Company of the AXA Group, and (ii) “AXA Group” or the “Group” refer to AXA SA together with its direct and indirect consolidated subsidiaries.

All amounts in this report are presented in millions of euro, which is the Company’s presentation and primary functional currency.

## Summary

In recent years, the European Union has developed a new regulatory regime for European insurers which 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

<i>(In Euro million except solvency ratio data)</i>	2019	2018
<b>Income statement data</b>		
Total revenues	316	322
Operating income before investment result	(663)	(42)
Net investment result	662	51
Net income/expense	(1)	7
<b>Balance sheet data</b>		
Total assets	9 516	7 600
Available capital	1 145	1 139
<b>Capital requirement data</b>		
Solvency capital requirement (SCR)	631	544
<b>Solvency II ratio</b>	<b>181%</b>	<b>209%</b>

## / Key Highlights

<p><b>ACTIVITY INDICATORS</b></p>	<p><b>Revenues</b> representing gross written premium and revenue from other activities decreased in 2019 by €6 million (-2%) when compared with prior year. Gross written premium for the financial year is €284 million of which €3 million relates to single premium and €208 million to regular premium insurance contracts, with a further €73 million in respect of reinsurance premium. The decrease in gross written premiums is reflective of the fact that AXA Life Europe is closed to new business. Net income amounted to -€1 million, a decrease of €8 million compared to 2018.</p>
<p><b>SYSTEM OF GOVERNANCE</b></p>	<p>Since inception, AXA Life Europe has operated with a unitary Board of Directors, a Board Chairman and a Chief Executive Officer. The Board of Directors has three specialised Committees that review specific matters: (1) the Audit Committee, (2) the Risk Committee and (3) the Remuneration Committee. In order to preserve well-balanced governance, the Board of Directors ensures that independent directors have a major role in all Board Committees.</p> <p>In compliance with Solvency II regulations, the Company has four key functions: 1) Risk Management, (2) Compliance, (3) Internal Audit, and (4) Actuarial.</p> <p>The Company is engaged in the financial protection and wealth management business in Europe and on a reinsured basis in Asia. As such, it is exposed to a very wide variety of risks – insurance risks, financial market risks and other types of risks.</p> <p>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 the Company, including the completion of the Own Risk &amp; Solvency Assessment (ORSA). This framework is based on the five following pillars, cemented by a strong risk culture:</p> <ul style="list-style-type: none"> <li>▪ Risk Management independence and comprehensiveness: the Chief Risk Officer being independent from operations (“first line of defence”) and Internal Audit (“third line of defence”). The Risk Management function, which includes Internal Control, and together with Legal, Compliance, Human Resources and IT constitute the “second line of defence” whose objective is to develop, coordinate and monitor a consistent risk framework across the Company;</li> <li>▪ Risk appetite framework;</li> <li>▪ Systematic second opinion on key processes;</li> <li>▪ Robust internal model; and</li> <li>▪ Proactive risk management.</li> </ul> <p>In order to manage its risks, the Company 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 and have the necessary information and tools to appropriately analyse and manage these risks.</p> <p>These mechanisms and procedures principally include:</p> <ul style="list-style-type: none"> <li>▪ the Company’s 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;</li> <li>▪ 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;</li> <li>▪ Internal Control Over Financial Reporting (ICOFR), designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements; and</li> <li>▪ 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) are timely, accurate and complete.</li> </ul>

	<p>These mechanisms and procedures, taken together, constitute a comprehensive control environment that executives believe is appropriate and well adapted to the Company's business.</p>
<b>RISK PROFILE</b>	<p>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.</p> <p>In presenting the risks set forth below, management has prioritised the three categories of risks in a manner that corresponds to management's current view as to the potential impact (from higher to lower) of the risk for the Company.</p> <p><b>Risks relating to the financial markets and financial position</b></p> <p>The Company is exposed to financial market risks through its core business of financial protection. 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: asset and liability management (ALM), disciplined investment process, hedging strategies, reinsurance and regular monitoring of the financial risks on the economic and solvency position of the Company.</p> <p>The main financial risks for the Company are as follows:</p> <ul style="list-style-type: none"> <li>▪ interest-rate risk;</li> <li>▪ equity risk</li> <li>▪ credit risk; and</li> </ul> <p>In addition, the Company continuously ensures it has adequate liquidity to cover requirements under severe stress scenarios.</p> <p>AXA Life Europe is subject to risks associated with the impact that the potential spread of the Covid-19 coronavirus could have on the global economy, particularly any long lasting impacts on interest rates and equity markets.</p> <p><b>Risks relating to the scope and nature of our business, the products we offer and our operations</b></p> <p>Insurance risks are covered through:</p> <ul style="list-style-type: none"> <li>▪ reviewing technical reserves; and</li> <li>▪ monitoring emerging risks.</li> </ul> <p>The operational risks associated with Covid-19 and staff availability are being addressed via a number of steps designed to minimise the risk of key staff becoming infected. These include a prohibition on business travel; restrictions on visitors to the Company offices; requesting staff who have been visiting affected areas to self-isolate, and requesting all staff to work from home from 13 March to 17 April 2020. Additional measures have also been taken to improve hygiene in the offices.</p> <p><b>Risks relating to the evolving regulatory and competitive environment in which we operate</b></p> <p>In addition to risks that bear a capital charge through the SCR calculation or that are continuously monitored, the Company also considers a variety of risks in its risk management framework: cyber and information security threats, reputation risk, strategic risk, regulatory risk as well as emerging threats and impact of transversal adverse scenarios.</p>

	<p>The focus on Brexit remains high within the organisation, and the uncertainties around the Brexit outcome and its implications are closely monitored and mitigated. In particular, a contingency plan has been put in place to address our ability to service our UK-based customers, as well as the continuity of our hedging programme.</p>
VALUATION	<p>AXA Life Europe's Solvency II balance sheet is prepared as of December 31. The balance sheet is prepared in compliance with the Solvency II Regulation.</p> <p>Assets and liabilities are valued based on the assumption that the Company will pursue its business as a going concern.</p> <p>The Solvency II balance sheet includes only the value of business in force and therefore presents only a partial view of the value of the Company.</p> <p>Technical provisions are recognised 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.</p> <p>The Company prepares its local statutory financial statements in accordance with IFRS and as such all references to IFRS throughout this document are interchangeable with references to local GAAP. Other assets and liabilities are recognised 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 Regulation 82 of Statutory Instrument no. 485 of 2015:</p> <ul style="list-style-type: none"> <li>▪ Assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction; and</li> <li>▪ 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's own credit standing).</li> </ul>
SOLVENCY	<p><b>Solvency II ratio</b> at December 31, 2019 amounted to 181%, down 28 points compared to December 31, 2018.</p> <p><b>Own Funds</b> increased by €6 million to €1,145 million during the reporting period. Positive impacts have arisen mainly from; a FY2018 foreseeable distribution to AXA SA which did not materialise, gains on derivative assets relative to the Solvency II liability and assumption and model updates. Offsetting negative impacts are mainly due to an increase in risk margin and other liability provisions in 2019 due to the significant decrease in interest rates, as well as the change in UFR at 1<sup>st</sup> January 2019.</p> <p><b>Solvency Capital Requirement</b> increased by €87 million to €631 million during the reporting period. The update of the ultimate forward rate (UFR) on 1st January 2019 increased Life SCR and the resulting impact reduced the loss absorbing capacity of deferred tax (LACDT). Subsequently, the significant decline in EUR interest rates during 2019 led to further large increases in Life SCR which was the key driver of total SCR increase.</p> <p>Total eligible own funds to meet the solvency capital requirement (SCR) amounted to €1,145 million at December 31, 2019, consisting of €1,066 million unrestricted Tier 1 capital and €79 million Tier 3 capital.</p> <p><b>Minimum Capital Requirement</b> increased by €22 million to €158 million during the reporting period. Total eligible own funds to meet the minimum capital requirement (MCR) amounted to €1,066 million at December 31, 2019, classified as unrestricted Tier 1 capital.</p>

## **A: Business and Performance**

---

### **A.1 Business**

---

General information  
Information on the Company  
Major Shareholders and Related parties  
Business Overview  
Significant Business and Other Events

### **A.2 Underwriting Performance**

---

Aggregate underwriting performance  
Underwriting performance by geographical area  
Underwriting performance by product line

### **A.3 Investment Performance**

---

Net investment result  
Gains and losses directly recognised in Equity  
Investments in securitisation

### **A.4 Performance of other activities**

---

Net Income  
Leasing Arrangements

### **A.5 Any other information**

---

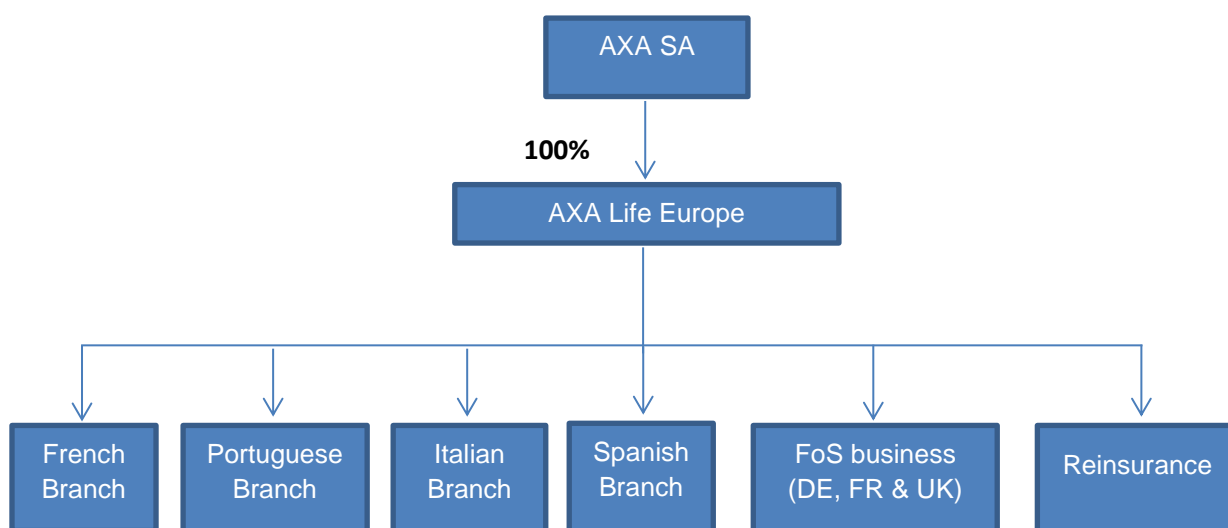


## A.1 BUSINESS

### / General Information

The principal activity of AXA Life Europe is to transact cross border life assurance business in the European Union and the Company is also permitted to underwrite reinsurance business in Japan. The Company is a wholly owned direct subsidiary of AXA SA.

AXA SA is the holding Company for the AXA Group, a worldwide leader in financial protection, with total assets of €781 billion and consolidated gross revenues of €104 billion for the year ended December 31, 2019. AXA operates primarily in Europe, North America, and the Asia-Pacific Region and, to a lesser extent, in other regions including the Middle East, Africa and Latin America.



Portuguese branch closure is effective February 29, 2020, with related operations moving to a freedom of service basis.

### / Information on the Company

AXA Life Europe dac, trading as AXA Life Europe and AXA Life Invest, is a designated activity company limited by shares, incorporated in Ireland under number 410727, with its registered office located at Wolfe Tone House, Wolfe Tone Street, Dublin 1, D01 HP90, Ireland.

AXA SA is a French société anonyme (a corporation) existing under the laws of France. The Company's registered office is located at 25 avenue Matignon, 75008 Paris, France and its telephone number is +33 (0) 1 40 75 57 00. AXA was incorporated in 1957 but the origin of its activities goes back to 1852.

## **Supervisory authority**

AXA Life Europe is a life insurance undertaking authorised in Ireland, pursuant to the European Union (Insurance and Reinsurance) Regulations 2015. Its main supervisor is the Central Bank of Ireland (“CBI”).

### **CENTRAL BANK OF IRELAND**

New Wapping Street, North Wall Quay, Dublin 1, Ireland

AXA 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 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 Groups 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, France

## **Statutory auditors**

### **Incumbent auditors**

MAZARS IRELAND:

Block 3, Harcourt Centre, Harcourt Road, Dublin 2, Ireland represented by Mr. Rob Hamill, first appointed on September 27, 2017.

MAZARS in Ireland is a partnership and is registered to carry on audit work and authorised to carry on investment business by the Institute of Chartered Accountants in Ireland.

## **/ Major Shareholders and Related parties**

---

### **Capital ownership**

On December 31, 2019, AXA Life Europe’s issued share capital amounted to €25 million divided into 99,970,000 ordinary shares (605,000 shares fully paid and 99,365,000 25% paid), with a par value of €1.

### **Voting rights**

AXA SA as the 100% shareholder retains 100% of the voting rights in the Company.

## / Business Overview

---

AXA SA has five operating activities: Life & Savings, Property & Casualty, Health, Asset Management and Banking. The activity of AXA Life Europe sits within the Life & Savings segment.

As at December 31, 2019 all the Company's operations are closed to new business. The Company continues to manage in-force portfolios in Germany, Spain, Italy, Portugal, France and the United Kingdom and reinsures the guarantees on a Japanese portfolio. Gross written premium for the financial year was €284 million of which €3 million related to single premium, €208 million to regular premium insurance contracts and €73 million to reinsurance premium.

### **MARKETS AND COMPETITION**

Prior to closing to new business in 2016, and the sale of its single premium whole of life investment bond business in 2017, the Company competed with insurance companies and with banks, asset management companies, investment advisers and other financial institutions for sales of savings-related investment products.

### **PRODUCTS AND SERVICES**

AXA Life Europe's Life & Savings products include single and regular premium unit-linked policies with guaranteed minimum benefits (also known as unit-linked with guarantees or variable annuities). The specificities of the products offered by the Company vary from market to market.

### **NEW PRODUCT INITIATIVES**

The Company is not currently open to new business on any of its product lines.

### **DISTRIBUTION CHANNELS**

The Company distributed its products through proprietary and non-proprietary channels (including retail banks and independent financial advisers) that vary from country to country.

## / Significant Business and Other Events

---

On August 1, 2018, AXA announced that it had received an irrevocable offer from Cinven for the potential sale of the Company. The regulatory assessment of the proposed sale is currently in progress.

In August 2018, the Company announced its decision to outsource policy administration and associated services relating to its French and UK business lines. In the year under review these activities continue to remain in house with the migration project to the chosen service provider underway.

On February 19, 2019, the Company set up a branch<sup>1</sup> in France. The intended purpose of this branch will be to support the Company's dynamic hedging programme in the future.

In August 2019, the Board of Directors cancelled the proposed distribution payment that was treated as foreseeable in determining the Company's Solvency position for year-end 2018.

In November 2019, the Company ported its existing book of Euro and Sterling cleared swaps from an internal AXA Group counterparty to the London Clearing House ('LCH') account of a new external counterparty.

---

<sup>1</sup> The Company's French branch does not perform any regulated activities.

On December 30, 2019 the Company entered into a conditional agreement to commute the existing Japanese reinsurance treaties and novate them to a replacement reinsurer. The key condition to this novation under the signed agreement is that the sale of the Company must have completed by March 31, 2020. On March 21, 2020 this agreement was amended to remove the above-mentioned condition, the novation is expected to take place no later than April 30, 2020.

At December 31, 2019, the company was in the process of closing the Portuguese branch with related operations moving to a freedom of services basis. Branch closure is effective February 29, 2020.

Since December 2019, a significant number of cases associated with the Coronavirus, now called COVID-19 by the World Health Organization (“WHO”), have been reported worldwide. Initially reported in the province of Hubei in the People’s Republic of China, it has spread across other countries, resulting in reported infections and deaths in numerous countries, including South Korea, Iran, Italy, Spain, France, Ireland, the United Kingdom and the United States, and new cases and fatalities are reported daily. Furthermore, it is currently not possible to know or predict the extent to which the current levels of reported cases reflect the actual transmission of the virus within populations, and accordingly the scale of the pandemic may be significantly larger than what is presently recorded. The spread of COVID-19 has resulted globally in governmental authorities imposing quarantines and travel restrictions of varying scope; led to significant disruptions in the global travel and hospitality industries, and in global trade and supply chains more broadly; resulted in decreased economic activity and lowered estimates for future economic growth; created severe strains on local, national and supra-national medical and healthcare systems and institutions; and caused global financial markets to experience significant volatility and the worst downturn since the 2008 financial crisis.

The Company together with the AXA Group has established plans to address how it will manage the effects of the outbreak and assess disruptions and other risks to its operations. These include the protection of employees, sustaining our services to clients and other stakeholders and ensuring effective processes are in place to communicate and execute such plans. The Company is closely monitoring its exposure, including;

- (i) the operational impact on its business,
- (ii) the consequences of a deterioration in macroeconomic conditions or of a slowdown in the flow of people and goods and services,
- (iii) the extent of insurance coverage impacted and
- (iv) change in asset prices and financial conditions (including interest rates).

## A.2 UNDERWRITING PERFORMANCE

### / Aggregate underwriting performance

#### Operating income and expenses

<i>(in Euro million except percentages)</i>	December 31, 2019	December 31, 2018
Gross written premium	284	290
Revenues from other activities	32	32
Total revenues	316	322
Technical charges relating to insurance and reinsurance activities	(925)	(316)
Expenses	(51)	(50)
Other operating income / expense	(2)	2
Operating income before investment results	(663)	(42)

**Gross written premium** split by geographical region in the table below decreased by €6 million (-2%) to €284 million when compared with prior year (2018: €290 million).

**Revenues from other activities** refer to rebates from fund managers which remained stable in 2019 at €32 million (2018: €32 million).

**Technical charges relating to insurance and reinsurance activities** consists of claims and benefits paid to policyholders €188 million (2018: €185 million) and an increase in insurance and reinsurance liabilities €784 million (2018: €152 million) before allowing for an unrealised foreign exchange impact of €+47 million (2018: €+21 million).

**Expenses** include administrative expenses of €34 million (2018: €27million), amortisation of IT intangible of €2m (2018: €7m) and acquisition costs of €15 million (2018: €16 million). Increase of €7 million in administrative expenses (+25%) are mainly due to project costs incurred relating to the pending sale of the Company from the AXA Group.

**Other operating income and expenses** include net loss from outward reinsurance arrangements of €2 million (2018: €5 million), and a parental guarantee refund from the AXA Group of €0 million in 2019 (2018: €7 million).

### / Underwriting performance by geographical area

The table below summarises AXA Life Europe's gross written premium by geographic region for the periods and at the dates indicated:

<i>(in Euro million except percentages)</i>	December 31, 2019		December 31, 2018	
Japan	73	26%	75	26%
United Kingdom	-	0%	1	0%
Germany	211	74%	214	74%
Total	284	100%	290	100%

**Gross written premium** in respect of Japan in the amount of €73 million in 2019 relates to the Japanese reinsurance treaty underwritten by the Company.

## **/ Underwriting performance by product line**

As the Company's product offering has only been in respect of unit linked policies, no further split of material business lines is required.

## A.3 INVESTMENT PERFORMANCE

### / Net investment result

Net investment result from the financial assets of the Company at December 31, 2019 and 2018 is as follows:

(In Euro million)	December 31, 2019			
	Net investment income	Net realised and unrealised gains and losses	Net investment result	Investment management expenses
Debt instruments	14	-	14	(2)
Investment funds	-	(1)	(1)	-
Cash equivalents	-	(1)	(1)	-
Assets backing contracts where the financial risk is borne by policyholders	-	458	458	-
Derivative instruments	(164)	356	192	(9)
<b>Net investment result</b>	<b>(150)</b>	<b>812</b>	<b>662</b>	<b>(11)</b>

(In Euro million)	December 31, 2018			
	Net investment income	Net realised and unrealised gains and losses	Net investment result	Investment management expenses
Debt instruments	15	-	15	(2)
Investment funds	6	-	6	-
Cash equivalents	-	(2)	(2)	-
Assets backing contracts where the financial risk is borne by policyholders	-	(280)	(280)	-
Derivative instruments	149	163	312	(9)
<b>Net investment result</b>	<b>170</b>	<b>(119)</b>	<b>51</b>	<b>(11)</b>

**Net investment income** of -€150 million (2018: €170 million) is presented net of amortisation of debt instrument premiums / discounts. The significant decrease in the year overall is attributable to the net interest expense of -€164 million arising on derivative instruments in 2019 compared with net interest income of €149 million in the prior year. These movements are largely relating to total return swaps.

All investment management fees are also included in the aggregate figure.

**Net realised and unrealised gains and losses** of €812m million (2018: -€119 million) relating to:

- realised losses on investment funds and cash equivalents of -€2 million (2018: -€2 million);
- unrealised gains arising on investments backing contracts where the financial risk is borne by policyholders of €458 million (2018: unrealised losses of -€280 million). In the income statement this

is offset by a related adjustment to policyholder reserves which is included in Net Technical Margin, as there is a full pass through of the performance of held assets to the individual contract holder; and

- realised and unrealised gains on derivative instruments of €356 million (2018: €163 million) consisting of;
  - changes in fair value of underlying hedged items in fair value hedges (as designated by IAS 39) or “natural hedges” (i.e. underlying assets designated as at fair value through profit or loss part of an economic hedge not eligible for hedge accounting as defined by IAS 39) of €377 million (2018: €163 million) which is offset in the income statement by changes in the liability option value (included in “Technical charges relating to insurance & reinsurance activities” – refer to section A2).
  - changes in fair value of -€21 million on swaptions held to mitigate the impact of interest rate volatility on the Solvency II balance sheet.

### / Gains and losses directly recognised in Equity

Debt and equity securities not attributable to policyholders are classified as ‘available for sale’ assets. These are financial assets that are not classified as ‘designated at fair value through the statement of income’, ‘held to maturity’, or ‘loans and receivables’. Available for sale financial assets are measured at fair value without any deduction for transaction costs. Changes in fair value have been reflected in shareholders’ equity (in 2019 and 2018), except for impairment losses and foreign exchange gains and losses.

<i>(in Euro million)</i>	At December 31, 2019	At December 31, 2018
<b>Changes in fair value of available for sale assets</b>	<b>18</b>	<b>(15)</b>

### / Investments in securitisation

The Company had no investment in securitised instruments in 2019 and 2018.



## A.4 PERFORMANCE OF OTHER ACTIVITIES

### / Net income

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

<i>(in Euro million)</i>	December 31, 2019	December 31, 2018
<b>Gross written premium</b>	<b>284</b>	<b>290</b>
Revenues from other activities	32	32
<b>Total revenues</b>	<b>316</b>	<b>322</b>
Technical charges relating to insurance and reinsurance activities	(925)	(316)
Expenses	(51)	(50)
Other operating income / expense	(2)	2
<b>Net investment result</b>	<b>662</b>	<b>51</b>
Income tax expense / benefit	(1)	(1)
<b>Net Income</b>	<b>(1)</b>	<b>7</b>

**Income tax expense** based on pre-tax income from operating activities of -€1 million (2018: -€1 million).

**Net income** decreased by -€8 million to -€1 million.

### / Leasing arrangements

The Company has entered into an operating lease agreement with a fellow subsidiary of AXA SA for the provision of office space, due portion of related shared service charges and car parking. The duration of the agreement is 10 years and 4 months with a termination date of 26 January 2027.

In August 2019, the Company signed a lease agreement for the provision of IT equipment, as at the balance sheet date the lease had not yet commenced.

## A.5 ANY OTHER INFORMATION

Not applicable

## **B: System of Governance**

---

### **B.1 General information on the system of governance**

---

Governance

Remuneration policy and structure

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

Assessment of the adequacy of the system of governance

### **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**

---

Risk management system

AXA Group Internal model

Own Risk and Solvency Assessment

### **B.4 Internal control system**

---

Internal control system

### **B.5 Internal audit function**

---

Internal audit function

### **B.6 Actuarial function**

---

Actuarial function

### **B.7 Outsourcing**

---

Outsourcing arrangements

### **B.8 Any other information**

---

## B.1 General information on the system of governance

### / Governance

---

#### Board of Directors

Since inception in 2005, ALE has operated with a unitary Board of Directors, with the roles of Chairman and Chief Executive Officer separated. In accordance with the Central Bank of Ireland Corporate Governance Requirements for Insurance Undertakings 2015, the Board retains ultimate responsibility for, among other things, setting and overseeing:

- a) the business strategy of ALE;
- b) the amounts, types and distribution of both internal capital and own funds adequate to cover the risks facing ALE;
- c) the strategy for the on-going management of material risks including, inter alia, liquidity risk;
- d) a robust and transparent organisational structure with effective communication and reporting channels;
- e) a remuneration framework that is in line with the risk strategies of the institution; and
- f) an adequate and effective internal control framework, that includes well-functioning risk management, compliance and internal audit functions as well as an appropriate financial reporting and accounting framework.

Where activities are delegated either within ALE to its executives and staff or outsourced to another party either within or outside the Group, appropriate means of delegation are utilised to ensure that ALE can effectively oversee the performance of such activities.

#### Operating procedures

The rules governing the operation, organisation and duties of the Board of Directors and its Committees are set out in the Company's Constitution, as well as the Board Charter and relevant Board Committee Charters.

The Board meets at least four times per calendar year and at least once in every six-month period, and more frequently as is necessary to fulfil its responsibilities effectively and prudently. The Board may also meet at the request of any Director. Prior to each meeting, Board and Committee members receive documentation concerning matters to be reviewed, generally seven days in advance.

Training sessions are provided to new and existing members of the Board of Directors to familiarise them with the Company's principal activities and issues.

## Composition of the Board

In accordance with the Central Bank of Ireland Corporate Governance Requirements for Insurance Undertakings 2015, the following minimum principles are followed in relation to Board composition:

- There must be at least 5 members;
- There must be at least 2 Independent Non-Executive Directors
- Executive Directors cannot represent a majority of Board members;
- The Chairman must be a Non-Executive Director or an Independent Non-Executive Director

Independence of Directors is assessed in accordance with the criteria set out in the Central Bank of Ireland Corporate Governance Requirements for Insurance Undertakings 2015.

A review of Board membership, encompassing both individual Board members and the composition of the Board as a whole, takes place on an annual basis, taking into account the balance of experience and independence sought.

On 31 December 2019, the Board of Directors was comprised of nine members: 8 men and 1 woman. Five directors were citizens of the EEA, other than Ireland.

### AXA Life Europe Board members as at 31 December 2019:

- Noel Richardson (Chairman and Non-Executive Director)
- Eoin Lynam (Chief Executive Officer and Executive Director)
- Stephen Lee (Chief Financial Officer and Executive Director)
- Matthieu André (Non-Executive Director and Chairman of the Remuneration Committee)
- Stéphane Decker (Non-Executive Director)
- Laurent Boulard (Non-Executive Director)
- Francois Robinet (Non-Executive Director)
- Brian Woods (Independent Non-Executive Director and Chair of the Risk Committee)
- Julie O'Neill (Independent Non-Executive Director and Chair of the Audit Committee)

## Board of Directors' committees

The Board of Directors has established three Committees to assist it in fulfilling its responsibilities: An Audit Committee, a Risk Committee and a Remuneration 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.

The role, duties, organisation and operating procedures of each Committee are set forth in relevant Board Committee Charters, which are approved by the Board and reviewed on an annual basis.

## Audit Committee

The Audit Committee is composed of a majority of independent non-executive directors and is chaired by an independent non-executive director.

The purpose of the Audit Committee is to:

- Oversee the adequacy and effectiveness of the internal control framework;
- Review the financial reporting process and the integrity of the reported results and disclosures made in the financial statements and regulatory returns;
- Review key assumptions and methodology for setting them, ensuring compliance with IFRS and Solvency II requirements;
- Monitor the effectiveness, performance and independence of the internal and external auditors;
- Review the annual internal audit, external audit and compliance monitoring plans; and
- Oversee emerging legal and regulatory developments impacting or potentially impacting the Company.

## Risk Committee

The Risk Committee is composed of a majority of non-executive directors and is chaired by an independent non-executive director.

The purpose of the Risk Committee is to:

- Oversee the establishment and maintenance of an appropriate risk management framework, facilitating efficient identification, management, monitoring and reporting on the current risk exposures of AXA Life Europe;
- Advise the Board on future risk strategy, including advice on the appropriate risk appetite and tolerances;
- Oversee the risk management function of the Company;
- Monitor the capital adequacy of the Company and report to the Board on material risks thereto;
- Within the context of Board-approved profitability and risk appetite thresholds, consider and approve proposed new products and new variations, monitor the pricing adequacy of existing products, and require appropriate actions in the event of breaches of pricing adequacy (product withdrawal, re-design, re-pricing); and
- Advise the Board on the formulation of strategies, and the monitoring of their implementation, relating to the investment of non-policyholder assets and the hedging requirements of the Company.

## Remuneration Committee

The Remuneration Committee is composed of a majority of independent non-executive directors and is chaired by a non-executive director or an independent non-executive director. The Remuneration Committee is responsible for:

- Overseeing the implementation and operation of the Remuneration Policy of the Company, including dealing with matters such as making determinations or taking actions in accordance with this Policy;
- Considering amendments to the Remuneration Policy and make recommendations on such amendments to the Board;
- Ensuring that the Remuneration Policy is consistent with and promotes sound and effective risk management and risk governance, and that it is not incentivising excessive risk-taking; and
- Reviewing the succession plan for members of Senior Management.

## Executive Management

The Chief Executive Officer is the top executive within ALE, with ultimate executive responsibilities for the Company's operations, compliance and performance. The CEO serves as the main link between the Board and the executive team.

Eoin Lynam was appointed Chief Executive Officer by the Board of Directors on 20 January 2014.

AXA Life Europe is organised according to the principle of separation of the powers of the Chairman of the Board of Directors and that of the Chief Executive Officer.

The Chairman of the Board of Directors organises and directs the Board of Directors' work, ensuring that it operates as an effective organ of governance.

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 matters reserved to the Board of Directors or its Committees under the Board Charter or relevant Board Committee Charters. The Chief Executive Officer also exercises his powers within the limits of the law and the Company's Constitution (which expressly assign certain powers to the shareholder or the Board).

## Main roles and responsibilities of key functions

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

In accordance with Solvency II requirements, the following four "key functions" or "control functions" are in place:

- **the risk management function** which is responsible for the definition and the deployment of the Enterprise Risk Management (ERM) framework within AXA Life Europe. 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;
- **the internal audit function**, which is, in particular, responsible for performing an evaluation of the adequacy and effectiveness of AXA Life Europe's internal control system and other elements of the system of governance.
- **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 the calculation of technical provisions and comparing best estimates against experience.

Each person in charge of a key function (in addition to the CEO and the CFO who effectively run the Company) must be "fit and proper", as set out in the Company's Fit and Proper Policy approved by the Board of Directors (see Section B2). Their appointment is required to be approved by the Central Bank of Ireland.

To secure their independence, all key functions have been established separate from any operational/business units and all have access to the Board of Directors and/or a relevant Board Committee. They possess the necessary authority to perform their respective tasks adequately, and this authority is ultimately sanctioned by the Board of Directors.

## Material changes in the system of governance in 2018

On August 1, 2018, AXA announced that it had received an irrevocable offer from Cinven for the potential sale of the Company. The proposed transaction is subject to conditions which include obtaining the required regulatory approvals.

## / Remuneration policy and structure

---

AXA Life Europe applies the AXA Group Remuneration policy (implemented at local level), which fully incorporates the Solvency II remuneration principles.

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 at risk for beneficiaries. 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.

The AXA Group Remuneration policy was published and is applicable to all AXA Group companies, including AXA Life Europe, 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 against 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) recognises achievement of defined financial and operational targets aligned with AXA’s business plan (ii) promotes long-term 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 behaviors.

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 equivalent such as stock options and/or performance shares (Long Term Incentive). This variable component depends on the AXA Group’s global performance, on AXA Life Europe’s performance (save for the Heads of key functions in line with Solvency II requirements), and on the achievement of the executive’s individual objectives including demonstrated abilities for leadership.

AXA ensures 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 equity principles within the Group and the previous compensation level of the executive.

### Long-Term Incentive (LTI) annual allotment

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

AXA recognises the importance of aligning remuneration over long term value creation by deferring a substantial portion of the individual’s total variable compensation (i.e. STI plus LTI). One main deferred Long-Term Incentive instrument is currently used: Performance Shares.

LTIs are integrally subject to performance conditions and therefore do not guarantee any grant or minimal gain for the beneficiaries. Attribution of LTI is made on the recommendation of the Chairman and the shareholder representative on the Company’s Board of Directors and requires the approval of the Board Remuneration Committee.

### LTI / Performance Shares

Performance Shares are designed to recognise 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 stock performance over the medium-term (3-5 years).

Performance shares are subject to a minimum deferral period ranging from 4 to 5 years<sup>1</sup>.

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 and final individual pay-outs range from 0% to 130% of the initial grant amount depending on the level of achievement against the performance conditions<sup>2</sup>.

### **LTI / 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;
- 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 authorised by the 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.

Attribution of LTI is made on the recommendation of the AXA Life Europe Board Chairman and the shareholder (AXA SA) representative on the Company's Board of Directors. It requires the approval of the Board Remuneration Committee. These recommendations are reviewed by AXA Executive Management to ensure a global coherence and respect of the Group's internal equity principles. Individual grants of Performance Shares are then decided by AXA Board of Directors.

### **Directors' Fees**

Only independent non-executive 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.

---

<sup>1</sup> Participants can receive AXA shares after a 3-year acquisition period (4-year acquisition period outside of France) depending on performance achievement. In France, once the shares are acquired, an additional holding period of 2 years is required. For more details please refer to the Performance Shares detailed plan rules.

<sup>2</sup> The threshold which currently applies is respectively 65% for Group and 60% for Entity performance.

## Pension schemes

The Company participates in the AXA Ireland Defined Benefit Pension Scheme and the AXA Ireland Defined Contribution Pension Scheme. It makes retirement contributions in respect of individual employees in accordance with the terms of the individual employment contracts. Employees will be required to make a basic level of contribution to the respective schemes, again in accordance with the terms of the individual employment contract.

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

---

### **Shareholders**

The Company did not make any distribution or dividend payment to its sole shareholder AXA SA during 2019.

### **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 members of the Company's executive management or Board of Directors as of December 31, 2019.

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 substantially 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 considering 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.

## B.2 Fit and proper requirements

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

---

One of the key aspects of the Company's system of governance is to ensure that the individuals tasked with overseeing, implementing and operating key aspects of the Company's business have the skills, experience and integrity required to fulfil the roles required of them.

In accordance with the Fitness and Probity Standards (Code issued under Section 50 of the Central Bank Reform Act 2010) of the Central Bank of Ireland, ALE requires that each person that performs a Controlled Function (CF) or a Pre-Approval Controlled Function (PCF) for the Company must:

- Be competent and capable to discharge the defined responsibilities set out for them;
- Be honest and ethical and must act with integrity at all times; and
- Be personally financially sound, in accordance with the Fitness and Probity Standards.

All appointments to PCF roles are required to be pre-approved by the Central Bank of Ireland. These roles include:

- The members of the Board of Directors;
- The Chief Executive Officer;
- The Chief Financial Officer;
- The Head of Compliance;
- The Chief Risk Officer;
- The Head of Actuarial Function, and
- The Head of Internal Audit.

Roles prescribed as CFs include staff who:

- exercise a significant influence on conduct of the affairs of the financial service provider,
- monitor compliance,
- perform certain functions in a customer-facing role,
- are involved in insurance mediation activities;
- deal in or with property on behalf of the financial service provider

The Company has put in place a Fit and Proper policy which defines processes and procedures for assessing the fitness and probity of persons who occupy CF or PCF roles, both when being considered for the specific position and on an on-going basis. This policy has been approved by the Board of Directors.

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

### / Risk management system

---

#### Risk management missions

As an integrated part of all business processes, the Risk Management team is responsible for the implementation of the Enterprise Risk Management (ERM) framework across ALE. 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.

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 defense") and from the Internal Audit function ("third line of defense"). Risk Management, together with Compliance and Internal Financial Control constitute the "second line of defense" whose objective is to develop, coordinate and monitor a consistent risk framework across the Company.
2. Risk appetite framework: The Chief Risk Officer is responsible for ensuring that the Board of Directors and top management reviews and approves the risks owned by the Company, understands the consequences of adverse developments related to these risks, and has action plans that can be implemented in case of unfavorable developments. The Company is required by the CBI under its Corporate Governance Requirements for Insurance Undertakings (2015) to have a risk appetite framework in place under a Board-approved Risk Appetite Statement ("RAS"). The RAS is reviewed annually by the Board of Directors. The exposures to risks are monitored by Risk Management on a monthly basis and are reported to the ALE Board Risk Committee at regular Committee meetings via a risk appetite dashboard, or immediately if a risk exposure limit is breached.
3. Systematic second opinion on key processes: The Chief Risk Officer ensures a systematic and independent second opinion on material decision processes, like new product characteristics (risk-adjusted pricing and profitability), Technical Provisions, Asset and Liability Management studies, Asset allocation and new investments, and Reinsurance.
4. Use of the internal model based on a robust economic capital metric: AXA's internal model offers a concrete and powerful tool to manage and measure exposure to most risks, in line with the Solvency II framework. The internal model is designed as a consistent and comprehensive risk management tool, and it also forms an important element in the capital management and planning processes.
5. Proactive Risk Management: The Chief Risk Officer is responsible for early detection of risks. This is ensured through challenge of and constant dialogue with the business and supported by the emerging risks management framework.

#### Risk Management Function

The Risk Management Function is a key component of the company's overall system of governance and it facilitates the implementation of the Company's risk management framework. It has been established within the Company separate from any business units.

The ALE Chief Risk Officer (CRO) has primary responsibility for the Risk Management function at an ALE level. In this context, the ALE CRO reports to the ALE Chief Executive Officer (CEO) and the Chairperson of the ALE Board Risk Committee. The CRO is independent from operations and has unrestricted access to all staff, systems and information needed to perform his role.

Risk management function responsibilities include:

- Assisting senior management, the Board Risk Committee and the Board in the effective operation of the risk management framework;
- Monitoring the risk management framework;
- Monitoring the general risk profile of the company,
- Detailed reporting on risk exposures and advising senior management, the Board Risk Committee and the Board on risk management matters, including in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments;
- Identifying and assessing emerging risks;
- Providing a second opinion on Investment and Asset-Liability Management (ALM) strategies;
- Ensuring that an independent review of reserves is carried out once a year;
- Defining risk management standards and ensuring they are implemented across the Company - consistent with the Group Standards Handbook;
- Liaising with AXA Group Risk Management (GRM).

In relation to the AXA's internal model, the risk management function is responsible for the following requirements:

- Design and implementation of the internal model. Design in this context is interpreted to mean in conjunction with AXA Group as the AXA internal model is ultimately a Group model. The Company has responsibility for ensuring that the model is appropriate for the ALE risk profile;
- Local testing and validation of the model;
- Documenting the internal model and any subsequent changes made to it;
- Analysing the performance of the internal model and preparing summary reports thereof;
- Informing senior management, the Board Risk Committee and the Board about the performance of the internal model, suggesting areas that need improvement;
- Updating senior management, the Board Risk Committee and the Board on the status of efforts to improve previously identified shortcomings;
- Overseeing the reliability of data used in the internal model and ensuring compliance with the requirements of the Group Data Quality Management Framework (DQMF);
- Liaising with the users of the outputs of the internal model; and
- Co-operating closely with the Actuarial Function.

In addition to co-ordinating the Risk Function activities at Company level, the CRO has responsibility for:

- Documenting and maintaining the Risk Management Framework for Board consideration and approval;
- Communicating the framework to the business;
- Implementing the framework and ensuring that appropriate procedures are in place to ensure ongoing and effective operation; and
- Updating the framework as required (for Board approval).

## Other functions

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 defense).

Compliance and Internal Financial Control are responsible for developing, facilitating and monitoring effective risk and control framework and strategy (second line of defense), in cooperation with Risk Management. Internal Audit performs, as part of its role, an assessment of risk and governance processes on a periodic basis to provide independent opinion on the effectiveness of the system of internal control (third line of defense).

## Group Risk Management

Group Risk Management (GRM), headed by the Group Chief Risk Officer who reports to the Group CEO, is responsible for developing the Enterprise Risk Management framework in terms of limits/thresholds (covering systemic, financial, insurance and operational risks), standards, minimum requirements or processes at Group level.

GRM oversees local entity adherence to the framework, supported by the local risk management team. It steers the Risk Management family and develops a risk culture throughout the Group.

The Group CRO is responsible for the risk management function at Group level and is highly involved in both Board and Management committees. The Group CRO is also a member of all AXA Group Risk Committees, defining risk standards, controlling Group and Local Risk Appetite limits and recommending actions to mitigate AXA risks. The Group CRO reports key risk matters directly to the Management Committee, which establishes the risk control framework by validating both Group Risk policy and risk strategy.

The Risk Management function has been further reinforced since December 1, 2017 with the decision to create a Group Insurance Office ("GIO") which reports to the Group Chief Risk Officer and gathers Life & Savings, Health & Protection and Property & Casualty business experts in charge of promoting technical excellence and ensuring compliance with Group insurance guidelines and standards. In addition, a new reinsurance structure has been created (AXA Global Re) which also reports to the Group Chief Risk Officer. Its main mandate is to contribute to the protection of the Group through the centralization of the Group's purchasing of reinsurance.



## / AXA Group Internal model

---

AXA Group has developed a robust internal model and it has been in use since 2009 in the risk management system and decision-making processes. On November 17, 2015 the Group received approval from the ACPR to use its internal model to calculate its Solvency Capital Requirement under Solvency II. The Company continually monitors the appropriateness of the internal model, and on June 30, 2017, AXA Group applied for a major model change to the ACPR. In January 2018, the ACPR approved the model change to be applicable for FY 2017 reporting. The 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 the following perspectives:

- Taking into account local specificities – particularly important for ALE's Variable Annuity business - AXA is a global company and caters to a wide range of insurance markets with a variety of products offered targeting certain 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 inherent to the standard formula, which is naturally constrained by its general scope.
- Allowing for better evolution of the model over time – As 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

The Company has put in place model governance procedures to ensure that model developments / changes do not alter the model in ways which could affect its suitability for supporting risk management decisions and setting capital requirements. There have been no material changes to internal model governance at the Company during the reporting period.

Model change governance is overseen by the following parties:

- ALE Assumption and Model Change Committee;
- ALE Executive Committee;
- ALE Solvency II Committee;
- ALE Board Risk Committee; and
- ALE Board of Directors.

### ALE Assumption and Model Change Committee

Local changes to the internal model must first be proposed (e.g. by Risk Management) to the ALE Assumption and Model Change Committee for consideration. This Committee is responsible for

- Designating a leader and corresponding working group for each model change;
- Reviewing the methodology / process by which model change is initiated, validated and reviewed (e.g. model change classification consistent with Group Model Change Policy);
- Discussing & validating the recommendations of the Working Groups;
- Recommending the change for implementation to the ALE Executive Committee; and
- Ongoing monitoring of progress with model change projects.

The Committee also acts as a repository of all model changes and corresponding documentation.

### ALE Executive Committee

The ALE Executive Committee is responsible for reviewing and validating model changes recommended to it by the ALE Assumption and Model Change Committee and where relevant for recommending them to the ALE Solvency II Steering Committee for approval. The Committee is also responsible for reviewing the adequacy of the change management process.

## ALE Solvency II Committee

The SII Committee is the committee tasked with the responsibilities of the SII Internal Model Committee. The responsibilities of the SII Model Committee include:

- Reviewing (for approval) proposals for local changes in the Group internal model;
- Validating the analysis and classification of local model changes;
- Acknowledging and adopting changes proposed by Group and validated by the Group Solvency II Steering Committee for inclusion in the internal model;
- Reviewing the outputs of the model validation cycle, ensuring that adequate actions are taken where validation criteria are not met;
- Maintaining the local Internal Model Evolution Plan (MEP); and
- Supporting and promoting the development of the internal model consistent with the Group Model Change policy

## ALE Board Risk Committee

The Board Risk Committee is responsible for reviewing (for approval) requests for local model changes as proposed by the Solvency II Steering Committee and for proposing local major model changes to the Board for review.

## ALE Board of Directors:

The Board is ultimately responsible for internal model governance (i.e. for ensuring that appropriate local governance is in place consistent with Group and Solvency II governance requirements in order to ensure that the internal model operates properly on a continuous basis). Any major model change (either local or Group) must be approved by the AXA College of Supervisors prior to implementation. In this regard, the ALE Board of Directors is responsible for:

- Reviewing local major model changes; and
- Authorising the launch of the major model change approval process with the College of Supervisors (i.e. formal request for a major model change).

At Group level, the governance bodies involved in the internal model governance are as follows:

- The Group Boards of directors
- The Audit Risk and Compliance Committee
- The Solvency II Steering committee (Group Model Committee)

At Group level, the internal model is reviewed, challenged and approved on an ongoing basis by the Solvency II Steering Committee (SII STC), co-chaired by the Group CRO and the Group CFO. The Solvency II steering Committee is supported by risk technical working groups reviewing changes proposed to the Group internal model and presenting conclusions of these diligences to the SII STC. The SII STC also reviews internal model validation and model change processes, including links with local governance of the model. It also reviews the conclusions of the regular validation activities.

The Group results are presented quarterly to the Group Audit Risk and Compliance Committee.

## Internal model validation

AXA has implemented and documented an overall regular validation process of the internal model to monitor its performance and on-going appropriateness. This process and associated governance are documented in the Group Validation policy and complemented at Company level by a local Model Validation policy which is approved by the Board of Directors. The local validation policy outlines local validation activities and responsibilities.

Validation is carried out on 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 judgement, documentation, model governance, use test, systems/IT.

The Risk Management team performs integrated validation activities, mostly organised around:

- Validation of the model structure, modelling choices, parameters and assumptions; and
- Validation of the Solvency Capital Requirement 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 such as sensitivity tests, back testing, scenario testing, stability analysis and any other relevant activity.

These validation procedures are complemented by independent challenge and validation of assumptions, key parameters and results through committees (assumptions committees, clearance committees...) intended to provide an adequate level of expertise and seniority.

In particular, Group Risk Management teams provide 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 the following two internal teams:

- Internal Financial Control (IFC) team, at local and Group level, responsible for assessing the effectiveness of the internal control framework over Solvency II, on the basis of the testing of processes and controls over the Own Funds and SCR, at least annually; and
- Internal Model Review (IMR) team, which is a Group team responsible for the in-depth actuarial review of the model under local team's responsibility, the conception and methodology when locally developed, and the local implementation of the Group principles when relevant. IMR controls are performed on a 3-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 summarising the conclusions of the internal review by Risk Management and the conclusions from the independent reviews by IFC and IMR as well as a review by an independent third party.

## / Own Risk and Solvency Assessment

---

The Own Risk and Solvency Assessment (ORSA) is an important component of the Company's Risk Management Framework. It integrates several traditional risk management and business processes (e.g. risk appetite framework, strategic planning process etc.) with forward-looking aspects of risk and capital management (e.g. solvency assessment over the medium-longer term, stress and scenario testing framework etc.).

ORSA encompasses processes to identify, assess, monitor, manage and report the short to medium term risks to which the Company is exposed and to ensure the adequacy of the level of own funds within the Company solvency targets, taking into account the risk profile, approved risk tolerance limits and business strategy. The ORSA gives a comprehensive and complete vision of the risks embedded in the business of the Company.

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

- Solvency Capital Requirement (SCR) & Own Funds calculations (prepared quarterly),
- 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.

As the internal model plays a key role in determining and monitoring the Company's risk profile, risk appetite, Solvency II capital requirements, forward-looking solvency assessment and stress testing framework, it facilitates full alignment and consistency of measurement across the Company's risk management framework which in turn informs the Company's capital management processes.

Managing overall solvency and regulatory capital requirements and integrating this with the management of key risks is part of business strategy. In this way the ORSA process provides valuable information for strategic, operational and risk management processes. In turn the business strategy of the Company is reflected in the ORSA (e.g. as part of the solvency assessment) where strategic decisions and management actions (where relevant) are taken into account.

The Company has established a policy on the Own Risk and Solvency Assessment (ORSA) which describes the processes and procedures in place to produce an ORSA.

### Board of Directors

The Board has ultimate responsibility for the ORSA process of the Company and takes an active part therein, including steering how the assessment is to be performed and challenging the results.

Components of the ORSA process are currently reviewed by the Board on an annual basis (e.g. Risk Appetite Statement). Board members also attend dedicated sessions designed to discuss the ORSA process and to identify stresses and scenarios for consideration and analysis by management. The ORSA report which contains results and conclusions from the ORSA process is also presented to the Board on an annual basis for approval.

### Board Risk Committee

The Board Risk Committee plays a key role in reviewing several ORSA components on a regular basis (e.g. SCR and AFR quarterly calculations); risk appetite monitoring and annual review of the Risk Appetite Statement, liquidity reporting, approval of risk standards. The Committee also reviews and challenges the ORSA report prior to it being presented to the Board.

## Senior Management

ALE Senior Management owns the operational ORSA process and has responsibility for reviewing all ORSA components and the ORSA report before presentation to the Board and Board Risk Committee.

The ALE Executive Committee reviews and challenges key ORSA results and conclusions (e.g. quarterly SCR and AFR results, Balance Sheet projection results and results of stress tests).

## Risk Management

The Company's Risk Management team, under the direction of the CRO is responsible for carrying out the ORSA process and for coordinating the preparation of the ORSA report.

The ORSA report provides an assessment on:

- a) The overall solvency needs through the assessment using the internal model for quantifiable risks considering risk mitigation actions implemented in current economic context and 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 using the approved internal model, in compliance with the Solvency II regulatory standard. Stress scenario analyses are performed to ensure adequacy of the economic capital assessed. Also, the use of the internal model outputs as an input to key decision-making processes provides a feedback loop for improving the model according to the evolution of the risk profile.
- c) The extent to which the risk profile 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 the model error. Limitations of the internal model and evolution plan resulting from the validation activities are presented.

## B.4 Internal control system

### / Internal control system

---

#### Internal control: objectives

AXA Life Europe underwrites life assurance business in a number of European markets. As such, it is exposed to a wide variety of risks – insurance risks, financial market risks and other types of risk.

In order to manage these risks, AXA Life Europe has put in place a comprehensive system of internal controls designed to ensure that the Company's financial statements and other 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 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 Company executives have a clear view of the principal risks the Company faces and the tools necessary to analyse and manage these risks;
- AXA's Internal Control Over Financial Reporting (ICOFR) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of AXA Life Europe's financial statements.
- The Company's ICOFR includes policies and procedures that provide reasonable assurance that:
  - accurately and fairly reflects the transactions and disposition of Company 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 only in accordance with the authorisation of executives and managers of the Company; and
  - unauthorised acquisition use or disposition of Company assets that could have a material effect on the Company's financial statements would be prevented or detected in a timely manner.

These mechanisms and procedures, taken together, constitute a comprehensive control environment that executives believe is appropriate and well adapted to the Company's business.

### Corporate governance structures

#### Executive Management

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

#### 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 has established three Committees to assist it in fulfilling its responsibilities: An Audit Committee, a Risk Committee, and a Remuneration 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

The Audit Committee constitutes an important part of the Company's overall internal control environment. Its purpose is to assist the Board in fulfilling its oversight responsibilities, in accordance with sound corporate governance principles. The Committee is responsible for:

- overseeing the adequacy and effectiveness of the internal control framework;
- reviewing the financial reporting process and the integrity of the reported results and disclosures made in the financial statements;
- reviewing key assumptions and methodology for setting them, ensuring compliance with IFRS and Solvency II requirements;
- monitoring the effectiveness, performance and independence of the internal and external auditors;
- reviewing the annual internal audit, external audit and compliance monitoring plan and
- overseeing emerging legal and regulatory developments potentially impacting the Company.

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.

## Risk Committee

The Risk Committee constitutes an important part of the Company's overall internal control environment. It was established to assist the Board in fulfilling its oversight responsibilities, in accordance with sound corporate governance principles. The Committee is responsible for:

- overseeing the establishment and maintenance of an appropriate risk management framework, that will facilitate efficient identification, management, monitoring and reporting on the current risk exposures of the Company;
- advising the Board on future risk strategy, including advice on the appropriate risk appetite and tolerances;
- overseeing the risk management function of the Company;
- advising the Board on the effectiveness of strategies to ensure adequacy of capital to meet the risk exposures of the Company;
- monitoring the capital adequacy of the Company and reporting to the Board on material risks thereto;
- within the context of Board-approved profitability and risk appetite thresholds, considering and approving proposed new products and new variations, monitoring the pricing adequacy of existing products, and requiring appropriate actions in the event of breaches of pricing adequacy (product withdrawal, re-design, re-pricing);
- advising the Board on the formulation of strategies, and the monitoring of their implementation, relating to the investment of non-policyholder assets and the hedging requirements of the Company;
- reporting regularly to the Board on all material aspects of risk, investment and hedging in the Company and
- reviewing and if appropriate approving on behalf of the Board proposed changes related to the investment of policyholder assets.



## Remuneration Committee

The Remuneration Committee constitutes an important part of the Company's overall internal control environment. It was established to assist the Board in fulfilling its oversight responsibilities, in accordance with sound corporate governance principles. The Committee is responsible for:

- Overseeing the implementation and operation of the Remuneration Policy of the Company;
- Considering amendments to the Remuneration Policy and make recommendations on such amendments to the Board;
- Ensuring that the Remuneration Policy is consistent with and promotes sound and effective risk management and risk governance, and that it is not incentivising excessive risk-taking; and
- At least annually, considering and, if appropriate, approving the remuneration outcomes under the Remuneration Policy as presented by the CEO.

## Management structures and controls

### Roles and responsibilities

#### Operational activities – 1st line of defence

Process owners and system owners are ultimately responsible for ensuring that an appropriate set of controls is put in place (i.e. designed and implemented) to address the risks associated with process and system errors and failures. Such controls will be process and system specific and they need to be performed each time the process takes place, or the system is used.

#### Oversight activities – 2nd line of defence

The Company has a number of oversight processes and functions in place. Each function has a different focus but collectively they help to ensure that the internal control framework is effective. The control functions in place are as follows:

- Internal Control (IC): This function has responsibility for testing the design and operational effectiveness of controls over financial reporting processes (e.g. compliance with International Financial Reporting Standards (IFRS) reporting) and Solvency II Pillar I and II processes. IC testing activities for Solvency II form part of the AXA internal model validation framework.
- Risk Management Function: The Risk Management function has a role to ensure that the Risk Management Framework is understood and implemented across the company. Risk Mitigation is an important component of the Risk Management Framework and in this regard, there is a close link with internal control activities, especially for process and systems risk. The effectiveness of the Internal Control Framework is taken into account when quantifying risk capital i.e. a strong internal control framework leads to a reduction in the frequency of some risks materialising and therefore the capital charge.
- Compliance Function: The Compliance Function carries out a number of reviews designed to identify the extent to which the Company is complying with its legal and regulatory obligations. Recommendations for improvements are made where necessary and the onus is on the relevant operational area to implement them thereby further enhancing the internal control framework.

#### Independent review – 3rd line of defence

The Company's Internal Audit Function provides independent assurance to the Board of Directors over the operation of 1st and 2nd line activities i.e. over the operation of processes and systems and over the effective operation of the oversight functions.



## Other supporting frameworks

The Company has also documented approximately 40 risk standards and the status of documentation and implementation of the standards is reviewed on a regular basis by Risk Management and by the Board Risk Committee. Each standard sets out the expectations of risk owners in terms of managing, including controlling the risks. The list of standards is included in an Appendix to the Company's Board Charter.

Based on AXA Group corporate governance standards, AXA Life Europe's 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 Life Europe's compliance with AXA Group standards, included in the Group Standards Handbook (GSH). These standards are applied via:
  - risk management policies, which specify the procedures to be implemented in order to identify, assess, monitor and manage all the risks included in AXA Life Europe's 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 the 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.

## Executive responsibility

The relevant executive is the Chief Executive Officer who has responsibility for:

- Documenting and maintaining the Internal Control Framework document for Board consideration and approval;
- Communicating the framework to the business; and
- Implementing the framework and ensuring that appropriate procedures are in place to ensure ongoing and effective operation.

## Legal & Compliance

### Compliance Function

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 Life Europe's 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 Life Europe is exposed.

The Head of Compliance and Legal reports to the CEO of AXA Life Europe and has a dotted reporting line to the AXA Group Compliance function.

The compliance function manages a wide range of compliance related matters including (i) regular reporting on significant compliance and regulatory matters to senior management and to regulators, (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 and Ethics Guide, (v) the monitoring of compliance and regulatory risks. The compliance department also oversees AXA Life Europe's branches on these subjects.

The compliance function undertakes an annual Compliance Risk Assessment to identify the most significant compliance risks to which the business is exposed. Based on this assessment, an Annual Compliance Plan is developed at the end of each year for the following year.

The compliance activities within AXA Life Europe are articulated around a number of Group Standards and Policies which set the minimum requirements expected to be covered by AXA Life Europe. The Compliance Group Standards Handbook (GSH) includes a number of standards and policies on significant risks affecting the compliance activities as well as the high-level control and monitoring principles to which AXA Life Europe must adhere. Both the standards and policies contained in the GSH (e.g. Anti-Money Laundering, Sanctions, Anti-Bribery...) 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 jurisdictions in which AXA Life Europe operates and conducts business. These local policies are reviewed on an annual or tri-annual basis according to a pre-defined review schedule by the AXA Life Europe Board or Audit Committee, as appropriate.

At each regular meeting, the compliance function reports directly to the Audit Committee on significant compliance matters. These include major regulatory changes that have compliance implications, results of the Compliance Risk Assessment, the Annual Compliance Plan, outstanding Compliance Support and Development Program (CSDP) remediation plans and any other significant issues that require escalation.

The AXA Life Europe Legal Function is generally responsible (although this responsibility is shared by other functions on occasion (e.g. the Solvency II project is managed by the Risk Management team) for identifying and managing the significant legal and regulatory risks to which the Company is exposed. It provides expertise and advice on significant corporate legal matters and manages the legal aspects of transactions undertaken by the Company as well as significant litigation and regulatory matters.

The Legal and Compliance functions follow up on global legal and regulatory developments relevant for ALE with the support of regular updates from external law firms, reporting on pending legislation and regulation from the local branch compliance officers and other available sources.

## Internal Audit

Refer to section B5 for information on the Internal Audit function in AXA Life Europe.

## Internal control over financial reporting

The Company follows AXA's Internal Control Over Financial Reporting (ICOFR) process. This process is designed under the supervision of AXA's Chief Financial Officer (CFO) to provide reasonable but not absolute assurance regarding the reliability of financial reporting and the preparation of AXA's consolidated financial statements.

AXA's ICOFR includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with the applicable generally accepted accounting principles;
- provide reasonable assurance that receipts and expenditures are being made only in accordance with the authorisation of executives and managers of the Company; and
- provide reasonable assurance that unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements would be prevented or detected in a timely manner.

The Group has implemented a comprehensive program, managed by a dedicated team within the Finance department, entitled Internal Financial Control (IFC), designed to ensure that the Group's Chief Executive Officer has a reasonable basis to conclude that AXA Group's ICOFR is effective as of the end of each year and accordingly AXA Life Europe applies the discipline of the AXA Group IFC Program.

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

In accordance with AXA’s IFC Standard, the Company (i) documents the 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 the Company.

At each year-end, the Company is required to perform an evaluation of its ICOFR as part of an internal certification process. This process involves formal sign-off by the Company’s process owners and culminates with a formal management report from the Company’s CFO or another senior executive stating their conclusion as to the effectiveness of the Company’s ICOFR.

The Company believes it has put in place a comprehensive system of internal control procedures and mechanisms that is appropriate and well adapted to its business and the scale of its operations.

However, all internal control systems, no matter how well designed, have inherent limitations and do not constitute a guaranty or provide absolute certainty. Even systems determined to be effective by executives 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.

## B.5 Internal audit function

### / Internal audit function

---

AXA Life Europe (ALE) Internal Audit exists to help the Board and Executive Management protect the assets, reputation and sustainability of the organisation by providing an independent and objective assurance activity designed to add value and improve the organisation'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 ALE Internal Audit function has an audit charter to document its mission, independence, scope, accountabilities, responsibilities, authorities and standards. The charter is approved by the ALE Audit Committee each year.

The head of the ALE Internal Audit function has a direct and unfettered reporting line to the ALE Audit Committee Chairman.

ALE Internal Audit functionally reports through to the Global Head of Audit who reports to the Group Audit Committee Chairman.

ALE 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 ALE Audit Committee.

Over the audit cycle all applicable Common Audit Universe categories for each entity are expected to be audited. Any exceptions identified are notified to the ALE 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 ALE Audit Committee and Executive Management on a regular basis.

## B.6 Actuarial function

### / Actuarial function

---

To comply with Solvency II regulation, an effective Actuarial Function exists in ALE 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

The Company's Head of Actuarial Function directly reports on relevant matters to the Company's Chief Executive Officer (CEO). In addition, as defined in AXA Group Actuarial Framework, their nomination is subject to Group Head of Actuarial Function agreement to whom the function holder indirectly reports any major problem related to actuarial function responsibilities.

The Company's Head of Actuarial Function:

- is a permanent member of the Risk Committee.
- is an attendee by invitation at the Audit Committee, through which the Board is informed about conclusions and potential concerns on the tasks undertaken by the actuarial function.

The Company's Head of Actuarial Function prepares the actuarial function report to inform the Executive Management and the Board on 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. This actuarial function report is also communicated to the Group Actuarial Function Holder.

Further as required by the Domestic actuarial regime the Actuarial Function prepares an Actuarial Report on Technical Provisions (ARTP) for the Board, an Actuarial Opinion on Technical Provisions (AOTP) for submission to the CBI and an opinion on the ORSA. The Head of Actuarial Function also advises the Board on the actions necessary to ensure compliance of the Company with the Central Bank of Ireland's Domestic Actuarial Regime.

## B.7 Outsourcing

### / Outsourcing arrangements

---

Outsourcing by the Company refers to delegation to a third party of the execution of certain ongoing activities as part of the service agreement. The Company's Outsourcing policy describes the mandatory processes and procedures to be followed in order to comply with Solvency II requirements. It 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 "the Company does not abdicate responsibility" for the functions delegated to AXA internal subsidiaries or external third parties and the 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.

The Company has entered into contractual outsourcing arrangements with third-party service providers for services required in connection with the day-to-day operation of its business. Monitoring of those services is conducted on a regular basis by the Company. Based on a self-assessment conducted during 2019, our most significant outsourced activities are operated within the AXA Group and relate to:

- (i) Policy administration and related support services (AXA service providers based in Germany, Italy and Spain).
- (ii) Accounting support (AXA service provider based in France),
- (iii) IT Infrastructure (AXA service provider based in France),
- (iv) Hedging and pricing (AXA service provider headquartered in Ireland).
- (v) Investment management and advisory services (AXA service provider based in France).

The Company also outsources critical or important activities to companies outside the AXA Group, namely:

- (i) Policy administration and related support services (service provider based in Portugal);
- (ii) IT operation and maintenance (service providers based in France, Ireland and Bulgaria);
- (iii) Policyholder tax and payments (service provider based in the UK).
- (iv) Middle and back-office services on cleared and non-cleared OTC derivatives whose counterparty is not part of the AXA Group
- (v) Reporting to Trade Repositories is delegated to each counterparties ALE closes an OTC or ETD contract

## **B.8 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) strategy

### C.3 Credit Risk

---

Credit and Counterparty Risk Exposure  
Risk Control and Risk Mitigation

### C.4 Liquidity Risk

---

Liquidity Position and Risk Appetite Framework

### C.5 Operational Risk

---

General principles  
Operational risk mitigation

### C.6 Other material Risks

---

Strategic Risk  
Reputation Risk  
Regulatory Risk  
Emerging Risks

### C.7 Any other information

---



## / Foreword

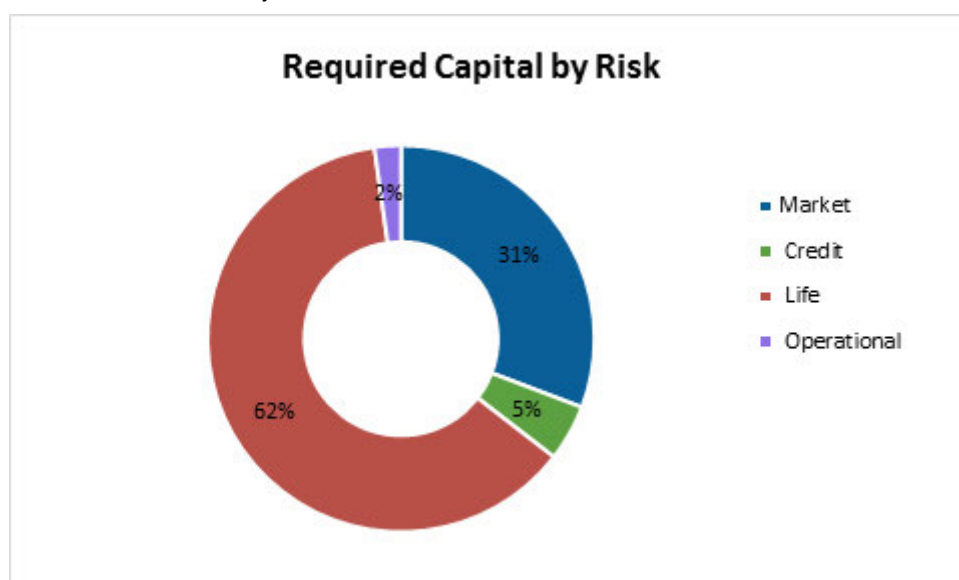
ALE's variable annuity (VA) business, within the meaning of Article 309 2 (g) of the Delegated Regulations, is discussed further in Section C.7.1.

This section describes the main risks to which ALE is exposed through its business operations.

ALE's primary business is to provide protection to its clients by providing unit-linked investments with guarantees. As an insurer ALE's production cycle is reversed: premiums precede pay-outs. AXA collects premiums from its policyholders and invests the collected premiums for the period between collection and the event that generates a claim or the expiration of the policy.

ALE's expertise lies in its ability to transfer an individual's risk to the financial market. In this context, ALE has developed consistent and comprehensive tools to measure and control its main risks as detailed in the below sections.

At December 31, 2019, the breakdown of the Solvency II required capital by risk categories was: 31% in Market risk, 62% in Life underwriting risk, 5% in Counterparty risk, and 2% in Operational risk, before diversification and tax adjustments.



## **/ Solvency II capital position and internal model**

### **C.1 Underwriting risk**

#### **/ Insurance Risk Exposure**

ALE manages its insurance risks linked to underwriting, pricing and reserving in a robust manner. The Board ensures appropriate actions are taken in response to changes in insurance cycles and to the political and economic environment in which it operates.

In the context of the business performed, as described in section A1 (and in the beginning of section C) of this report, the Company is exposed to the following main underwriting risks when writing new business: Lapse risk due to lapses being different to expected, longevity risk due to policyholders living longer than expected and expense risk due to expenses being higher than expected including the cost and efficiency of operating a dynamic hedging programme.

ALE's 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 (see Section C4).

#### **/ Risk Control and Risk Mitigation**

Insurance underwriting risks are covered through the following processes:

- Optimisation of reinsurance strategies in order to cap the Company's and ultimately the Group's peak exposures, protecting solvency by reducing volatility and to mitigate risk within the Group to benefit from diversification;
- Monitoring of emerging risks and the sharing of expertise within the underwriting and risk communities.
- Should the Company begin writing new business, a risk analysis of new products would be performed, complementing underwriting rules and product profitability analysis performed through the product approval process:

For more information on the ALE's risk controls and Risk Management processes, please refer to Sections B3 and B4 of this Report.

#### **PRODUCT APPROVAL**

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

This validation framework notably relies on the results of the economic capital under the Internal Model and ensures that any new products undergo a thorough approval process before they are put to market.

The Product Approval Process is managed by ALE with close interaction between local and Group Risk Management teams. Group approval for new guaranteed products is required before launch to ensure all long-term commitments are monitored at Group level and benefit from the Group expertise on enhanced or specific guarantees.

This framework complements underwriting rules by ensuring that no risks are taken outside pre-defined tolerances levels and that value is created by adequate risk pricing. As mentioned in section A, the Company is not writing new business as at FY2019 however these processes would apply to any new initiatives.

## EXPOSURE ANALYSIS

GRM has developed and deployed common models and metrics to consistently measure risks throughout the Group (in particular via its internal model framework). This enables the Group 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.

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

These tools allow mortality/longevity risks to be analysed on a multi-country basis which is important for ALE.

The Company regularly monitors its exposure to these risks (lapse, longevity, etc.) and uses the results of this work to optimise its product design and its reinsurance coverage. These exposure analyses are supported by expert risk models in Life & Savings.

## REINSURANCE

ALE has historically used a limited reinsurance strategy; however, the Company maintains a close monitoring of exposures to ensure action will be taken if necessary. In March 2018, the Company entered into a longevity indexed reinsurance (LIR) arrangement with an external party. This contract is intended to contain any future potential losses incurred in the event of significant improvements to policyholders' life expectancy and improves the Company's risk profile.

## TECHNICAL RESERVES

As part of the Solvency II framework, the local Head of Actuarial Function Holder (HoAF) for ALE coordinates the calculation of technical provisions ensuring the appropriateness of the methodologies and underlying models used. As part of her annual report, the HoAF also gives an opinion on:

- The overall underwriting policy and on the adequacy of reinsurance arrangements.
- The technical assumptions and actuarial methodologies on whether they are in line with professional practices;
- Whether the Best Estimate Liabilities have been calculated in accordance with Articles 75 to 86 of the Solvency II Directive and Group guidelines.

## C.2 Market Risk

### / Market Risk Exposure

The Company is exposed to financial market risk primarily through management of the unit-linked with guarantee business for which it operates a dynamic hedging strategy.

#### **Description of market risks**

Market risk considers the risks of ALE's economic balance sheet to movements in the financial markets (equity, interest rates, credit spread, FX, implied volatility).

A decline in equity values or long market term interest rates leads to an increased value in the underwritten guarantees from a policyholder perspective. To the extent that the Company is over- or under-hedged through its dynamic hedging programme this can lead to gains or losses for the Company.

The hedging programme is also exposed to higher than expected realised volatility in equities or interest rates regardless of the ultimate trend in those markets (up or down). There is also a basis risk exposure if hedging instruments are not available to perfectly replicate the underlying exposures.

A change in foreign-exchange rates would have limited impact for the Company since foreign-currency commitments are matched to a large extent by assets in the same currency or covered through hedges, but it could affect the earnings contribution in Euro terms.

As the Company's hedge program targets the IFRS value of the liability, some volatility on the SII Balance Sheet can be induced by the mismatch between the SII and IFRS valuation bases.

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

### / Risk Control and Risk Mitigation

ALE has a clearly defined hedging strategy ("CDHS") which governs the processes and use of derivatives to hedge certain, but not all, risks under the IFRS value of guarantees provided to ALE clients. The strategy primarily targets first order exposures coming from interest rate and equity movements and is employed with pre-defined rebalancing thresholds.

On a substantial part of the in-force portfolio and for all new lines of business, the hedging instruments are coupled with volatility risk mitigation techniques in the underlying funds ("Capped Volatility Funds"). These rebalancing mechanisms within the unit-linked funds are designed to reduce policyholders' investment in higher risk assets, at times of increased equity or interest rate volatility, to protect their portfolio returns.

These hedging techniques are designed to reduce the economic impact of unfavorable changes to certain exposures, under the guarantees, due to movements in the equity and fixed income markets and other factors.

For more information on the ALE's risk controls and Risk Management processes, please refer to Sections B3 and B4 of this Report.

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

### **Guidance on Investments**

Investment & ALM activities are steered by the Head of Investments. The Head of Investments oversees the investment portfolios, aiming at an optimised risk-return ratio and manages the relationships with asset managers and local stakeholders. Moreover, the Head of Investments is responsible for the investment performance and for implementing and executing a sound asset liability management (ALM).

The Company considers that its overall investment framework is aligned with the prudent person principle, since the investment process starts with an ALM analysis, resulting in a strategic asset allocation that ensures the Company has an appropriate matching of assets and liabilities securing the ability to settle claims as and when they fall due, some diversification between asset classes, an optimised return on investments, and a compliance with the risk appetite limits by asset classes.

### **ALM Studies and Strategic Asset Allocation**

ALM aims at matching assets with the liabilities stemming from 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 maximising the expected investment return. The hedging programme previously described is ALE's primary ALM activity. For the assets which represent charges and realised gains from ALE's hedge program, a conservative investment program ensures these assets generate the required return to meet policyholder and shareholder expectations.

### **Investment Approval Process**

Investment opportunities, like non-standard investments, new strategies or new structures, are subject to an Investment Approval Process (IAP) including the AXA Group Investment team and Group Risk Management. 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. IAP is also run for investments in new asset classes under the same principles.

### **Governance Framework for Derivatives**

The hedge program is under constant revision with assistance from ALE Risk Management, Architas Solutions dac, and dedicated teams at AXA Bank Belgium and Alliance Bernstein (AB). This set-up ensures the Company benefits from technical expertise, legal protection and good execution of such transactions within the governance framework for derivatives. ALE also clears Interest Rate Swaps and Overnight Indexed Swaps in line with requirements set by the EMIR Regulation for trades which are not intragroup.

The market risks arising from derivatives are regularly monitored taking into account the Company's various constraints (Risk appetite, Liquidity, Capital...). 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 standardised master agreement. The Company may trade derivatives only if it is covered by legal documentation which complies with the requirements set out in an AXA Group standard. Any change to certain mandatory provisions defined in the AXA Group standards must be approved by GRM.

Additionally, there is a centralised AXA Group counterparty risk policy. GRM has established rules on authorised counterparties, minimum requirements regarding collateral, and counterparty exposure limits to which the Company complies.

The operational risk related to derivatives is measured and managed in the context of the Company's operational risk framework. Furthermore, execution and management of derivatives are centralised within dedicated teams, reducing the Company's operational risk.

### **Investment and Asset Management**

The Company utilises the services of asset managers to invest in the market. The Company mandates the day-to-day management of its asset portfolios primarily to AXA Investment Managers. The Head of Investments continuously monitors, analyses, and challenges asset managers' performances.

## C.3 Credit Risk Exposure

Counterparty credit risk is defined as the risk that a third party in a transaction will default on its commitments. The primary exposures for the Company arise through the counterparty for its OTC derivative portfolios, cash held at bank and issuers of credit instruments in which the Company has invested.

ALE's overall exposure to credit risks is covered by ALE'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 (see Section C4).

## / Risk Control and mitigation

### Invested Assets

ALE sets internal limits on counterparty exposure by rating, concentration and asset type. ALE also participates in the AXA Group concentration risk monitoring which ensures there is no over-exposure by issuer, sector and geographical region at the Group. 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 the Company (corporate, Government agency and sub sovereign).

For more information on the ALE's risk controls and Risk Management processes, please refer to Sections B3 and B4 of this Report.

At Group level, the limits also take into account all exposure on issuers through debt securities, equity, derivatives and reinsurance counterparty risk. On Sovereign, specific limits have also been defined on government bonds and government-guaranteed bonds and are monitored at Group and the Company levels.

Compliance with the limits is ensured through defined governance. The Group Credit Risk Committee handles, on a monthly basis, the issuer exposure breaches to the Group's limit tolerances and determines coordinated actions for excessive credit concentrations. A Group Credit Team reporting to the Group CIO provides credit analysis independently from Group asset managers, in addition to local Investment teams. The ALM Supervisory Committee is regularly kept informed of the work performed.

At the Company level, local limits have been defined at single name corporate exposure, sovereign exposure, cash at bank and combined bond and cash exposures. Any breach of Group or Local limits would be presented for information and remediation at the ALE Investment committee.

### Derivatives

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

ALE actively manages counterparty risk generated by OTC derivatives through specific risk appetite limits. Interest Rate Swaps and Overnight Indexed Swaps have been cleared in line with requirements set by the EMIR Regulation for trades which are not intragroup. Non cleared OTCs and intragroup transactions include mandatory collateralisation with daily monitoring and rebalancing of exposures.

### Other receivables

Receivables risk arises from the risk of default of counterparties related to insurance operations. The exposures are monitored by the finance department by nature of counterparties (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. Also included under this category are initial margins paid to counterparties for non-cleared OTC derivatives and excess over initial margins paid to the clearing broker for cleared derivatives. The Risk Management team assesses on at least an annual basis the capital charge for each type of counterparty, using internal risk factors or standard factors.

## C.4 Liquidity risk

### / Liquidity position and risk management framework

The liquidity risk is the uncertainty, emanating from business operations, investments or financing activities, over whether ALE 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 interactions.

The primary liquidity risk for ALE arises from collateral and margin requirements on derivative holdings. The key risk is the non-availability of resources to post as collateral following a fall in the value of derivative instruments used in the dynamic hedging program. For example, if interest rates or equity values were to rise then the value of hedge assets would fall, and the Company would need to post collateral.

Liquidity is a key dimension of the AXA Risk Appetite Framework and is strictly monitored by ALE. The framework allows ALE to ensure it has at all times a sufficient liquidity buffer to withstand a severe shock. The objective is achieved through the monitoring of the liquidity adequacy 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, 1 month, 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 to reflect extreme circumstances (e.g. distressed financial markets). In addition, some conservatism is added by considering that all events occur simultaneously.

As of December 31, 2019, the expected profit included in future premiums as calculated in accordance with Article 260(2) of the Solvency II Regulation was equal to €0 million.



## C.5 Operational risk

AXA has defined a framework to identify and measure its operational risks that may arise from a failure in its processes, systems and resources or from external events. Adequate mitigation of these risks across the Company is a key responsibility of the Risk Management function.

### / General principles

One objective of the Company's operational risk internal 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, the Company 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 has defined an Operational Risk Management framework which is implemented by the Company. It involves processes for identifying, quantifying and monitoring the main operational risks, use of a common system (e.g. for quantifying exposures), dedicated operational risk resources 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.

The Company reports once a year to Group Risk Management its most critical operational risks identified from a local Operational Risk assessment. These risks are identified and assessed using a single Group methodology via meetings between the Operational Risk team and risk owners, transversal or support functions and business line managers.

Regarding quantification, the most critical operational risks of the Company 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 Solvency II principles.

The Operational Risk quantification consists of the following main steps:

- Identification and assessment of the most significant operational risks;
- Each risk scenario is documented in a standard risk assessment template, describing the rationale of the risk situation, its likelihood of occurrence (i.e. frequency) and severity of impact;
- A stand-alone quantification of exposures is performed for the most significant operational risks based on modelling inputs (frequency & severity parameters);
- Risks are then aggregated at a Company level

The operational risk management process is embedded in local governance processes (e.g. 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.

## **/ Operational risk mitigation**

Operational risk exposure and concentration is mitigated through the implementation of a strong internal control framework, oversight of outsourced service providers and critical business partners, business continuity planning and testing, information security awareness campaigns and training, and general contingency planning in accordance with the Corporate Governance Code.

Risk owners are responsible for documenting controls and procedures covering key risks and processes (i.e. first line responsibility). An Internal Control function is in place with responsibility for verifying and challenging the effectiveness of the control environment (i.e. second line responsibility). Monitoring and reporting of internal control deficiencies at a senior level across the company is in place to ensure that they are remediated in an effective and timely manner.

In addition, a loss data collection / operational risk incident process is in place to monitor and report on incidents and identify potential operational risks for which mitigating actions can be considered.

Notwithstanding these measures, operational risk is part of the business environment in which the company operates, and losses may be incurred from time to time due to operational risk. This process is also used as a valuable source of information to back-test the assumptions used in risk assessments.

## C.6 Other material risk

### / Strategic risk

Strategic risk is the risk that a negative impact (current or prospective) on earnings or capital, material for the Company, 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 a strong strategic Risk Management framework to anticipate and mitigate these risks.

On August 1, 2018, AXA announced that it had received an irrevocable offer from Cinven for the potential sale of the Company. The proposed transaction is subject to conditions which include obtaining the required regulatory approval. ALE has implemented strong project management and governance processes around the planned transition to mitigate the risks that have been identified.

### / Reputation risk

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

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

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 minimise negative issues impacting the reputation of AXA and build trust among all of AXA stakeholders;
- Define accountability for reputation risks across the organisation (Marketing, HR, Finance / Investors Relations, etc.), at Group and local levels;
- Implement a common reputation Risk Management framework throughout the organisation.

The ALE Audit Committee regularly puts a spotlight on issues which may affect the Company's reputation, such as policyholder administration and communications, compliance with GDPR and compliance with AML requirements.

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

## / Regulatory Risk

While reputational risk requires specific focus through the reputational risk framework, a key regulatory risk is potential changes to Pillar 1 calculations. In particular, ALE is closely monitoring the EIOPA 2020 review of Solvency II and any potential impact that this could have on the SII balance sheet.

## / 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 will never emerge.

The Company's Board Risk Committee maintains Emerging Risk as a standing agenda item at its Committee meetings. Members are encouraged at each meeting to raise topics for discussion which may prompt further action or investigation by the Risk Committee. Examples of past emerging risks which were raised and have materialised are: Brexit and an Ebola outbreak. The Company is actively monitoring the recent outbreak of COVID-19 and is in close communication with all staff regarding the Company's precautionary measures. The potential impacts of this outbreak will be discussed at the next Risk Committee meeting.

Emerging risks fall into a monitoring and anticipation framework process, as they are difficult to quantify. There is little to no statistical data about emerging risks so it can be difficult to quantify their potential impacts.

In addition, the Company participates in the AXA Group Emerging Risk community which holds regular updates on emerging risks with the AXA Group Emerging Risks team. Emerging risks surveillance at Group level is organised through a detection process including watch on scientific publications, court decisions, etc. Risks are monitored and classified within a risk mapping comprising six sub-groups (regulatory & legal, environmental, socio & political, economic & financial, medical and technological). After prioritisation of the monitored risks or following a specific communication from an entity, a working group is launched on a yearly basis by Group Risk Management to review a specific risk and its potential impact.

## C.7 Any other information

Not applicable.

## **D: Valuation for Solvency Purposes**

---

### **Basis for preparation**

#### **D.1 Assets**

---

- Fair value measurement
- Intangible assets
- Right-of-use asset
- Investments and loans
- Derivative instruments
- Deferred taxes
- Leasing arrangements
- Assets held for index-linked and unit-linked funds
- Other assets

#### **D.2 Valuation of technical provisions and reinsurance recoverables**

---

- General principles
- Best Estimate Liabilities
- Risk Margin
- Reinsurance recoverables

#### **D.3 Other liabilities**

---

- Contingent liabilities
- Provisions other than technical provisions
- Pension benefit obligations
- Deferred taxes
- Financial liabilities
- Leasing arrangements
- Other liabilities

#### **D.4 Alternative methods for valuation**

---

#### **D.5 Any other information**

---

## / Basis for preparation

AXA Life Europe's Solvency II balance sheet is prepared as of December 31. The balance sheet is prepared 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 recognised 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 recognised 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 Regulation 82 of Statutory Instrument no. 485 of 2015:

- 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 (IFRS) and Solvency II assets and liabilities relate to:

1. Elimination of intangible assets and liabilities – DAC, URR and Software Intangible
2. Best estimate liability (BEL) adjustment, adjusted against existing (IFRS) liability option value (LOV)
3. Addition of risk margin
4. Adjustment to reinsurance balances

Net of tax impact (of the 4 adjustments above) is taken to shareholder equity.

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, the valuation principles have been consistently applied to all periods presented.

The Solvency II balance sheet is presented in euro, 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.

## D.1 Assets

### / Fair value measurement

The table below summarises 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 recognised and valued on a statutory accounting basis as at December 31, 2019:

<i>(in Euro million)</i>	<b>Fair Value (Solvency II)</b>	<b>Carrying Value (Local GAAP)</b>	<b>% (value Balance Sheet)</b>
Deferred acquisition costs	-	59	0%
Intangible assets	-	3	0%
Deferred tax assets	4	2	0%
Right – of - use asset	1	1	0%
<b>Investments (other than assets held for index-linked and unit-linked contracts)</b>	<b>5 758</b>	<b>5 230</b>	<b>61%</b>
Debt Instruments	2 223	2 115	23%
Investment funds	347	347	4%
Derivatives	2 768	2 768	29%
Deposits other than cash equivalents	420	-	4%
<b>Assets held for index-linked and unit-linked contracts</b>	<b>3 114</b>	<b>3 114</b>	<b>33%</b>
Loans and mortgages	1	1	0%
Reinsurance recoverable	(104)	42	-1%
Receivables	66	66	1%
Cash and cash equivalents	611	1 139	6%
Other	65	65	1%
<b>Total Assets</b>	<b>9 516</b>	<b>9 722</b>	<b>100%</b>

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 used by 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.

#### **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:

- Market approach: The consideration of recent prices and other relevant information generated by market transactions involving substantially similar assets or liabilities.
- 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.
- 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. 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 (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.

As at December 31, 2019 loans issued to policyholders amounting to €1 million are measured at fair value using an alternative method of valuation.

## **/ Intangible assets**

Under Solvency II, only intangible assets related to the in force, that are separable and for which there are evidence of exchange transactions for the same or similar assets, indicating they are saleable in the market place are recognised, that may include software developed for internal use. As a result of Solvency II principles, deferred acquisition costs and other intangible assets recognised under IFRS have no value in the Solvency II balance sheet.

## **/ Right-of-use asset**

Property, plant & equipment held for own use under leasing arrangements is 'capitalised' by recognising the present value of the minimum lease payments, in line with IFRS 16.

## **/ Investments and loans**

The investments aggregated on the Solvency II balance sheet include bonds, investment funds, derivatives and deposits other than cash equivalents.

Included in these investments is an additional €528 million compared with investments recognised under IFRS in the financial statements. This is related to the classification of short-term treasury bills (€108 million) and short-term deposits (€420 million); under IFRS these investments meet the criteria of 'cash and cash equivalents' and are classified as such in the financial statements.

### **Financial assets including loans**

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

Under IFRS, they are recognised at fair value, except:

- Debt securities held to maturity, accounted for at amortised cost;
- Loans and receivables (including some debt instruments not quoted in an active market) accounted for at amortised cost using the effective interest rate method.

Under IFRS, these instruments accounted for at amortised cost are subject to impairment based respectively on future cash flows discounted using the initial effective interest rate or on fair value if future cash flows may not be fully recoverable due to a credit event relating to the instrument issuer. If the credit risk is eliminated or improves, the impairment may be released.

## **/ Derivative instruments**

Under both IFRS and Solvency II, derivatives are recognised at fair value.

## **/ Deferred taxes**

Differences arise between IFRS and Solvency II deferred taxes balances due to differences in underlying principles for assets and liabilities. Indeed, there are generally tax impacts on adjustments between IFRS and Solvency II assets and liabilities. However, similar recognition and valuation principles apply under both IFRS and Solvency II frameworks.

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 recognised 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 recognised 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 recognised.

For presentation purpose of the balance sheet, deferred tax assets are offset with deferred tax liabilities at fiscal entity (or tax group if any) level. Please refer to section D.3.

## **/ Leasing arrangements**

At December 31, 2019, the Company holds a right-of-use asset under an operating lease arrangement. In accordance with IFRS 16, the right-of-use asset is 'capitalised' by recognising the present value of the minimum lease payments. A corresponding lease liability is recognised representing the Company's obligation to make future lease payments.

Under the IFRS 16 model a lessee is required to recognize (i) assets and liabilities for all leases and (ii) depreciation of lease assets separately from interest on lease liabilities in the income statement.

## **/ Assets held for index-linked and unit-linked funds**

Under both IFRS and Solvency II, assets backing liabilities arising from contracts where the financial risk is borne by policyholders are presented in a separate aggregate of the balance sheet so that they are shown in a symmetrical manner to the corresponding liabilities. The same valuation approach prevails under both IFRS and Solvency II frameworks.

## **/ Other assets**

Under Solvency II, reinsurance receivables are adjusted from their IFRS value to take into account the different assumptions used in the Solvency II framework.

With regard to share-based compensation plans, the same approach prevails under both IFRS and 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 recognised at fair value, which is re-measured at each balance sheet date.

All other assets and debts (tangibles assets and other long-term assets) are also recorded at fair value under Solvency II but by default, the IFRS value is kept.

## D.2 Valuation of technical provisions and reinsurance recoverables

### / General principles

Technical provisions are split between 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 liability corresponds 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 liability is recognised on a gross of reinsurance basis, without deduction of amounts recoverable from reinsurance contracts and special purpose vehicles. The latter are recognised 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 summarises AXA Life Europe's technical provisions under Solvency II together with a comparison on a local statutory account basis.

<i>(in Euro million)</i>	Fair Value (Solvency II)	Carrying Value (Local GAAP)
<b>Technical provisions - life (excluding index-linked and unit-linked)</b>	<b>2,440</b>	<b>2,827</b>
Best estimate	1,746	
Risk margin	694	
<b>Technical provisions - index-linked and unit-linked</b>	<b>3,118</b>	<b>3,114</b>
Best estimate	3,117	
Risk margin	1	

The table below summarises AXA Life Europe's technical provisions by material line of business.

<i>(in Euro million)</i>	Best Estimate	Risk Margin	Technical Provisions
Germany	3,299	538	3,837
United Kingdom	611	46	657
Japan	539	90	629
France	322	15	337
Spain	54	3	57
Italy	22	1	23
Portugal	16	2	18
<b>Total Technical Provisions</b>	<b>4,863</b>	<b>695</b>	<b>5,558</b>

## **/ Best estimate liabilities**

A best estimate assumption is defined as one where there is equal probability that the actual experience will be above or below the level assumed. 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 in this framework generally the more prudent one is adopted.

### **Assumptions and framework**

Assumptions regarding future experience are reasonable, and, to the extent possible, 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 are reviewed. 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 AXA companies with comparable products, markets, and operating procedures.

It is important to recognise that the 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 development 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 should be derived consistently over time and within homogeneous risk groups and lines of business without arbitrary changes. The assumptions should adequately reflect any uncertainty underlying the cash flows.

### **Specificities of some assumptions**

#### **Expenses**

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

The assumptions underlying expenses projections are consistent with the strategy of the Company 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.

#### **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.

#### **Longevity**

The best estimate basis is based on the future expectation of life for the policyholders, incorporating expected future trends in mortality and the underlying dynamics of the different portfolios.

## **Lapses**

The underlying policyholder behaviour assumptions are based on policyholder experience where available and incorporate dynamic functionality to reflect lapses under different economic conditions. Lapses can vary by product design, distribution channel and duration.

## **Reference rate curve and stochastic scenarios**

Where a stochastic simulation is required in the calculation of the best estimate cash flows (e.g. in the valuation of financial options and guarantees), the scenarios should be market consistent, risk neutral and arbitrage free. Within risk neutral valuation, investment return and discount rates are stochastic and should be seen as inseparable. The risk neutral scenarios used consist in a very large number of scenarios where each asset class is projected according to its implied volatility but using the same expected payoff defined by the spot risk free 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**

ALE did not apply the volatility adjustment as of year-end 2019, nor was this applied as of year-end 2018.

## **Statement on the use of the matching adjustment**

ALE did not apply the matching adjustment as of year-end 2019, nor was this applied as of year-end 2018.

## **Statement on the use of the transitional measures for technical provisions**

ALE did not apply the transitional risk-free interest rate-term structure referred to in Regulation 99 of Statutory Instrument no. 485 of 2015 nor the transitional deduction referred to in Regulation 100 of the same directive, at year-end 2019, nor were these applied at year-end 2018.

## **Life & Savings Best Estimate Liabilities**

Stochastic valuation techniques are used to calculate the technical provisions for variable annuity type and unit-linked products. The best estimate liability is the average of the present value of the projected cash flows across the underlying economic scenarios. The generation of the economic scenarios is calibrated to be consistent with market conditions as at the valuation date allowing for the regulatory prescribed adjustment to market interest rates.

Deterministic cash flow projection methods are used to calculate the technical provisions for the remaining products.

## **Valuation of contractual options and financial guarantees**

The options and guarantees (O&G) valued in best estimate cash flow projections cover all material O&G embedded in ALE's business. The key O&G considered are:

- Guaranteed benefits (GMDB, GMIB, GMWB, GMAB) on unit-linked annuity products; and
- Dynamic policyholder behaviour, that is, the options that policyholders can elect at a time that may operate to the disadvantage of the Company (such as full or partial surrender, premium discontinuance, annuitisation, etc.).



## / Risk margin

In addition to the best estimate liabilities (BEL), a risk margin is recognised 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 risk) are deemed to be non-hedgeable risks.

The non-hedgeable risks comprise:

- 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 or explicit projection.

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.

## / Reinsurance recoverables

As technical provisions are reported gross of reinsurance, a reinsurance asset is identified separately. Transactions related to reinsurance assumed and ceded are accounted for in the balance sheet in a similar way to direct 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. There are certain differences in the valuation of the gross technical provisions between IFRS and Solvency II that trigger differences in valuations of ceded technical provisions between the two frameworks.

### Reinsurance receivables / payables

Under Solvency II provisions, receivables from reinsurance contracts and special purpose vehicles are adjusted from their IFRS value to take into account the expected losses due to default of the counterparty in line with Solvency II valuation requirements.

It should be noted that ALE does not have any SPVs as at December 31, 2019, nor did it have any SPVs in place in the previous year.



## D.3 Valuation of other liabilities

The table below summarises AXA Life Europe's liabilities other than technical provisions under Solvency II together with a comparison on a local statutory accounting basis as at December 31, 2019.

<i>(in Euro million)</i>	Fair Value (Solvency II)	Carrying Value (Local GAAP)
Deposits from reinsurers	2	2
Deferred tax liabilities	25	10
Derivatives	1 901	1 901
Financial liabilities other than debts owed to credit institutions	1	1
Payables	72	16
Other	886	886

<i>Other</i>	Fair Value (Solvency II)	Carrying Value (Local GAAP)
Collateral payable	873	873
Accruals and deferred income	13	13
<b>Total – other</b>	<b>886</b>	<b>886</b>

The Company applies the IFRS 13 fair value hierarchy as described in section D1 for all assets and liabilities (excluding technical provisions). This fair value hierarchy is consistent with the one defined in the Solvency II regulation.

## / Contingent liabilities

There are no contingent liabilities that require recognition on the Company's balance sheet either under Solvency II or IFRS at December 31, 2019.

## / Provisions other than technical provisions

There were no material provisions other than technical provisions recognised on the Company's balance sheet at December 31, 2019.

## / Pension benefit obligations

There are no provisions in respect of pension benefit obligations that require recognition on the Company's balance sheet at December 31, 2019.

## / Deferred taxes

Please refer to section D.1. As of December 31, 2019, a DTL position of €25 million has been recognised in the Solvency II Balance Sheet, as well as a DTA position of €4 million relating to AXA Life Europe's Spanish branch. As the DTA is calculated based on the local Spanish tax rate and part of a separate tax group it is not netted against the DTL.

## **/ Financial liabilities**

Financial liabilities other than debts owed to credit institutions represent future lease payments – see below.

## **/ Leasing arrangements**

At December 31, 2019, the Company holds a right-of-use asset under an operating lease arrangement. In accordance with IFRS 16, a liability is recognised representing the Company's obligation to make future lease payments.

Under the IFRS 16 model a lessee is required to recognize (i) assets and liabilities for all leases and (ii) depreciation of lease assets separately from interest on lease liabilities in the income statement.

## **/ Other liabilities**

Payables in the Solvency II balance sheet include an adjustment to capture the impact of aligning the asset valuation with the valuation of technical provisions on the Solvency II balance sheet. The statutory IFRS balance sheet can apply an earlier valuation cut-off than that applied in accordance with Solvency II valuation principles and given the Solvency II balance sheet is derived from the statutory IFRS balance sheet, this adjustment is necessary.

Other liabilities are recorded at fair value under Solvency II but by default, the IFRS value is kept.

## **D.4 Alternative methods for valuation**

For detailed information on alternative methods used for valuation of all assets and liabilities (excluding technical provisions) please refer to the subsection Fair Value Measurement in section D1.

## D.5 Any other material information

Not applicable.

## **E: Capital Management**

---

### **E.1 Own funds**

---

Capital management objectives  
Information on the capital structure  
Change in capital resources in 2019  
Tiering analysis of capital  
Reconciliation to shareholders' equity

### **E.2 Solvency capital requirement and minimum capital requirement**

---

General principles  
Solvency Capital Requirement (SCR)  
Minimum Capital Requirement (MCR)

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

---

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

---

General information  
Main differences between the Standard Formula and the Internal Model

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

---

### **E.6 Any other information**

---

## Foreword

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 internal model aims to cover all the material and quantifiable risks to which each entity is exposed. The Internal Model encompasses the use of AXA Group internal model on all material entities.

The internal model of the AXA Group is based on a common definition of risks used consistently throughout the Group. It aims to ensure that the Company's risk mapping is comprehensive and is applied 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<sup>1</sup> identifies all material risks applicable for the Company's business. AXA's internal model captures all material risks applicable to the Company. The underlying methodologies used in the internal model are regularly reviewed to ensure that they accurately reflect AXA Life Europe's risk profile and new methods are developed and integrated regularly (in accordance with the internal model change policy).

AXA's internal model is calibrated to represent the value at risk of Economic Value at the 99.5<sup>th</sup> percentile over a one-year horizon. In other words, the Solvency Capital requirement (SCR) 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 bear a SCR through AXA's internal model calculation, ALE also frequently considers and monitors liquidity risk, reputation risk, strategic risk, regulatory risks as well as emerging threats.

The Solvency Capital requirement of ALE level per risk category is detailed in the QRT S25.03.21 which is included in the appendix.

---

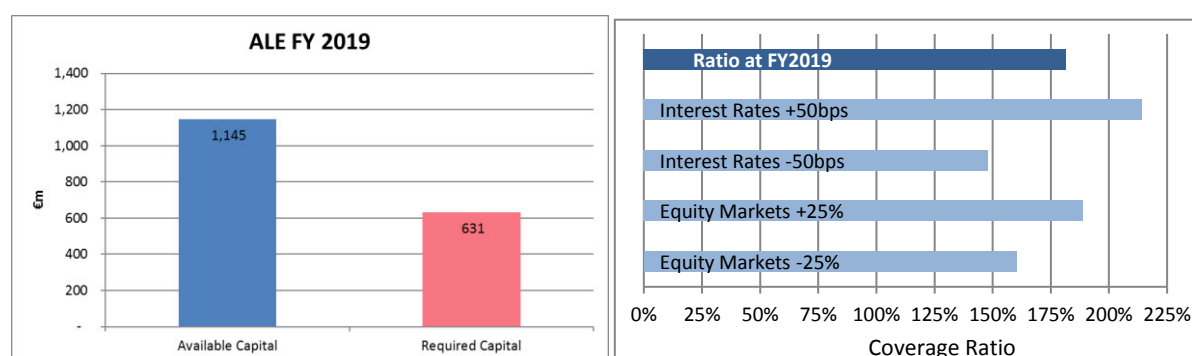
<sup>1</sup> The Group risk grid identifies all applicable risks for AXA businesses. Risk categories are further split into sub-risks. The risk assessment is performed at the sub-risk level. The risk grid is regularly reviewed and validated at Group Level.

## ALE's Target Capital and risk sensitivity

Under the Solvency II regime, ALE is required to hold eligible own funds that cover its Solvency Capital Requirement to absorb significant losses and to be compliant with regulatory requirements. ALE's Solvency Capital Requirement is calibrated to ensure that all quantifiable risks to which ALE is exposed are taken into account.<sup>1</sup>

Under normal conditions, ALE should maintain solvency II regulatory ratio above 100%, allowing the Company to have sufficient eligible own funds to sustain a 1-in-200 year shock. To ensure a comfort level over a 100% Solvency II regulatory ratio ALE targets holding additional own funds equal to the higher of the 1-in-20-year combined shock on financial risk or on insurance risk, plus an additional amount consistent with an allowance for potential future hedge losses. In addition, ALE continuously monitors its ability to absorb possible additional financial or technical shocks and remain about the 100% Solvency II regulatory ratio. In this context, ALE assesses the sensitivities of its Solvency II regulatory ratio to financial shocks on interest rates and equities (as illustrated in the example figures below). These sensitivity analyses do not take into account preemptive 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 of and adverse development of these risks, and has action plans that can be implemented in case of unfavorable developments.

It is also worth mentioning that ALE is a subsidiary of the AXA Group which under the solvency II regime has defined a clear capital management framework with 170-230% as central target range of Solvency II ratio. AXA's consolidated Solvency Capital Requirement is taking into account the global diversification of risks that exist across all its insurance and reinsurance undertakings, reflecting properly the AXA Group risk exposure. AXA Group performs also on regular basis sensitivity analyses of its Solvency II regulatory ratio to material risks and events, demonstrating that its Solvency ratio is resilient to a wide range of shocks (similar to past major observed events such as 2008/2009 financial crisis, 2011 financial crisis and Lothar & Martin storm).



The above chart illustrates the excess capital at FY2019 (in €m) and the impact on the SII Coverage ratio of individual shocks to interest rates and equity. These impacts are estimated at the balance sheet calculation date through full revaluation of the main liabilities and assets.

<sup>1</sup> In order to ensure the robustness of the internal model, reverse stress tests are performed at the Company level. Reverse stress scenarios exhibit combinations of Market, Credit, Life and Operational events (occurring simultaneously) that would lead to a loss amount equal to the Solvency Capital Requirement. These scenarios represent a back-testing for the correlation coefficients' accuracy. Indeed, performing such scenarios highlights the potential cross and non-linearity effects and thus adjustment of 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.

## E.1 Own funds

### / Capital management objectives

The Company has reviewed its capital resources and requirements on an economic basis as at the end of 2019. In performing this review, both the regulatory requirements and Management's internal objective - including ability to meet key shareholder's requirements - have been considered.

The Board 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.

Management monitors the Company's solvency margin and the regulatory capital requirements on an on-going basis, both for regulatory compliance purposes and to ensure that the company is appropriately positioned relative to its industry segment.

Management has developed various contingency plans designed to ensure that the Company's solvency margin and the regulatory capital levels remain well in excess of regulatory minimum requirements and at levels that leave the Company well positioned relative to its industry segment. These plans involve use of reinsurance, sales of specific portfolios and capital management through various initiatives.

Management's business planning cycle covers the period up to and including 2023.

### / Information on the capital structure

As of December 31, 2019, own funds totaled €1,145 million. The capital resources at December 31, 2019 and December 31, 2018 are presented in the table below:

<i>(in Euro million)</i>	At December 31, 2019	At December 31, 2018	Evolution
Share capital	100	100	-
Capital in excess of nominal value	917	917	-
Reconciliation reserve	124	118	6
Net deferred tax assets	4	4	-
<b>Own Funds</b>	<b>1145</b>	<b>1 139</b>	<b>6</b>

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, capital in excess of nominal value).



## / Change in capital resources in 2019

### Own Funds

€ million	Own Funds
<b>Own funds - December 31, 2018</b>	<b>1,139</b>
Modelling changes & opening adjustments	64
Total Return	27
2018 foreseeable dividend revoked	120
Others	(205)
<b>Own funds - December 31, 2019</b>	<b>1,145</b>

ALE's own funds increased by €6 million to €1,145million due to the following factors:

- A number of assumption updates, modelling changes and opening adjustments resulted in a net increase in own funds of €64 million. Positive impacts have arisen due to enhanced modelling of the projected Capital in the Risk Margin calculation, further increases in own funds are attributed to mortality, lapse and election assumption changes. This is partially offset by negative impacts from an update to the expense assumptions to align with the target operating model of ALE and the revised ultimate forward rate for 2019.
- Total return of €27 million largely consists of a gain on derivative assets, which are invested to hedge on an IFRS basis, relative to the Solvency II liability. Further gains resulting from the increased market value of the shareholder government bonds, offset by a loss on a balance sheet derivatives bought to protect the balance sheet from further declining interest rates.
- A positive flow of €120 million represents the decision of the Board of ALE to revoke the 2018 foreseeable distribution.
- Other impacts include an increase in the Risk Margin by €165 million and other BEL components by €28 million, both driven by the reduction in interest rates over the year together with other smaller items including technical variance and hedge P&L.

## / Tiering analysis of capital

### Repartition of capital by tier

Solvency II own funds represents own funds available to the undertaking before any consideration for tiering eligibility restriction and after limitation over the potential non-availability of certain elements of capital.

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.

The eligible own funds amount is the amount of own funds available after the tiering limits are applied. Eligible own funds are used to meet the SCR and MCR requirements. The structure of tiering is presented in the table below:

<i>(in Euro million)</i>	Total	Unrestricted Tier 1	Restricted Tier 1	Tier 2	Tier 3
<b>Eligible own funds At December 31, 2019</b>	<b>1 145</b>	<b>1 066</b>	-	-	<b>79</b>
of which ancillary	75	-	-	-	75
of which net deferred tax assets	4	-	-	-	4
<b>Eligible own funds At December 31, 2018</b>	<b>1 139</b>	<b>1 060</b>	-	-	<b>79</b>
of which ancillary	75	-	-	-	75
of which net deferred tax assets	4	-	-	-	4

The various components of what the Company considers as eligible capital are determined in accordance with Solvency II regulatory requirements. At December 31, 2019, eligible capital amounted to €1,145 million of which:

- unrestricted Tier 1 capital: €1,066 million, mainly made of ordinary shares €25 million, capital in excess of nominal value (capital contributions) €917 million and a reconciliation reserve corresponding to €124 million;
- Tier 3: unpaid ordinary shares of €75 million and DTA of €4 million.

Ancillary own fund classified in Tier 3 relates to unpaid issued share capital. This was approved as ancillary own fund classified in Tier 3 by the Central Bank of Ireland on December 18, 2015.

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, the Company's eligible financial resources to cover its minimum capital requirement under the current Solvency II regime amounted to €1,066m at December 31, 2019 compared to €1,060m at the end of 2018.

## / Reconciliation to shareholders' equity

As of December 31, 2019, shareholder's equity totaled €965 million. The reconciliation movements in capital resources between the Shareholders' equity and the Solvency II Own Funds are presented in the table below:

<i>€ million</i>	<b>At December 31, 2019</b>
<b>Shareholders' equity</b>	<b>965</b>
Intangible assets	(55)
Best estimate liabilities	944
Risk margin	(608)
Other	(101)
<b>Own funds</b>	<b>1,145</b>

The key differences between the local GAAP (prepared in accordance with IFRS) and Solvency II frameworks are further explained below:

- Intangibles elimination relates to the removal of DAC and software intangible in the Solvency II framework.
- Best Estimate Liabilities €944 million and Risk Margin -€608 million adjustments relate to the re-measurement in the Solvency II framework of policyholder's reserves as compared to those of the IFRS.
- Included within other is +€75 million of unpaid ordinary share capital (ancillary own funds Tier 3), - €127 million adjustment to reinsurance receivables on a Solvency II basis to take into account the difference in the reserving bases and a -€49 million adjustment to hedge assets on a Solvency II basis to allow for timing differences between the valuation of hedge assets under IFRS and the valuation of the BEL under Solvency II.

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

AXA received formal approval over its internal model application in November 2015. The AXA 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, the internal model reflects the overall solvency need of the AXA Group more faithfully and better aligns the capital requirement metrics with the Management decision making.

In accordance with SI 485 of 2015, without prejudice to any disclosure that is required by law, for a transitional period until 31 December 2020, the undertaking, in disclosing the total Solvency Capital Requirement is not required to disclose the capital add-on or the impact of the specific parameters it is required to use.

### / 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.

### / Solvency Capital Requirement (SCR)

On November 17, 2015, AXA received approval from the ACPR to use its internal model to calculate its regulatory capital going forward under Solvency II. The Company continually monitors the appropriateness of the internal model, and on June 30, 2017, AXA applied to the ACPR to change the methodology used to calculate its market SCR. The ACPR approved the model change to be applicable for FY 2017 reporting.

The Company continues to review regularly the underlying methodologies and assumptions of the model as applied in ALE for adequacy and such review, conducted in conjunction with the CBI, may lead to adjustments to the level of capital required. 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, 2019 the Company's post tax solvency capital requirement was €631 million.

Between FY 2018 and FY 2019, the **Total Solvency Capital Requirement (SCR)** increased by €87 million to €631 million, driven by a combination of changes in economic conditions.

**Market SCR** decreased by €40 million to €250 million. The change was driven primarily by a recalibration of real-world scenarios at FY2019 under low interest rate conditions. The purchase of additional swaptions to protect ALE from further declines in interest rates also contributed to the reduction in market risk SCR.

**Life SCR** increased by €106 million to €507 million, mainly driven by the significant reduction in eurozone interest rates since FY2018 increasing the present value of ALE's long-term guarantees under stressed scenarios.

**Counterparty SCR** is not a significant exposure to the Company, however it increased by €10 million to €38 million at FY 2019. The main increases during 2019 arose from corporate default SCR due to additional cash received following interest rate reductions, as well as an increased level of initial margin posted with derivative counterparties and excess over initial margin placed in clearing houses.

**Operational SCR** increased from €16 million to €18 million mainly due to the recalibration of the reporting scenarios and the addition of new scenarios.

## / Minimum Capital Requirement (MCR)

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 the Company in line with existing regulations, the Company's Minimum Capital Requirement amounted to €158 million at December 31, 2019. The movement in Minimum Capital Requirement is entirely driven by the movement in Solvency Capital Requirement.

The Minimum Capital Requirement is calculated based on 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

ALE uses the AXA Group internal model for regular calculations of its capital requirements and embeds the internal model results in the risk management system and decision-making processes. The ALE Board have made many key strategic decisions in recent years which rely heavily on the results from the internal model. These decisions are documented in ALE's use-test dashboard.

The 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 is a global Company operating 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 the risk profile of ALE.
- *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, to have models which are more appropriate for the scope of the Group. For example, the internal model for market risks adds some risks not covered by the standard formula which are important for ALE (government spread risk, interest rate implied volatility and equity implied volatility risk, realised volatility, basis risk).
- *Allowing for better evolution of the model over time* – As the Group's 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's Internal Model is calibrated to represent the value-at-risk of the loss distribution over a one-year time horizon at the 99.5th percentile at ALE balance sheet level.

- The AXA Internal Model forms an important piece of the AXA 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.
- The AXA 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 Internal Model provides information for implementing the Own Risk & Solvency Assessment (ORSA) process, formulating risk strategies, monitoring risk appetite or producing risk reporting.

Nature and appropriateness of data used: stresses applied to risk factors in the internal model are based, where possible, on relevant historical observations and expert judgements based on the specific risk factor. Due to the higher numbers of sub-risks and risk factors used in the Internal Model, interdependencies among risks then can be captured more precisely than in the standard formula.



## / Main differences between the Standard Formula and the Internal Model

AXA internal model is a **centralised 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.

The general architecture of the AXA internal model as it applies to ALE consists in four main modules (Life, Market, Credit and operational risks). The Standard Formula in addition considers a separate Health risk category which is anyway not applicable to ALE.

**In general, in the four risks categories, the internal 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, Inflation, realised volatility and basis risk are explicitly modelled in internal model. The risk of concentrations in the portfolio is included in the Corporate Default calculation.

Due to the higher numbers 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: Internal model models separately the default risk of corporate bonds whereas it is included in the calibration of spreads in the standard formula. Uncleared OTC's treatment is different: in the internal model the exposure is the potential future changes in derivative market values, while in the Standard Formula it is the change in the Market SCR that would be obtained excluding the derivatives from the calculation (i.e. removing the market risk mitigation effect of derivatives). Finally, the risk charge applied to receivables due in more than three months (including initial margin) is based on a specific historical calibration in the internal model.

Life risks: The Standard formula applies only a level shock for the Longevity module, whereas the Internal model explicitly shocks the trend in future mortality improvements. The Internal model explicitly models the Other Customer Behaviour risk, included in the Lapse module in the standard formula. Furthermore, the lapse risk categories are treated as three life sub-risks, while in the standard formula only the maximum of Lapse up, Lapse down and Lapse mass is considered. Revision risk is not considered in internal model, since it is negligible.

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 internal model extreme scenarios are used only for the calculation of the Life internal model figures.

For the other risk categories sophisticated models are applied. In particular for Market, Credit and Operational risk Monte Carlo simulations are used. This allows the derivation of the whole loss distribution.



## Diversification

In the standard formula, no geographical diversification is explicitly recognised. The internal model aggregation considers geographical diversification to allow for operations in different countries.

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 model assessment:

- The Market modules' modelling, using simulation-based approaches, allows exhibition of a full Probability Distribution Forecast.
- As for the Life risks, internal model calculations, which are 0.5% or 99.5% percentile-based, are enriched by the derivation of additional percentiles.
- 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, similar 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, and Operational requirements. This modular approach allows for the **ranking of the main risks** or sub-risks and provides a **good understanding of the risks** (sub-risks) and their impacts.

AXA also performs **reverse stress scenarios**. The aim of such scenarios is to exhibit combinations of Market, Credit, Life and Operational events (the shocks defined in the scenario are applied to occur simultaneously) that would yield the same amount of SCR for a chosen valuation date. They allow assessing several impacts inherent to the internal model:

- They represent a test of the assumed correlation appropriateness. Indeed, performing such test highlights and potential cross and non-linear effects and thus allows adjustment of the correlations to take into account such impacts. It results in conservative correlation coefficients.

These back-testing techniques are useful as they mitigate potential shortcomings coming from the aggregation structure (relying on an elliptical framework and the associated assumptions).

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

The Company has continually complied with the MCR and Internal Model SCR throughout the reporting period.

## E.6 Any other information

Not applicable.

## Appendix: Quantitative Reporting Templates

---

The following QRTs are provided in the appendix:

- |    |            |   |
|----|------------|---|
| 1. | S.02.01.02 | Balance sheet                                       |
| 2. | S.05.01.02 | Premiums, claims and expenses (by line of business) |
| 3. | S.05.02.01 | Premiums, claims and expenses (by country)          |
| 4. | S.12.01.02 | Technical provisions (life and health SLT)          |
| 5. | S.23.01.01 | Own funds   |
| 6. | S.25.03.21 | Solvency capital requirement (full internal model)  |
| 7. | S.28.01.01 | Minimum capital requirement                         |

All figures reported are in €'000s.

**AXA Life Europe dac**  
**Balance Sheet**  
**S.02.01.02**

	Solvency II value C0010
<b>Assets</b>	
Intangible assets	R0030 0
Deferred tax assets	R0040 3 837
Pension benefit surplus	R0050 0
Property, plant & equipment held for own use	R0060 625
Investments (other than assets held for index-linked and unit-linked contracts)	R0070 5 757 840
Property (other than for own use)	R0080 0
Holdings in related undertakings, including participations	R0090 0
Equities	R0100 0
Equities - listed	R0110 0
Equities - unlisted	R0120 0
Bonds	R0130 2 223 118
Government Bonds	R0140 1 820 396
Corporate Bonds	R0150 402 721
Structured notes	R0160 0
Collateralised securities	R0170 0
Collective Investments Undertakings	R0180 346 980
Derivatives	R0190 2 767 741
Deposits other than cash equivalents	R0200 420001
Other investments	R0210 0
Assets held for index-linked and unit-linked contracts	R0220 3 114 111
Loans and mortgages	R0230 1 127
Loans on policies	R0240 1 127
Loans and mortgages to individuals	R0250 0
Other loans and mortgages	R0260 0
Reinsurance recoverables from:	R0270 (103 852)
Non-life and health similar to non-life	R0280 0
Non-life excluding health	R0290 0
Health similar to non-life	R0300 0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310 (103 852)
Health similar to life	R0320 0
Life excluding health and index-linked and unit-linked	R0330 (103 852)
Life index-linked and unit-linked	R0340 0
Deposits to cedants	R0350 0
Insurance and intermediaries receivables	R0360 6 972
Reinsurance receivables	R0370 0
Receivables (trade, not insurance)	R0380 59 563
Own shares (held directly)	R0390 0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400 0
Cash and cash equivalents	R0410 610 757
Any other assets, not elsewhere shown	R0420 65 048
<b>Total assets</b>	<b>R0500 9 516 028</b>

**AXA Life Europe dac**  
**Balance Sheet**  
**S.02.01.02**

	Solvency II value
	C0010
<b>Liabilities</b>	
Technical provisions – non-life	<b>R0510</b> 0
Technical provisions – non-life (excluding health)	<b>R0520</b> 0
TP calculated as a whole	<b>R0530</b> 0
Best Estimate	<b>R0540</b> 0
Risk margin	<b>R0550</b> 0
Technical provisions - health (similar to non-life)	<b>R0560</b> 0
TP calculated as a whole	<b>R0570</b> 0
Best Estimate	<b>R0580</b> 0
Risk margin	<b>R0590</b> 0
Technical provisions - life (excluding index-linked and unit-linked)	<b>R0600</b> 2 439 968
Technical provisions - health (similar to life)	<b>R0610</b> 0
TP calculated as a whole	<b>R0620</b> 0
Best Estimate	<b>R0630</b> 0
Risk margin	<b>R0640</b> 0
Technical provisions – life (excluding health and index-linked and unit-linked)	<b>R0650</b> 2 439 968
TP calculated as a whole	<b>R0660</b> 0
Best Estimate	<b>R0670</b> 1 746 017
Risk margin	<b>R0680</b> 693 951
Technical provisions – index-linked and unit-linked	<b>R0690</b> 3 118 398
TP calculated as a whole	<b>R0700</b> 0
Best Estimate	<b>R0710</b> 3 117 278
Risk margin	<b>R0720</b> 1 120
Contingent liabilities	<b>R0740</b> 0
Provisions other than technical provisions	<b>R0750</b> 326
Pension benefit obligations	<b>R0760</b> 4
Deposits from reinsurers	<b>R0770</b> 2 347
Deferred tax liabilities	<b>R0780</b> 24 932
Derivatives	<b>R0790</b> 1 900 744
Debts owed to credit institutions	<b>R0800</b> 0
Financial liabilities other than debts owed to credit institutions	<b>R0810</b> 659
Insurance & intermediaries payables	<b>R0820</b> 6 791
Reinsurance payables	<b>R0830</b> 537
Payables (trade, not insurance)	<b>R0840</b> 64 516
Subordinated liabilities	<b>R0850</b> 0
Subordinated liabilities not in BOF	<b>R0860</b> 0
Subordinated liabilities in BOF	<b>R0870</b> 0
Any other liabilities, not elsewhere shown	<b>R0880</b> 886 327
<b>Total liabilities</b>	<b>R0900</b> 8 445 551
<b>Excess of assets over liabilities</b>	<b>R1000</b> 1 070 477

**Premiums, Claims and Expenses by line of business**  
**S.05.01.02**

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance	Health reinsurance	Life reinsurance	Total
Premiums written										
Gross	R1410	0	0	198 132	13 394	0	0	0	72 869	284 395
Reinsurers' share	R1420	0	0	0	8 316	0	0	0	0	8 316
Net	R1500	0	0	198 132	5 078	0	0	0	72 869	276 079
Premiums earned										
Gross	R1510	0	0	198 132	13 394	0	0	0	72 869	284 395
Reinsurers' share	R1520	0	0	0	8 316	0	0	0	0	8 316
Net	R1600	0	0	198 132	5 078	0	0	0	72 869	276 079
Claims incurred										
Gross	R1610	0	0	180 990	4 037	0	0	0	3 272	188 299
Reinsurers' share	R1620	0	0	0	5 490	0	0	0	0	5 490
Net	R1700	0	0	180 990	(1 453)	0	0	0	3 272	182 809
Changes in other technical provisions										
Gross	R1710	0	0	369 365	367 199	0	0	0	22	736 586
Reinsurers' share	R1720	0	0	0	934	0	0	0	0	934
Net	R1800	0	0	369 365	366 265	0	0	0	22	735 652
Expenses incurred	R1900	0	0	51 355	0	0	0	0	6 345	57 700
Other expenses	R2500									0
Total expenses	R2600									57 700

**AXA Life Europe dac**  
**Premiums, Claims and Expenses by country**  
**S.05.02.01**

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R1400	DE	GB	JP	FR			
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
<b>Premiums written</b>								
Gross	R1410	0	210 805	722	72 869	0	0	284 395
Reinsurers' share	R1420	0	8 316	0	0	0	0	8 316
Net	R1500	0	202 489	722	72 869	0	0	276 079
<b>Premiums earned</b>								
Gross	R1510	0	210 805	722	72 869	0	0	284 395
Reinsurers' share	R1520	0	8 316	0	0	0	0	8 316
Net	R1600	0	202 489	722	72 869	0	0	276 079
<b>Claims incurred</b>								
Gross	R1610	0	90 418	69 166	3 272	0	0	162 856
Reinsurers' share	R1620	0	5 490	0	0	0	0	5 490
Net	R1700	0	84 927	69 166	3 272	0	0	157 365
<b>Changes in other technical provisions</b>								
Gross	R1710	0	736 152	(28 115)	22	0	0	708 060
Reinsurers' share	R1720	0	934	0	0	0	0	934
Net	R1800	0	735 219	(28 115)	22	0	0	707 126
<b>Expenses incurred</b>	R1900	0	22 315	11 665	6 345	0	0	40 326
<b>Other expenses</b>	R2500							
<b>Total expenses</b>	R2600							40 326



**AXA Life Europe dac**  
**Life and Health SLT Technical Provisions**  
**S.12.01.02**

		Insurance with profit participation	Index-linked and unit-linked insurance		Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	Health insurance (direct business)		Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)		
			Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees	Contracts with options or guarantees	Contracts without options and guarantees				Contracts with options or guarantees						
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole		R0010	0	0		0			0	0	0	0			0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole		R0020	0	0		0			0	0	0	0			0	0	0
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate		R0030	0		41 477	3 075 801		126 259	1 080 617	0	539 141	4 863 295		0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		R0080	0								(103 852)						
			0		0	0		(33 123)	(70 729)	0	0		0	0	0	0	0
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total		R0090	0		41 477	3 075 801		159 382	1 151 346	0	539 141	4 967 147		0	0	0	0
Risk Margin		R0100	0	1 120			603 861		0	90 090	693 951	0			0	0	0
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole		R0110	0	0			0		0	0	0	0			0	0	0
Best estimate		R0120	0		0	0		0	0	0	0		0	0	0	0	0
Risk margin		R0130	0	0	0	0			0	0	0	0			0	0	0
Technical provisions - total		R0200	0	3 118 398			1 810 737		0	629 230	5 558 366	0			0	0	0

**AXA Life Europe dac**  
**Own Funds**  
**S.23.01.01**

**Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35**

Ordinary share capital (gross of own shares)  
Share premium account related to ordinary share capital  
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings  
Subordinated mutual member accounts  
Surplus funds  
Preference shares  
Share premium account related to preference shares  
Reconciliation reserve  
Subordinated liabilities  
An amount equal to the value of net deferred tax assets  
Other own fund items approved by the supervisory authority as basic own funds not specified above

**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

**Deductions**

Deductions for participations in financial and credit institutions

**Total basic own funds after deductions**

**Ancillary own funds**

Unpaid and uncalled ordinary share capital callable on demand  
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand  
Unpaid and uncalled preference shares callable on demand  
A legally binding commitment to subscribe and pay for subordinated liabilities on demand  
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC  
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC  
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
Other ancillary own funds

**Total ancillary own funds**

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
<b>R0010</b>	25 446	25 446		0	
<b>R0030</b>	0	0		0	
<b>R0040</b>	0	0		0	
<b>R0050</b>	0		0	0	0
<b>R0070</b>	0	0			
<b>R0090</b>	0		0	0	0
<b>R0110</b>	0		0	0	0
<b>R0130</b>	123 804	123 804			
<b>R0140</b>	0		0	0	0
<b>R0160</b>	3 837				3 837
<b>R0180</b>	917 390	917 390	0	0	0
<b>R0220</b>	0				
<b>R0230</b>	0	0	0	0	
<b>R0290</b>	1 070 477	1 066 640	0	0	3 837
<b>R0300</b>	0			0	
<b>R0310</b>	0			0	
<b>R0320</b>	0			0	0
<b>R0330</b>	0			0	0
<b>R0340</b>	0			0	
<b>R0350</b>	0			0	
<b>R0360</b>	0			0	
<b>R0370</b>	0			0	0
<b>R0390</b>	74 524			0	74 524
<b>R0400</b>	74 524			0	74 524

AXA Life Europe dac
Own Funds
S.23.01.01

Available and eligible own funds

Total available own funds to meet the SCR

Total available own funds to meet the MCR

Total eligible own funds to meet the SCR

Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

Expected profits

Expected profits included in future premiums (EPIFP) - Life business

Expected profits included in future premiums (EPIFP) - Non- life business

Total Expected profits included in future premiums (EPIFP)

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
R0500	1 145 001	1 066 640	0	0	78 361
R0510	1 066 640	1 066 640	0	0	
R0540	1 145 001	1 066 640	0	0	78 361
R0550	1 066 640	1 066 640	0	0	
R0580	631 016				
R0600	157 754				
R0620	1 8145				
R0640	6 7614				
	C0060				
R0700	1 070 477				
R0710	0				
R0720	0				
R0730	946 673				
R0740	0				
R0760	123 804				
R0770	0				
R0780	0				
R0790	0				

**AXA Life Europe dac**  
**Solvency Capital Requirement - for undertakings on Full Internal Models**  
**S.25.03.21**

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
<b>C0010</b>	<b>C0020</b>	<b>C0030</b>
1.	Market	250 337
2.	Life	506 711
3.	Credit	38 365
4.	Operational	17 961
5.	Deferred Tax liability	(21 095)

**Calculation of Solvency Capital Requirement**

Total undiversified components

Diversification

Capital requirement for business operated in accordance with Art 4 of Directive 2003/41/EC (transitional)

**Solvency capital requirement excluding capital add-on**

Capital add-ons already set

**Solvency capital requirement**

**Other information on SCR**

Amount/estimate of the overall loss-absorbing capacity of technical provisions

Amount/estimate of the overall loss-absorbing capacity of deferred taxes

Total amount of Notional Solvency Capital Requirements for remaining part

Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art 4 of Directive 2003/41/EC (transitional))

Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios

Diversification effects due to RFF nSCR aggregation for article 304

**C0100**

<b>R0110</b>	792 279
<b>R0060</b>	(161 263)
<b>R0160</b>	0
<b>R0200</b>	631 016
<b>R0210</b>	0
<b>R0220</b>	631 016
<b>R0300</b>	0
<b>R0310</b>	(21 095)
<b>R0410</b>	0
<b>R0420</b>	0
<b>R0430</b>	0
<b>R0440</b>	0

**Approach to tax rate**

Approach based on average tax rate

**Yes/No**  
**C0109**

<b>R0590</b>	No
--------------	----

**Calculation of loss absorbing capacity of deferred taxes**

**LAC DT**  
**C0130**

Amount/estimate of LAC DT

Amount/estimate of LAC DT justified by reversion of deferred tax liabilities

Amount/estimate of LAC DT justified by reference to probable future taxable economic profit

Amount/estimate of LAC DT justified by carry back, current year

Amount/estimate of LAC DT justified by carry back, future years

Amount/estimate of Maximum LAC DT

<b>R0640</b>	(21 095)
<b>R0650</b>	(21 095)
<b>R0660</b>	0
<b>R0670</b>	0
<b>R0680</b>	0
<b>R0690</b>	(21 095)

## AXA Life Europe dac

### Minimum Capital Requirement - Only Life or only Non-Life Insurance or Reinsurance activity S.28.01.01

#### Linear formula component for Life Insurance and Reinsurance obligations

MCR <sub>L</sub> Result		<b>C0040</b>			
	<b>R0200</b>	60 668			
			Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	
			<b>C0050</b>	<b>C0060</b>	
Obligations with profit participation - guaranteed benefits	<b>R0210</b>	0			
Obligations with profit participation - future discretionary benefits	<b>R0220</b>	0			
Index-linked and unit-linked insurance obligations	<b>R0230</b>	3 117 278			
Other life (re)insurance and health (re)insurance obligations	<b>R0240</b>	1 849 869			
Total capital at risk for all life (re)insurance obligations	<b>R0250</b>				0

#### Overall MCR calculation

	<b>C0070</b>
Linear MCR	<b>R0300</b> 60 668
SCR	<b>R0310</b> 631 016
MCR cap	<b>R0320</b> 283 957
MCR floor	<b>R0330</b> 157 754
Combined MCR	<b>R0340</b> 157 754
Absolute floor of the MCR	<b>R0350</b> 3 700
	<b>C0070</b>
<b>Minimum Capital Requirement</b>	<b>R0400</b> 157 754