AXA Bank Europe

Disclosure Report 2009

redefining / standards

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Index

Executive summary

The purpose of this report is to provide market participants with relevant information concerning AXA Bank Europe's activities, risk profile, financial governance, capital adequacy and risk management.

AXA Bank Europe is AXA Group's banking arm. On 31/12/2009, it provided retail banking solutions to individuals and small companies in Belgium, Switzerland and Hungary. It also started providing hedging services to AXA insurance companies for their variable annuities products.

Overall, AXA Bank Europe's risk profile is low:

- The bank is mainly exposed to retail credit risk through its portfolio of retail loans (consumer, mortgage and small enterprises) in Belgium and to a lower extent through its small portfolio of mortgage loans in Hungary;
- It maintains a very prudent approach to market risk. AXA Bank Europe's treasury and financial market activities are focused on the risk management of liquidity, interest rate and Forex positions generated by the bank's portfolio;
- The bank's exposure to non retail credit risk is prudently limited to high quality assets (mostly well rated sovereigns, financial institutions and asset backed securities);
- Exposures to derivatives are strongly mitigated by a strict collateral policy.

AXA Bank Europe's strategic financial decisions are taken by its Board of Directors and managed by its Management Board. AXA Bank Europe's internal capital adequacy assessment and strategic planning processes take into account capital required to mitigate all material risks, capital required for expected business growth, intra-risk diversification benefits, liquidity requirements and stress testing results. Its capital allocation processes also incorporate Return On Risk-Adjusted Capital (RORAC) analysis.

The bank aims to meet all regulatory capital obligations and to remain sufficiently capitalized to be able to cover its risks at all time at a 99.90% confidence interval over a one year period. On 31/12/2009, AXA Bank Europe's core tier 1 ratio was 26.22%, exceeding both market average and legal requirements. AXA Bank Europe's internally defined available capital also exceeded AXA Bank Europe's economic capital by a comfortable margin.

1. Presenting AXA Bank Europe

The purpose of this section is to provide the reader with relevant information on AXA Bank Europe. This section starts by presenting AXA Bank Europe's strategy. It then describes the bank's corporate structure, business activities, risk management objectives, risk taxonomy, risk management organization and disclosure policy.

1.1. Strategy

AXA Bank Europe is AXA Group's banking arm that provides retail banking solutions to individuals and small companies in Europe. It works in close cooperation with AXA's local insurance companies to complement their financial product offering with a range of retail banking products.

AXA Bank Europe's has a very conservative approach to market risk. Its treasury and financial market activities are focused on liquidity risk, interest rate risk and Forex risk management. AXA Bank Europe also provides intra-group hedging services to AXA insurance companies.

AXA Bank Europe maintains limited exposures in high quality assets (see section 3.2.2). It does not engage in equity or commodities trading.

Being a retail bank, AXA Bank Europe is not involved in investment banking, corporate banking, structured finance or trade finance.

1.2. Corporate structure

This 2009 disclosure report applies to the AXA Bank Europe entities that are described in the following table:

Banking entities	Direct ownership on 31/12/2009	Type of entity
AXA Bank Europe SA	*	Head Office (Includes Belgium Branch)
AXA Bank Europe Hungary	*	Branch
AXA Bank Europe Switzerland	*	Branch
AXA Bank Europe Czech Republic	*	Branch
AXA Bank Europe Slovakia	*	Branch
Non Banking Entities		
AXA Hedging Services	100%	Subsidiary
AXA Belgium Finance	100%	Subsidiary
Beran	99.9%	Subsidiary
Imopole	99.4%	Subsidiary
Motor Finance Company	99.9%	Subsidiary
Royal Street	10%	SPV
Société Foncière de l'Hexagone	99.8%	Subsidiary
Sofifo	99.8%	Subsidiary

* AXA Bank Europe's branches are not separate legal entities from AXA Bank Europe SA.

It should be noted that only the banking entities mentioned in the first part of the table generate material risks for AXA Bank Europe. AXA Bank Europe's IFRS consolidation scope is described in section 2.1 of its IFRS Annual Report 2009.

1.3. Business activities

AXA Bank Europe's main business activities[1] can be described through the following table:

Banking Entities*	Business Line	Description of activities
AXA Bank Europe SA (head office)	European ALM	Structural management of AXA Bank Europe's liquidity & interest rate risk positions
	Treasury & Forex	Short term management of AXA Bank Europe's liquidity & interest rate risk positions, as well as Forex and market risk exposures
	Portfolio Management	Management of AXA Bank Europe's high quality investment portfolio
	Services to AXA Group (AXA Hedging Services)	Back-to-back** hedging of derivatives for AXA Group insurance companies
AXA Bank Europe Belgium	Retail credits, retail deposits & saving products, daily banking	Provides consumer loans, mortgage loans and commercial loans, as well as savings & investments products to retail customers
AXA Bank Europe Hungary	Mortgage loans Retail deposits & saving products	Provides mortgage loans as well as savings to retail customers
AXA Bank Europe in Switzerland	Retail deposits & saving products	Provides savings to retail customers
AXA Bank Europe in the Czech Republic	Retail deposits & saving products	License had been obtained but activities had not yet been launched on 31/12/2009
AXA Bank Europe in Slovakia	Retail deposits & saving products	

* AXA Bank Europe's foreign entities are bank branches of AXA Bank Europe SA without separate legal personality.
** A very limited V@R is left for operational purposes.

1.4. Risk management objectives

AXA Bank Europe's risk management architecture was built to ensure the following objectives are attained:

- All risks to AXA Bank Europe's objectives are identified and described in a comprehensive risk taxonomy;
- Proper risk management systems (including models) are developed, validated, reviewed and maintained in order to quantitatively measure and/or assess the bank's material risks;
- Triggers and limits are defined and monitored to keep identified material risks at desired risk appetite levels;
- The management of risks is embedded into AXA Bank Europe' strategic decision making process;

[1] Not under run-off.

- Adequate risk reporting and escalation processes are in place to inform AXA Bank Europe' senior management in due time of relevant risk exposures;

- New products, or modification to existing products, undergo a formal and efficient product approval process which takes risks into account before their launch or implementation;

- Adequate risk appetite, ALM and capital allocation processes are in place to ensure that the bank's use of its financial resources is optimized;

- Timely and adequate reports are produced to keep key external stakeholders (such as the regulator) informed of AXA Bank Europe's risk positions;

- Applicable banking regulation and group policies are complied with.

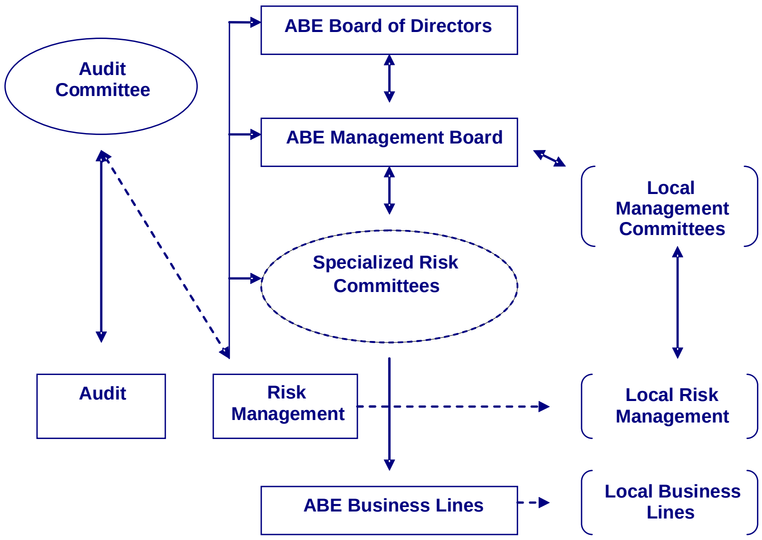
1.5. Risk taxonomy

AXA Bank Europe's Risk Management department maintains a risk taxonomy which provides a centralized definition for all the risks faced by the entities mentioned in section 1.2. The risk taxonomy identifies those risks which are managed centrally (at the head office level) against those which are co-managed through central & local efforts (at branches or subsidiaries level). It can be summarized through the following table:

Risk Taxonomy		ABE				Branches, Subsidiaries and Affiliates				
		ALM	Treasury	Derivatives (AHS)	Investment	AB Belgium (Retail)	AB Hungary (Retail)	AB Switzerland (Retail)	AXA Hedging Services	Other Minor Entities
Strategic & Integrity Risk	Strategic Risk									
	Reputational Risk									
Business Risk	Commercial Margins, Spreads & Fees	N/A	Immaterial	Immaterial	Immaterial				Immaterial	Immaterial
Credit Risk	Counterparty – Retail	N/A	N/A	N/A	N/A			N/A	N/A	N/A
	Counterparty – FI					N/A	N/A	N/A	N/A	N/A
	Counterparty – Corp.	N/A		N/A		N/A	N/A	N/A	N/A	N/A
	Counterparty - Sovereign			N/A		N/A	N/A	N/A	N/A	N/A
	Counterparty – Securitiz.	N/A	N/A	N/A		N/A	N/A	N/A	N/A	N/A
	Participation Risk	N/A	N/A	N/A	Immaterial	N/A	N/A	N/A	N/A	N/A
	CR Concentrations							N/A	N/A	N/A
	Settlement Risk					N/A	N/A	N/A	N/A	N/A
Market Risk	IRR (Structural)		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Basis Risk	N/A	N/A	N/A	N/A		N/A	N/A	N/A	N/A
	IRR (Non Structural)	N/A		Immaterial	Immaterial	N/A	N/A	N/A	N/A	N/A
	Exchange Rate Risk			N/A	N/A	N/A		N/A	N/A	N/A
	Price Risk – Equity	N/A	N/A	N/A	Run Off	N/A	N/A	N/A	N/A	N/A
	Residual Risk	N/A	Immaterial	Immaterial	Immaterial				N/A	N/A
	Market Liquidity Risk	N/A	N/A	N/A	Immaterial	N/A	N/A	N/A	N/A	N/A
Liquidity Risk	Short Term Liquidity Risk	N/A		N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Structural Liquidity Risk		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Contingent Liquidity Risk	N/A		N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Country Risk			N/A	N/A	N/A	N/A	N/A	N/A	N/A
Operational Risks	Operational Risk									
	Compliance Risk									
	Model Risk				Immaterial			Immaterial		Immaterial
Other Risks	Owned Property Risk	N/A	N/A	N/A	N/A	Immaterial	N/A	N/A	N/A	N/A
	Capital Risk	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Insurance Risk	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Pension Obligation Risk	Applicable to ABE Head Office as well as to AB Belgium Branch					N/A	N/A	N/A	N/A

1.6. Risk Management Organization

The following chart provides a graphical summary of AXA Bank Europe's risk management organization:



- AXA Bank Europe's Board of Directors defines the risk appetite and other key metrics that set the levels of acceptable risks that can be engaged by the bank's business lines and branches. It also provides the final validation for proposed organizational and reporting structures setup for the management of risks.

- AXA Bank Europe's Management Board is responsible for ensuring that risk management strategies are implemented and followed. It ensures that the bank's risk appetite is respected. It validates & endorses all decisions taken by AXA Bank's Europe's specialized risk committee (see below). It decides on product approval requests. Finally, it reviews consolidated risk reports and sets appropriate levels of provisions when needed.

- Specific risk committees oversee specific risk strategies set by AXA Bank Europe's Management Board. Generally, they monitor and analyze consolidated risk reports. They validate risk indicators and models. They monitor the adequacy of AXA Bank Europe's risk infrastructure and risk models (stress testing, back testing and calibration). The committees are:

    - Risk Appetite Steering Committee = All risks
    - Retail Credit Committee = Retail credit risk
    - Credit Investment Committee = Non retail credit risk
    - Operational Risk Management Steering Committee = Operational risk
    - Assets & Liabilities Committee (ALCO) = Liquidity risk, interest rate risk & market risk

- The management committees of the local branches ensure that AXA Bank Europe's risk management strategies are implemented and followed locally. They also ensure that the risks taken by the branches remain within local risk appetite limits.

- Business lines act as the first line of defense in the management of their risks.

- As a control function (independent from the business lines), AXA Bank Europe's Risk Management department assists the bank's Board of Directors, Management Board and specialized risk committees manage the bank's risks.

AXA Bank Europe's risk management strategies and processes are fully described within internal risk management charters, reviewed and validated on a yearly basis by AXA Bank Europe's Board of Directors and Management Board.

1.7. Risk disclosure policy

The Basel II accords require banks to disclose a complete risk report to the market at least once a year. This obligation is known as the "market discipline" Basel II Pillar III transparency obligation[2]. It is based on the assumption that well informed market participants will reward risk-conscious management strategies and will correspondingly penalize riskier behaviors. It is believed that this gives credit institutions additional incentives to monitor and efficiently manage their risks.

In compliance with the above transparency requirements, AXA Bank Europe's Board of Directors and Management Board aim to communicate to the market a complete risk disclosure report at least once a year. The bank aims to do so after the publication of its audited annual accounts. Due to AXA Bank Europe's conservative and low risk profile, this yearly frequency is believed to offer sufficient information to allow third parties to form an opinion regarding AXA Bank Europe's risk profile. AXA Bank Europe may publish disclosure reports more frequently if material and important changes to its financial situation, risk profile or business strategy occur and require it.

This 2009 risk report covers the period starting on the 1st of January 2009 and ending on the 31st of December 2009.

AXA Bank Europe's management pays a special attention to the bank's obligation of discretion. If a situation would arise where individual clients' information could be inferred from some element legally required to be disclosed, the bank would seek guidance from its regulators in order to omit the publication of such information.

The reports can be found on AXA Bank Europe's corporate website at www.axabankeurope.com.

[2] In Belgium, this obligation is found under Title XIV of CBFA's Circular PPB-2007-1-CPB dated 8th of February 2007.

2. Financial governance & capital adequacy

This section aims to provide information on AXA Bank Europe's capital adequacy.

It starts by explaining regulatory requirements. It then details AXA Bank Europe's financial governance and capital objectives. It further provides information on AXA Bank Europe's available financial resources, stating how minimum regulatory capital and economic capital requirements are measured.

It then concludes by providing quantitative information demonstrating AXA Bank Europe's compliance with capital adequacy requirements.

2.1. CRD & the Basel II Accords

Under the EU Capital Requirement Directive and the international Basel II accords, banks such as AXA Bank Europe must maintain minimum level own funds to cover their credit risk, market risk and operational risk. This obligation is known as the (Pillar 1) "minimum regulatory capital requirement".

Banks must also have in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed to. This obligation is known as the (Pillar II) "economic capital requirement".

Under each pillar, the "available financial resources" of banks are compared to the measured "capital requirements". The differences between the two pillars are their measurements methodologies[3] and the scope of the risks that are covered[4].

2.2. Financial governance

AXA Bank Europe's strategic financial decisions are taken by its Board of Directors and managed through its Management Board.

The Board of Directors and Management Board are assisted in this task by the bank's Chief Financial Officer which heads the Financial Direction department.

Capital reporting is done regularly both to AXA Bank Europe's Management Board and to its Risk Appetite Committee. It allows for capital strategy adjustments to be implemented in a timely manner.

2.3. Capital objectives

AXA Bank Europe's capital objectives go beyond the simple management of equity. Its main objectives are the following:

- Compliance at all times with capital requirements imposed by regulation and supervisors;
- Safeguarding of shareholders and clients' interests;
- Maintenance of a sound capital foundation to support the development of business activities;

[3] Under Basel II Pillar 1, the methods are defined by the regulators whilst the methods are defined by AXA Bank Europe under Basel II Pillar 2.
[4] Only three risks are covered under Pillar 1. All material risks must be covered under Pillar II.

With regards to compliance with the above described Basel II Framework, AXA Bank Europe's capital objectives are currently the following:

- Pillar 1 - Minimum Capital Requirement (regulatory capital vs. own funds)

Maintain sufficient own funds to exceed Pillar I's minimum regulatory capital requirements by a sufficient margin.

- Pillar II – Economic Capital Requirement (economic capital vs. internal capital)

AXA Bank Europe's main Pillar II objective is to remain sufficiently capitalized to be able to cover risks at all times calculated with a 99.90% confidence interval over a one year period. This obligation is above AXA SA's Head Office requirement (99.5%).

Usually, a 99.90% level is roughly equivalent to the default risk between a 'A-' and 'BBB+' rated bond. Nevertheless, as AXA Bank Europe belongs to AXA SA, it benefits from a higher target rating equivalent to the default risk of a 'AA-' rated bond. AXA Bank Europe's rating primarily reflects its status as a core member of the AXA insurance group.

As such, AXA Bank Europe's Pillar II economic capital requirements, defined through Pillar II methodologies, must, at all times, be less than internal available capital.

2.4. Available financial resources

Under Basel II, AXA Bank Europe's available capital can be defined from a (Pillar I) regulatory perspective and from a (Pillar II) economic perspective.

Pillar I Capital is named "Regulatory Own Funds".
Pillar II Capital is named "Internal Available Capital".

The main difference is that Pillar I capital is measured through regulatory given methodologies while Pillar II capital requires an internal definition.

Regulatory own funds	Pillar I	Capital measured through regulatory defined methodologies that banks maintain and which must exceed minimum regulatory capital requirements. *(The method to calculate own funds is described in CBFA's Circular 2007-1)*
Internal available capital	Pillar II	Capital measured through internally defined methodologies that banks maintain and which must exceed economic capital requirements. Some capital which does not qualify as "own funds under Pillar I" can be added to cover economic capital requirements if it can be demonstrated that it is of sufficient quality.

AXA Bank Europe has decided that its internal definition for Pillar II's internal available capital used to cover economic capital (requirements) would be comparable to the regulatory definition it applies to calculate its Pillar I's minimum regulatory own funds figures.

However, both definitions are not equal:

- Under Pillar I: expected losses (when in excess of relevant taken provisions) for <u>retail credit risk under the IRB approach</u> must be deducted from AXA Bank Europe's regulatory own funds rather than used to increase regulatory capital requirements. In the opposite case (provisions exceed expected loss), they must be added.
- Under Pillar II: expected losses <u>for all risks</u> (when measurable and when in excess of taken provisions) must be deducted from (*AXA Bank Europe's Pillar I own funds + expected losses for retail credit risk under the IRB approach if they exceed relevant taken provisions*) the result in AXA Bank Europe's Pillar II's internal available capital. In the opposite case (provisions exceed expected loss), they must be added.

According to AXA Bank Europe's ICAAP Report for December 31st, 2009, AXA Bank Europe had EUR 1,311 Bn of regulatory own funds and EUR 1,294 Bn of internal available capital.

TIER 1 CAPITAL	2009.12	2008.12
Paid in capital	546 318	531 250
Reserves including retained earnings	485 831	457 490
minus : loss of financial year	-9 775	-6 475
minus : charges foreseen for which no provisions where composed		
minus : overfunding pension commitments		-1 790
minus : adjustment reserves pursuant to revaluation of cash flow hedges	-12 116	-10 479
minus : valuation differences in FVO financial liabilities (own credit risk)	-3 962	
TOTAL TIER 1 CAPITAL	1 006 295	969 996
TIER 2 CAPITAL		
Positive fair value revaluation reserve on available-for-sale equities	614	19
Perpetual subordinated debts	178 090	174 034
Subrogated debts	157 032	178 349
TOTAL TIER 2 CAPITAL	335 736	352 402
minus : participations		-866
minus : subordinated advances on participations		-2 500
minus : IRB provisions shortfall (-)	-33 296	-20 677
net trading book profits	2 383	
TOTAL CAPITAL	**1 311 118**	**1 298 355**
TOTAL WEIGHTED RISK VOLUME (RWA)	**4 999 646**	**2 962 996**
BASEL RATIO	**26.22**	**43.82**

More quantitative information on the above can be found within AXA Bank Europe’s IFRS Annual Report 2009, namely in its sections:

- Overview of consolidated equity changes;
- Capital Management;
- Goodwill & other intangible fixed assets;
- Equity;
- Distribution of profits & dividends per share.

2.5. Compliance with minimum regulatory capital requirements

The methods used by AXA Bank Europe to measure its regulatory capital requirements are summarized in the table below and described in more details in the risk sections 3.2 to 3.4 of this report:

Risks:	Method:
Retail Credit Risk - Belgium	Internal Rating Based Approach
Retail Credit Risk - Hungary	Standardized Approach
Securitization (with retail underlying assets) Risk	Internal Rating Based Foundation Approach
Securitization (non retail underlying) Risk	Standardized Approach
Non Retail Credit Risk	Standardized Approach
Market Risk	Standardized Approach
Operational Risk	Basic Indicator Approach

At the end of the year 2009, AXA Bank Europe reports that its Basel (Pillar 1) ratio was 26.22%, above market average and legal requirements. AXA Bank Europe further reports that during the year 2009, the available own funds always exceeded regulatory compliance requirements.

Basel II Pillar I on 31/12/2009 (in '000 €)		
Minimum Regulatory Capital Requirement		399 972
Basel I Floor *		388 100
	Total requirements	788 072
Basel II Pillar 1 Own Funds		1 311 118
	Surplus	523 046

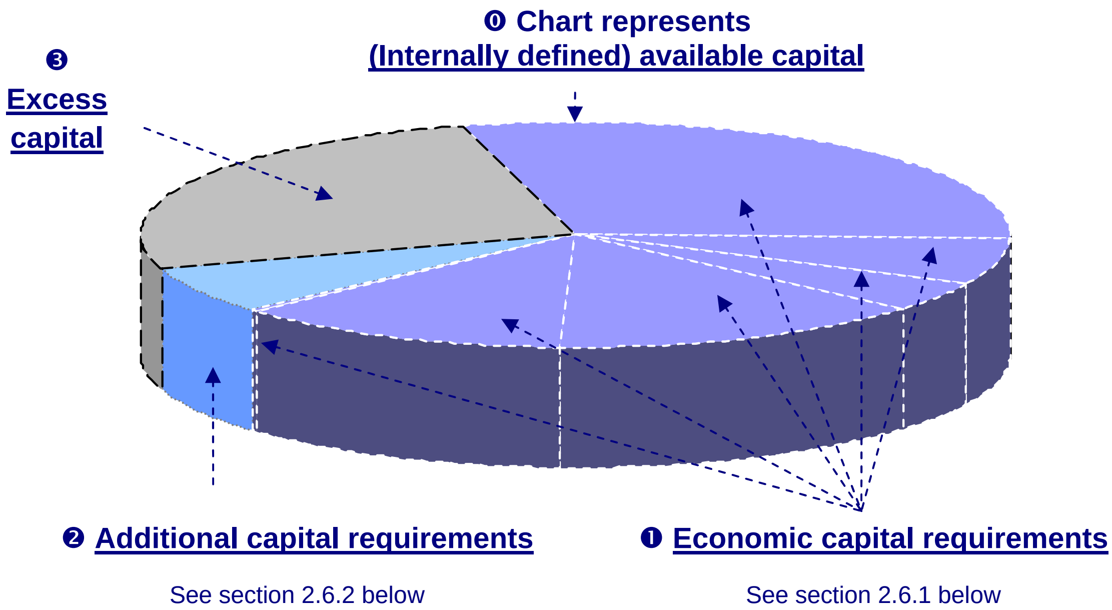
* The Basel II Accord laid down that a minimum solvency requirement ('floor') had to be imposed (on a transitional basis) on institutions like AXA Bank Europe using an internal model for credit risk for their measurement of minimum regulatory capital requirement. This floor was based on the old Basel I framework and was therefore referred to as the ' Basel I floor'. It aimed to prevent institutions from releasing significant amounts of regulatory capital by switching to internal models. The transitional Basel I floor was introduced in 2006 and initially scheduled to be released on the 31.12.2009. However, with the ongoing revision of the Basel II Accords and EU Capital Requirements Directive, it is expected to be maintained in 2010 and 2011.

2.6. Compliance with economic capital requirements

AXA Bank Europe set up an Internal Capital Adequacy Assessment Process (ICAAP) project to comply with the new Basel II Pillar II requirements. Amongst others, this process aims to improve methodologies and to integrate all the risks faced by the institution within its capital management framework, and namely those not covered under the Basel II Pillar I regulatory framework (interest rate risk, liquidity risk, strategic risk, business risk, reputation risk, pension risk, owned property risk, capital risk, etc…) through an internal assessment of required risk capital (also known as economic capital).

AXA Bank Europe's methodology concerning its ICAAP is documented in an internal ICAAP file reviewed annually by AXA Bank Europe's regulator under its standard supervisory review process.

AXA Bank Europe measures its economic capital requirements by taking into account the following elements:



By maintaining a sufficient level of excess capital at all times, AXA Bank Europe ensures that it can always meet its economic capital requirements.

2.6.1. Measuring economic capital requirements

Under Basel II principles, the measurement of economic capital requirements must take into account all identified material risks. It must also take into account planned (expected) business growth. Because some risks are correlated to others, the measurement of economic capital requirements may also be reduced for diversification benefits. These three points are described in the following sub-sections:

2.6.1.1. Economic capital requirements for material risks

This sub-section provides an overview of the methods used by AXA Bank Europe to measure its core capital requirements under Pillar II. In compliance with CRD regulation, these methods are defined internally. More detailed information on these methods can be found within the specific risk sections of this report (see sections 3.2 to 3.7).

AXA Bank Europe's economic models are fully documented. All economic capital models are systematically independently validated before they are used.

Risks:	Method:
Retail Credit Risk - Belgium	Monte-Carlo Value at Risk (V@R)
Retail Credit Risk - Hungary	Compounded V@R [Direct credit risk (V@R) + Indirect credit risk (Stress scenarios)]
Non Retail Credit Risk – AXA Bank Europe HO	Approach similar to Standardized Approach
Credit Risk – Other branches	Standardized Approach
Market Risk	Monte-Carlo Value at Risk (V@R)
Operational Risk	Approach similar to SA under Pillar 1
Interest Rate Risk	Monte-Carlo Value at Risk (V@R)
Business Risk	Internal assessment with 99.9% confidence interval
Basis Risk	Internal assessment with 99.9% confidence interval
Forex Risk	Value at Risk (V@R) with 99.9% confidence interval over 2 months
Residual Risk	Internal assessment
Structural Liquidity Risk	Internal assessment
Pension Risk	Internal assessment complementary to IAS 19 approach

2.6.1.2. Economic capital requirements for business growth

Economic capital requirement scenarios for expected business growth are systematically assessed during strategic planning exercises and regularly monitored during the year. Such assessments include business forecasts, Return On Risk-Adjusted Capital (RORAC) analysis. They also take into account relevant stress test results and liquidity impacts.

Economic capital allocation proposals for expected business growth are approved by AXA Bank Europe's Management Board and Board of Directors.

2.6.1.3. Diversification benefits

Under Basel II, economic capital requirements must be adjusted (and reduced) for diversification benefits between risks. AXA Bank Europe uses a correlation matrix which estimates correlations between its retail Belgium, retail Hungary and non retail credit risk, as well as between credit, market & operational risks.

2.6.2. Additional capital requirements

Additional economic capital requirements may result from stress testing, the obligation to maintain a Basel I buffer or the decision to keep a security margin to hedge against the volatility of risk exposures. These points are described in the following sub-sections:

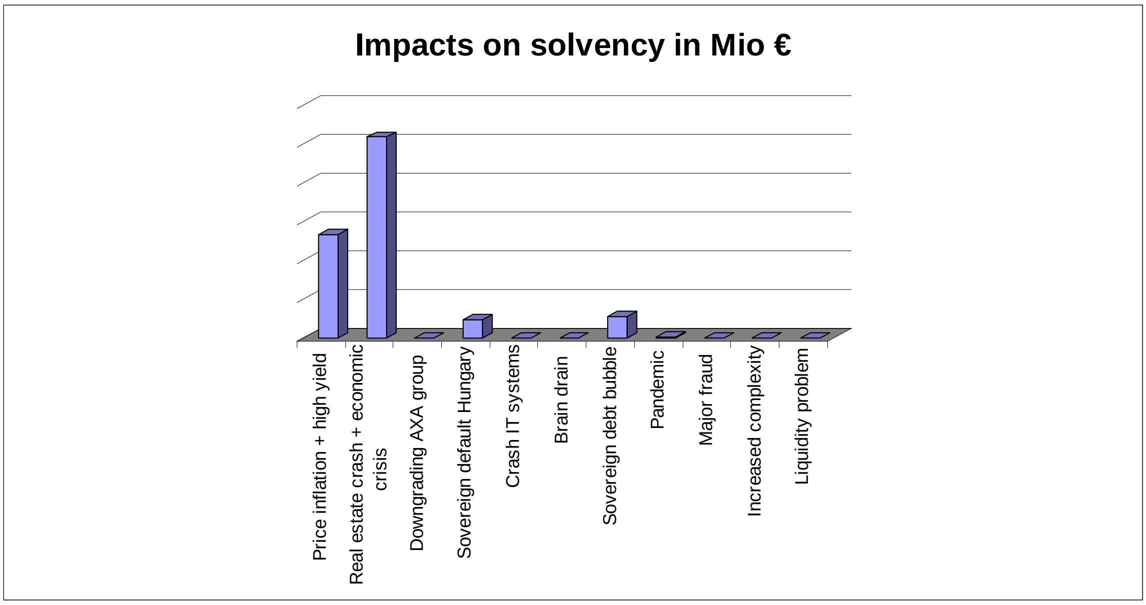
2.6.2.1. Stress Testing

Stress testing forms an integral part of AXA Bank Europe's overall governance and risk management culture.

- It allows the bank to improve the measurement of its risks;
- It increases the visibility and comprehension of the various risk profiles to its management;
- It allows the bank to test the resilience and adequacy of its risk measurement models;
- It serves to fine-tune and adjust economic capital requirements.

AXA Bank Europe may therefore adjust (increase when relevant) its capital requirements based on its analysis of stress testing exercises. This is due to the fact that the determination of capital requirements for risk mitigation must be forward looking. It must take into account the impacts of unexpected (but plausible) severe scenarios which could affect the institution.

For the exercise ending 31/12/2009, AXA Bank Europe analyzed the potential impacts of eleven severe (but plausible) hypothetical scenarios on all material risk types (interest rate risk, retail credit risk, counterparty risk, market FX risk, operational risk and liquidity risk). The results were presented to the relevant risk committees and to AXA Bank Europe's Management Board. None of the stress test results showed AXA Bank Europe to require specific economic capital mark-ups.



The processes, methods, assumptions and results of AXA Bank Europe's stress tests are reviewed annually by its regulator.

2.6.2.2. Pillar I Buffer

Should AXA Bank Europe’s (Pillar I) minimum regulatory capital requirements ever exceed AXA Bank Europe’s Pillar II economic capital requirements, AXA Bank Europe would take a “Pillar I buffer” under Pillar II. The purpose of this “Pillar I buffer” under Pillar II would be to ensure that AXA Bank Europe’s total economic capital accurately reflects the bank’s global capital requirements. On 31/12/2009, this was not necessary.

2.6.2.3. Security Margin

The volatility of risk exposures impacts the results of economic capital modeling. AXA Bank Europe’s Board of Directors and/or Management Board may decide to maintain a security margin above measured economic capital requirements to hedge the bank against cyclicality or unexpected events.

2.6.3. 2009 ICAAP results

On 31/12/2009, AXA Bank Europe’s internal capital adequacy assessment process showed that AXA internally defined available capital (as described in section 2.4) exceeded AXA Bank Europe’s economic capital by a comfortable margin.

3. Managing risks

3.1. Risk appetite framework

AXA Bank Europe's risk appetite framework implements AXA Group's risk appetite approach, although making the required amendments to cater for banking specificities.

The setting of AXA Bank Europe's risk appetite is structured around different elements:

- Objectives set by AXA Bank Europe's Management Board and Board of Directors;
- Key financial indicators & functional risk drivers;
- Defined risk appetite triggers & limits used to keep identified risks at desired levels.

The key financial indicators (KFI) concern capital, value, earnings and liquidity:

- Capital represents the constraints in terms of internally available capital that can be allocated to the different activities of ABE;
- Value represents AXA Bank Europe's objectives in terms of returns on allocated capital;
- The "Earnings" KFI reports on AXA Bank Europe's P&L sensitivities (IFRS earnings);
- The "Liquidity" KFI reports on the adequacy of AXA Bank Europe's liquidity.

Risk drivers are the measurable and quantitative components of KFIs. They serve as the building blocks to aggregate KFI results. They also ensure that AXA Bank Europe's risk appetites can be translated operationally:

- Taken individually, risk drivers quantify some aspects of the risk related to AXA Bank Europe's business activities. They provide functional risk indicators used on a day-to-day basis to manage the risk exposures within the relevant business lines;
- Functional limits are set on them, as they must be easily and frequently monitored, reported and understood by people in operational functions;
- They also serve as components to feed more advanced risk models and/or stress tests.

3.2. Credit risk

AXA Bank Europe defines credit risk as the negative consequences associated with the default[5] or deterioration in credit quality[6] of counterparties in lending operations.

The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The effective management of credit risk is a critical component of a comprehensive approach to risk management and is essential to the long term success of any banking organization.

Within AXA Bank Europe, credit risks are categorized as either retail credit risks or non retail credit risks and managed accordingly.

[5] Counterparty not able to fulfill contractually agreed financial obligations.
[6] Potential loss due to change in the fair value of credit exposures as a result of rating transitions of counterparties.

3.2.1. Retail credit risk

AXA Bank Europe's main business is to provide retail credit facilities to private individuals, professionals and small businesses in selected European countries. In 2009, such facilities were offered in Belgium through AXA Bank Europe SA and in Hungary through a local branch of AXA Bank Europe SA.

3.2.1.1. Risk management governance

The management of AXA Bank Europe's retail credit risk is formalized by a (head office) Retail Risk Management Charter. This charter applies to AXA Bank Europe and to all of its branches and subsidiaries. It sets the organization, risk appetite framework, product approval processes and modeling requirements that must be followed internally to mitigate AXA Bank Europe's retail credit risk exposures. It is completed by (local) business & credit policies which provide the procedures for the day to day management of retail credit risks.

The governance of AXA Bank Europe's retail credit risk management can be summarized as follows:

- AXA Bank Europe' Board of Directors and AXA Bank Europe's Management Board assume the responsibilities described in section 1.6 for the management of retail credit risk.

- AXA Bank Europe's Retail Credit Committee oversees the bank's credit strategies defined by the AXA Bank Europe's Board of Directors and instructed and implemented by AXA Bank Europe's Management Board. It reviews and approves (local) retail credit risk policies. It monitors and analyses consolidated retail credit risk reports. It validates credit risk indicators and models. It monitors the adequacy of AXA Bank Europe's retail credit risk infrastructure and risk models (stress testing, back testing and calibration).

- The management committees of local branches ensure that AXA Bank Europe's retail credit risk management strategies are implemented and followed locally. They also ensure that the retail credit exposures taken by the branches remain within local risk appetite limits and that local retail credit risk indicators and models are properly developed and used.

- Local credit business lines are responsible for the acquisition, management and recovery of retail credits. They act as the first line of defense in the management of retail credit risk. They are responsible to propose (or amend) retail credit products and policies. In some branches and subsidiaries, they also maintain a local modeling team which works closely with AXA Bank Europe's (head office) modeling team to set up and maintain the appropriate risk indicators and models described below.

- As a control function (independent from the business lines), AXA Bank Europe's Risk Management department assumes the responsibilities described in section 1.6.

3.2.1.2. Capital requirement assessment

AXA Bank Europe' measures its minimum capital requirements for retail credit risk in the following way:

Retail credit risk exposures	Basel II framework	
	Minimum regulatory capital requirements (Pillar I)	Economic capital requirements (Pillar II)
AXA Bank Europe - Belgium	Internal Rating Based Approach *	Monte-Carlo V@R (Confidence 99.9% / one year interval)
AXA Bank Europe - Hungary	Standardized Approach **	Compounded V@R [Direct credit risk (V@R) + Indirect credit risk (Stress scenarios)]

* 2% of AXA Bank Europe SA Belgium's retail credit risk exposures (for which insufficient historical data exist to feed an Internal Rating-Based Approach) are measured using Basel II's Standardized Approach.

** A project is underway to extend the use Basel II's Internal Rating Based Approach to AXA Bank Europe's Hungary branch during the year 2011. As such, AXA Bank Europe's Hungarian retail credit exposures were still calculated in 2009 through Basel II's Standardized Approach.

On the 31/12/2009, AXA Bank Europe measured its minimum regulatory requirements for retail credit risk as follows:

Retail credit risk exposures by approach (on 31/12/2009)	**Minimum regulatory capital requirements** (Consolidated in '000 €)
Internal Rating Based Approach	117 546
Standardized Approach	47 447
Total:	**164 993**

On the 31/12/2009, AXA Bank Europe measured its economic capital requirements for retail credit risk as follows:

Retail credit risk exposures by country (on 31/12/2009)	**% of Economic capital requirements** (Consolidated & without taking diversification benefits into account)
AXA Bank Europe - Belgium	9.2%
AXA Bank Europe - Hungary	17.5%
Total:	**26.7%**

The following three sections describe the risk exposures and risk management specificities applicable to AXA Bank Europe's retail credit exposures in Belgium and Hungary

3.2.1.3. Retail credits in Belgium

3.2.1.3.a. Risk appetite policies

The risks on AXA Bank Europe's Belgium mortgage credits, personal loans and professional credits are managed in three phases: acquisition, management and recovery. They are measured through predictive models that have been developed by AXA Bank Europe in compliance with Basel II's Internal Rating Based Approach.

These models use the following variables to perform their calculations: probability of default (PD) of retail credits, loss given default (LGD) and exposure at default (EAD). The input data of these models consist of product characteristics, demographic data, financial data and external data that must meet certain quality criteria, as well as historical data concerning the actual annual loss.

During the credit acquisition phase, specific proposals are made for clients based on predictive acquisition PD models.

In the management phase, retail credit risk management models use behavior information on a client per client basis to refine their individual scores. The various credits of this activity are divided into "pools". A "pool" is a group of contracts that are relatively homogenous in terms of PD and LGD compared to other contracts within the retail portfolio. This gives the bank a better visibility on the quality of its retail credit risks which in turn enables it to take better risk and business decisions.

A remedy phase occurs when the customer doesn't respect his contractual obligation. This phase is followed by a recovery phase in case of work out of the contract. At those points, specific actions that are taken by the bank are actively tracked. Clients are then monitored on an individual basis.

The evolution of the credit risk is actively tracked as part of the reporting for the Retail Credit Committee to which a summary of the situation is presented on a regular basis.

Quantified credit risks can be used within a number of discretionary decisions that are taken from the need to manage risks. As such the internally developed acquisition scoring models in combination with other internal models are included in the process that decides about the allocation of the credit contract.

Additionally, the internally developed "behavioral scoring models" in combination with other internal models are included in the process that decides about changes to the contract for home loans. The credit risk of the client is included in the price-setting of loans for professional purposes.

The credit risk of the customer and the concentration of the credit risk on the customer are included in determining the strategy for retail loans that must be approved by AXA Bank Europe's Management Board.

All these principles lead to a highly effective risk management system that is difficult to manipulate. This system is strongly integrated into the operations of the "Retail Credits" division and is moreover continually being improved.

Together with the choice of certain parameters, this generates a credit portfolio with a low and well diversified retail credit risk designed to weather potential losses even in exceptional circumstances.

3.2.1.3.b. Maintenance of the IRB predictive models

AXA Bank Europe has setup a strong governance to maintain its IRB predictive models:

- The advanced IRB models are documented and described in terms of governance, inputs, scope, methods, outputs and implementation. Key quality characteristics are documented;
- The design of the IRB models is independently validated. Validation exercises are documented;
- Advanced IRB models are back-tested on a quarterly basis and reviewed annually to assess whether they are still fit for purpose. The annual reviews lead to clear assessment of model risks as well as to clear annual objectives to improve any identified model weaknesses. Improvement objectives are documented and adequately followed by management;
- Controls are in place to prevent unauthorized & non documented modifications to models. Significant model modifications must be sufficiently back-tested before changes are implemented;
- Finally, continuous usage feedback is required from model users and incorporated into the development processes of advanced IRB models.

3.2.1.3.c. Stress Testing

In compliance with regulatory expectations, AXA Bank Europe performs stress testing for retail credit risk. It does so mostly to assess how robust AXA Bank Europe's IRB predictive models (used for regulatory capital purposes) react under stressed situations.

3.2.1.3.d. Exposures

The following two tables provide quantitative information concerning the nature and performance of AXA Bank Europe's retail credit exposures in Belgium.

The first table provides information concerning those exposures measured through AXA Bank Europe (Belgium Branch)'s Internal Rating Based approach. Within this approach, it should be noted that AXA Bank Europe categorizes its exposures through 10 buckets. Exposures in buckets 1 to 9 are considered performing while exposures in buckets 10 are considered non-performing.

Loan types	Buckets	Exposures At Default (in '000€)		Risk Weighted Assets (in '000€)		Provisions (in '000€)	
		31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Mortgage	1-9	10.369.306	9.391.269	966.882	754.118	2.250	1.179
	10	85.727	74.063	18.747	16.497	9.569	7.172
Consumer	1-9	797.139	774.192	224.756	185.458	3.511	2.784
	10	26.328	25.202	0	0	9.396	6.452
Commercial	1-9	1.353.069	1.270.711	229.387	176.203	1.832	2.744
	10	34.949	22.996	10.146	5.316	7.834	5.818

The second table provides details on those retail credit exposures in Belgium that remain measured by Basel II Standardized Approach.

Loan types	Exposures At Default (in '000€)		Risk Weighted Assets (in '000€)		Provisions (in '000€)	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Mortgage	**1.202**	**8.677**	**1.202**	**3.343**	**0**	**0**
Commercial	**116.896**	**95.739**	**96.520**	**81.382**	**5.524**	**4.442**
Current accounts	**58.155**	**60.067**	**41.077**	**42.273**	**5.216**	**5.973**

AXA Bank Europe retail credit exposure is principally composed of mortgage financing, with a share of approximately 82% in terms of outstanding balance.

Given the good cover and low chances of default of this type of financing, the risk profile of AXA Bank's retail credit portfolio in Belgium is very low. For example, at the end of 2009, the dispute rate was 0.69% (0.63% at the end of 2008), the level of provision 0.34% (0.29% at the end of 2008) and the net loss EUR 13.6 million (EUR -4.0 million in 2008).

3.2.1.4. Retail Credit in Hungary

3.2.1.4.a. Risk appetite policies

The Hungarian branch of AXA Bank Europe also manages its retail credit risk in three phases: acquisition, management and recovery.

In 2009, the economic and financial crisis has particularly hit the Hungarian financial sector in which most housing credits are granted in foreign currency. When the Forint depreciated, households had to pay significantly higher monthly installments.

The retail credit portfolio of the Hungarian branch of AXA Bank Europe was therefore placed under closer surveillance in 2009 due to its vulnerability resulting from exchange rate fluctuations. A number of measures were put in place:

- The policy for approval of new loans was strengthened, ensuring a very sound performance by the portfolio generated in 2009.
- Provisions were increased as a precautionary measure. The situation continued to deteriorate throughout 2009 before stabilizing towards the end of the year at a level corresponding to provisions.
- Exchange rate hedges were also implemented (HUF/CHF exchange options) with the aim of covering against extremes.

With the agreement of AXA Bank Europe's regulator, the Hungarian branch has launched a project to switch from Basel II' Standardized Approach to the Internal Rating Based Approach to measure and manage its retail credit exposures.

3.2.1.4.b. Exposures

On the 31/12/2009, AXA Bank Hungary was exposed to a mortgage retail credit portfolio amounting to EUR 1.143 Bn.

In contract currencies, the breakdown was (by percentage):

- Contracts in Swiss frank: 92.64%
- Contracts in Forint: 6.91%
- Contracts in Euro: 0.45%

3.2.1.5. Other countries

AXA Bank Europe branches in Switzerland, Slovakia and Czech Republic had no retail credit exposures in 2009.

3.2.2. Non retail credit risk

Besides the credit risk generated by its retail banking activities, AXA Bank Europe maintains an exposure to high quality counterparties through its portfolio management activities and through its treasury and asset & liability management activities.

Within this scope, AXA Bank Europe is exposed to the following credit risks:

Types of counterparty	
Sovereigns	▪ Governments & central banks ▪ Regional authorities with taxing power ▪ Regional authorities without taxing power explicitly guaranteed by central governments ▪ Regional authorities without taxing power implicitly guaranteed by central governments
Financial institutions	▪ Deposit taking institutions (banks, credit unions, trust companies, mortgage loan companies) ▪ Insurance companies & pension funds ▪ Brokers, underwriters & investment funds ▪ Multi-lateral banks
Corporates	▪ Quoted international companies (private or public) ▪ Non quoted international companies (private or public)
Securitization (Investment) [7]	▪ Securitization (structured credits) – Investment side

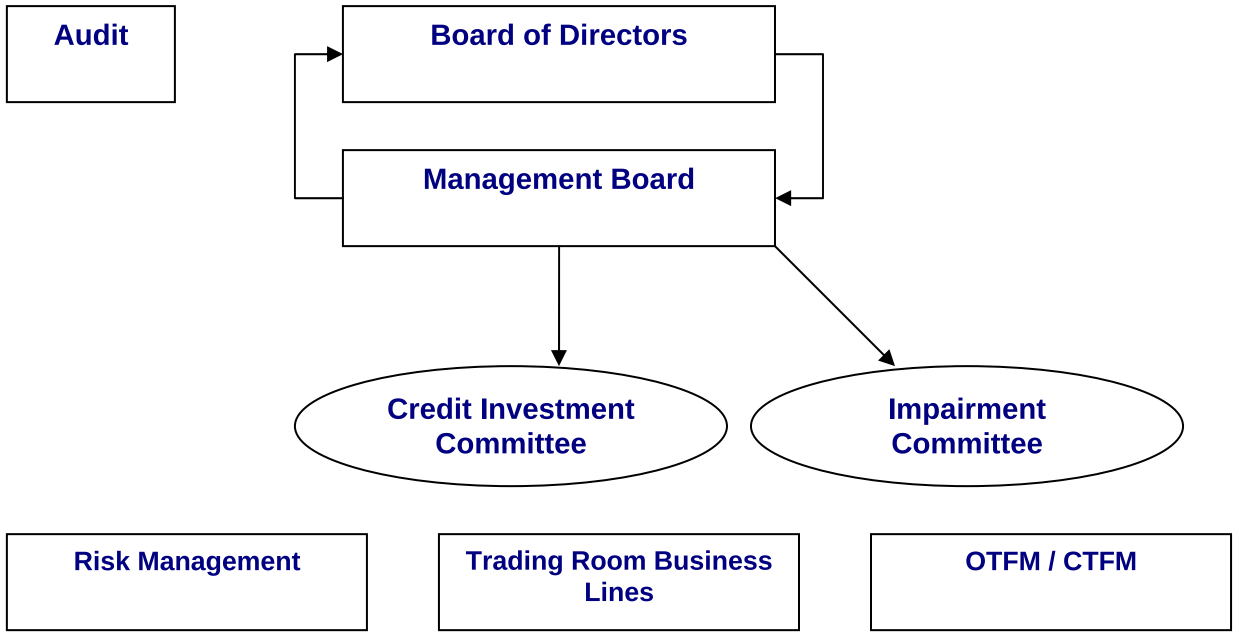
In 2009, AXA Bank Europe was also designated by AXA Group to act as a centralized platform to access financial markets. AXA Bank Europe started acting as a hub to provide AXA insurance companies with hedging services for their variable annuities products. This activity is the complement of the services offered by AXA Hedging Services, a subsidiary of AXA Bank Europe, which provides hedging related advisory services to AXA Group insurance companies.

[7] See section 3.2.3.2 for more info.

3.2.2.1. Risk management governance

The management of AXA Bank Europe's non retail credit risk is centralized at its head office. Its governance can be illustrated by the following flow-chart and summarized as follows:

At AXA Bank Europe's head office level



- AXA Bank Europe's Board of Directors and AXA Bank Europe's Management Board assume the responsibilities described in section 1.6 towards the management of non retail credit risk.

- AXA Bank Europe's Credit Investment Committee has been setup to oversee the bank's non retail credit strategies set by the AXA Bank Europe's Management Board. It meets every two weeks. It is composed of the bank's Chief Investment Officer, its Chief Financial Officer, its Chief Risk Officer, the Head of the Treasury and Investment departments as well as relevant specialists. It approves new counterparties and investments (in compliance with AXA Bank Europe's risk appetite framework). It reviews non retail credit and securitization risk reports. It also validates and ensures the maintenance of AXA Bank Europe's non retail credit and securitization indicators and models.

- AXA Bank Europe's Impairment Committee receives a delegation from AXA Bank Europe's Management Board to set appropriate provisions with regards to AXA Bank Europe's non retail credit and securitization exposures. This committee is composed of AXA Bank Europe's Chief Financial Officer, its Head of Accounting, its Chief Investment Officer, its Vice-President responsible for Retail Credit, the Chief Risk Officer, its Head of Treasury and Investment departments, as well as relevant specialists.

- AXA Bank Europe's Portfolio Management, Treasury and Forex & Asset and Liabilities Management (ALM) departments form the first line of responsibility for the management of non retail credit and securitization risks. They must honor AXA Bank Europe's non retail credit risk mitigation measures.

- As a control function (independent from the business lines), AXA Bank Europe's Risk Management department assists the bank's Board of Directors, Management Board and Credit Investment Committee manage the bank's retail credit risk. It can also veto any decision taken by the credit investment or impairment committees.

3.2.2.2. Risk appetite policies

Within the bank, counterparty risks are managed by limits.

- The exposures that AXA Bank Europe's Treasury, Asset & Liability Management and Portfolio Management departments can take must remain within a general economic capital limit.

- They must also respect specific country exposure limits which are set through rating and qualitative analysis.

- They must also comply with individual limits per type of transaction and per counterparty (again based on rating observation and qualitative analysis). As such, specific limits exist for exposures on government bonds, T-bills, securitization, corporate bonds and commercial papers. Exposures to financial institutions are limited differently whether they arise from derivatives, bonds or from treasury requirements.

These limits are reviewed regularly. Credit risk analysts monitor daily events and track alert indicators to monitor counterparty exposures and unapproved excesses. Alert indicators include external downgrades, change in the financial situation of counterparties, defaults, balance sheet changes, mergers and acquisitions and world events.

Moreover, following the bankruptcy of Lehman Brothers, AXA Group also put in place a very strict policy for the management of derivatives, particularly in terms of collateral requirements. A mandatory rule to request from AXA Bank Europe's counterparties the signature of (English Law) ISDA with CSA before entering into derivative transactions was introduced. It greatly reduced AXA Bank Europe's potential losses from default by its counterparties in the framework of derivatives contracts. Due to AXA Bank Europe's new involvement in the hedging of variable annuities products for AXA insurance companies[8], this requirement is strictly enforced.

[8] See section 3.2.2 above.

3.2.2.3. Capital requirement assessment

On the 31/12/2009, AXA Bank Europe measured its minimum regulatory requirements for non retail credit risk as follows:

Minimum Regulatory Capital Requirement	31/12/2009 (Consolidated) ('000 €)
Non Retail Credit Risk	163 724
Total:	**163 724**

As of the 31/12/2009, on a consolidated basis & without taking diversification benefits into account, AXA Bank Europe's economic capital for non retail credit risk represented 6.95 % of AXA Bank Europe's economic capital.

3.2.2.4. Exposures

Quantitative information concerning AXA Bank Europe's total non retail credit exposures (and namely how they were rated on 31/12/2009) can be found within AXA Bank Europe IFRS annual report.

The next table completes such information by expressing the percentage of AXA Bank Europe's non retail credit risk exposures by countries. It is based on market values.

It takes into account all the non retail credit risk exposures of AXA Bank Europe, namely those resulting from its ALM, Portfolio management and Treasury and Forex departments. It also includes securitization and derivative exposures.

It shows that on 31/12/2009, AXA Bank Europe non retail credit country risk exposures were mainly focused on Belgium, Germany, France, the United Kingdom and the USA.

Percentage of AXA Bank Europe's non retail credit risk exposures by countries		
	31/12/2009	**31/12/2008**
Belgium	43%	40%
Germany	14%	11%
United Kingdom	7%	4%
France	6%	15%
USA	6%	2%
Italy	6%	5%
The Netherlands	5%	6%
Spain	4%	7%
Portugal	3%	1%
Switzerland	1%	1%
Australia	1%	1%
Ireland	1%	1%
Hungary	1%	4%
Greece	1%	0%
Others	1%	2%
Total:	100%	100%

AXA Bank Europe's exposures on Spain, Portugal, Greece and Italy result mainly from investments in Residential Mortgage Backed Securities rated mostly AA- to AAA.

- AXA Bank Europe is exposed to Italian government and in a limited measure to Portugal. It should be noted that government bonds from Greece have matured in April 2010.
- AXA Bank Europe is exposed to PIGS financial institutions with investment grade ratings. However, most of the exposures have a maturity in 2010 and 2011.
- AXA Bank Europe owns insignificant exposures towards corporates from PIGS countries.

More quantitative information concerning credit risk can be found within AXA Bank Europe's IFRS Annual Report 2009.

3.2.3. Securitization

AXA Bank Europe maintains two types of securitization activities. It acts as the originator of a securitization named Royal Street. It also maintains investments in some high quality securitized products. The objectives and details of these two roles will be described in the following sub-sections.

3.2.3.1. AXA Bank Europe as originator

Because of the underlying good quality of its retail credit portfolio, AXA Bank Europe setup a retail credit securitization origination capacity. Its main purpose is to assist the bank manage and mitigate its liquidity risk.

In 2008, a 10% owned Special Purpose Vehicle named Royal Street SA, issued floating rates mortgage backed notes. Up to date disclosures on this originated securitization can be found on the following web site: http://www.axa.be/royalstreet. These disclosures detail the structure of the securitization, AXA Bank Europe's involvement in them and its governance. These disclosures are completed by quarterly investor reports[9] which provide the markets with relevant quantitative information.

In 2009, AXA Bank Europe did not apply any capital relief with regards to its minimum regulatory capital requirements for its above securitized retail credit risk exposure.

3.2.3.2. AXA Bank Europe as investor

AXA Bank Europe has always been very prudent in its investments in securitized products. Even before the financial crisis, AXA Bank Europe had a risk management policy restricting investments to the most senior tranches of the highest quality AAA rating securitized products.

Each time AXA Bank Europe's Portfolio Management department desires to invest in a securitized product, it has to follow a specific procedure and obtain a prior case per case authorization from AXA Bank Europe's Credit Committee.

The Credit Committee uses mandatory risk opinions prepared by AXA Bank Europe's Risk Management department to analyze the risk quality of proposed investment in securitized products, after having performed the necessary due diligence.

[9] Also on the above mentioned website.

When it approves an investment into a securitized product, the Credit Committee further sets an investment limit and requires its daily monitoring by the Risk Management department.

AXA Bank Europe currently uses ratings from Standard and Poor's, Moody's and Fitch to monitor the credit quality of its investment in securitized products. Changes in ratings are monitored on a daily basis. AXA Bank Europe's Risk Management department performs sector based, geographic and case per case credit risk reviews of its investments in securitized products. Moreover, risk measures are completed through regular stress test exercises performed to supplement reliance on ratings.

3.2.3.2.a. Capital requirement assessment

On the 31/12/2009, AXA Bank Europe measured its minimum capital regulatory requirements for securitization risk as follows:

Securitization Exposures by Approach (As of 31/12/2009)	**Minimum Regulatory Capital Requirements** (Consolidated) (In '000 €)
Internal Rating Based Foundation Approach*	14 428
Standardized Approach	15 107
Total:	**29 536**

* The above IRB Foundation approach is only used to measure securitization with underlying real estate retail credit risk exposures.

3.2.4. Large Exposures

AXA Bank Europe respects the large exposure limit framework set out in articles III.4 & III.5 of the CBFA circular 2007-1, transposed from articles 106-119 of the EU CRD.

Within AXA, concentration risks are monitored both at AXA Group level (on a consolidated basis) and within operational entities such as AXA Bank Europe.

AXA Bank Europe's Risk Management department reports the concentration of its non retail credit exposures to AXA Group's Risk Management department and to AXA Bank Europe's Asset & Liabilities Committee.

Specific limits by non retail counterparties are imposed by AXA Group's Risk Management department. More restrictive limits may also be imposed by AXA Bank Europe's Credit Investment Committee. Monitoring is done by AXA Bank Europe's Risk Management department.

Annually, a large exposure report is also prepared by the Accounting and Risk Management departments. It covers the exposures of AXA Bank Europe on a consolidated basis. It is sent to AXA Bank Europe's regulator.

Quantitative information concerning AXA Bank Europe's concentration risk can be found in section 4.4 of AXA Bank Europe's IFRS 2009 Annual Report.

3.3. Market Risk

The management of AXA Bank Europe's market risk is formalized by a Market Risk Management Charter.

AXA Bank Europe's risk taxonomy defines market risk through its following components:

- **Interest Rate Risk (non structural, short term):** Risk of loss arising from potential adverse changes in the fair value of interest sensitive position after movements in interest rates.
- **Exchange Rate Risk:** Risk of loss arising from potentially negative changes in fair position values (measured in home currency) due to exchange rate fluctuations.
- **Credit Spread Risk:** Risk of losing money from market price movements of debt instruments that are caused by unexpected changes in credit spread.
- **Price Risk (Equity):** Adverse movements of exposures in stocks and other types of direct / indirect investments in enterprises that the bank is holding for trading activities.
- **Market Liquidity Risk:** Risk that the firm cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption.

In 2009, AXA Bank Europe maintained a very conservative approach to market risk. Equity and Forex exposures were maintained at minimal level. AXA Bank Europe did not invest in commodities. As such, only the first two risks (in above list) were considered material to AXA Bank Europe's activities.

3.3.1. Risk management governance

AXA Bank Europe manages its trading room activities from its head office. Its subsidiaries and branches are not allowed to take market risk exposures.

The governance of AXA Bank Europe's market risk can be summarized as follows:

- As described in section 1.6, AXA Bank Europe's Board of Directors defines the risk appetite and other key metrics that set the levels of acceptable market risk that can be engaged by AXA Bank Europe's Treasury, Assets & Liabilities and Portfolio Management departments. It also provides the final validation for proposed organizational and reporting structures setup for the management of this risk.

- AXA Bank Europe's Management Board is also responsible to ensure that market risk management strategies are implemented and followed. It ensures that the bank's market risk appetite is respected.

- The bank's Asset & Liability Committee (ALCO) is responsible to ensure that market risk management strategies are applied. It reviews market risk reports and monitors compliance with agreed risk appetite limits. It monitors the adequacy of the risk infrastructure, pre-validates (as well as maintains) risk indicators and models (before they are sent for validation and endorsement to AXA Bank Europe's Management Board and Board of Directors).

- The bank's Treasury, Asset and Liability Management and Portfolio Management departments are responsible to manage the market risk exposure they generate.

- Nevertheless, AXA Bank Europe's Risk Management department also independently ensures that all sources of market risk are identified, analyzed, reported and managed.

Market risk exposures are reported to the ALCO by the Risk Management department. These exposures are compared to an overall economic capital limit covering all of AXA Bank Europe's market risks. This risk appetite limit is completed by different V@R and sensitivity limits. Alert triggering and escalation processes are also used by AXA Bank Europe's Risk Management department to ensure that AXA Bank Europe remains within its conservative risk appetite for market risk.

3.3.2. Capital requirement assessment

To meet its Basel II minimum regulatory capital requirements, AXA Bank Europe uses the Standardized Approach defined in Title IX of the CBFA circular 2007-1 to measure, monitor, report and manage its market risks. This approach measures the following components of market risks:

- General interest rate risk
- Specific interest rate risk
- General equity position risk
- Specific equity position risk
- Foreign exchange risk

Within the above regulatory methods, AXA Bank Europe has made the following methodological choices:
- For the general interest rate risk, it uses the Maturity Method.
- For the specific equity position risk, AXA Bank Europe uses a 4% risk weight in compliance with CBFA's Circular 2007-1 Article IX.47.

Minimum Regulatory Capital Requirement	31/12/2009 (Consolidated) ('000 €)
Market Risk	8 442
Total:	**8 442**

AXA Bank Europe measures its economic capital for market risk using a Monte-Carlo V@R model (provided by RiskMetrics©) applied to all positions in the trading book. The V@R uses a 10-days average, at a confidence level of 99.90% multiplied by a hysteria factor.

On 31/12/2009, on a consolidated basis & without taking diversification benefits into account, AXA Bank Europe's economic capital for market risk (excluding Forex risk) represented 1.67% of AXA Bank Europe's total economic capital.

In 2009, AXA Bank Europe considered and measured its Forex risk using a 2 months Value at Risk model at a 99.9% confidence interval.

On a consolidated basis & without taking diversification benefits into account, AXA Bank Europe's economic capital for Forex risk represented 1.45% of AXA Bank Europe's total economic capital.

3.4. Operational Risk

AXA Bank Europe defines operational risk as the risk of loss resulting from inadequate or failed internal processes, or from personnel or systems. The failure or inadequacy may result from both internal and external causes. This risk includes the following risk categories:

- **Internal Fraud**: misappropriation of assets, tax evasion, intentional mismarking of positions, bribery, etc;
- **External Fraud**: theft of information, hacking damage, third-party theft and forgery, etc;
- **Employment Practices and Workplace Safety**: discrimination, workers compensation, employee health and safety, etc.
- **Clients, Products and Business Practices**: Market manipulation, antitrust, improper trade, product defects, fiduciary breaches, account churning, etc.
- **Damage to Physical Assets**: Natural disasters, vandalism, terrorism, etc.
- **Business Disruption and Systems Failures**: Utility disruptions, software failures, hardware failures, etc.
- **Execution, Delivery and Process Management**: Data entry errors, accounting errors, failed mandatory reporting, negligent loss of client assets, etc.
- **Legal risk**: Risk of loss resulting from the failure of an institution to adopt appropriate policies, procedures or controls, to comply with its legal obligation arising from laws, regulations, or any other type of binding contracts.

AXA Bank Europe has no risk appetite for operational risks, but rather a given risk tolerance. AXA Bank Europe accepts to undergo a certain amount of identified (and unavoidable) operational risks. However, AXA Bank Europe has no intention to leverage operational risk for creating profit or value.

3.4.1. Risk management governance

AXA Bank Europe's management uses an annual recurring Operational Risk Management cycle ("ORM cycle") to identify, assess and measure as well as mitigate its operational risks. Its four steps are: risk identification, self assessments, measurements and analysis & mitigation.

The ORM Cycle provides AXA Bank Europe's senior management with indications on the most significant operational risks faced by AXA Bank Europe (both at its head office level and within its branch and subsidiary levels).

AXA Bank Europe's Management Board has delegated the daily management of operational risks to an ORM Steering Committee. This Committee follows the implementation of operational risk management, gives guidelines to embed it in AXA Bank Europe's business-as-usual activities and reviews all important decisions or information relating to AXA Bank Europe's ORM Cycle (ORM Charter, economic capital results, new methodology, processes, reporting, documentation, etc.).

The ORM Steering Committee is chaired by AXA Bank Europe's Head of Bank Operations and composed of head office Risk Management representatives, Risk Officers from branches and subsidiaries, business line managers, as well as the relevant representatives from control and support functions.

On-the-field, operational risk management correspondents are responsible to implement and embed AXA Bank Europe's ORM cycle into daily activities;

3.4.2. Capital requirement assessment

AXA Bank Europe' uses the Basel II Basic Indicator Approach (BIA) defined in Title VIII – Chapter 2 – Article VIII.7 to VIII.9 of the CBFA's Circular 2007-1 to calculate its minimum regulatory capital requirements for operational risk:

Minimum Regulatory Capital Requirement	31/12/2009 (Consolidated) ('000 €)
Operational Risk	48 384
Total:	**48 384**

AXA Bank Europe measures its economic capital using a methodology similar to the Basel II Standardized Approach under Pillar I.

A Gross Income (GI), defined as net interest income plus net non-interest income, is measured for each business line. This GI is gross of any provisions and operating expenses, including fees paid to outsourcing providers. It excludes realized profits/losses from the sale of securities in the banking book, and extraordinary items as well as income derived from insurance.

For each business line a Relevant Indicator (RI) is calculated as the three-year average of the gross income (GI) of the previous two years and the strategic plan figures for the current year. A negative GI in any business line may offset positive GI in other business lines without limit. However, when the aggregated GI across all business lines within in a given year is negative, then the input to the numerator for that year will be zero.

The required capital is calculated for each business line by multiplying the RI by a factor (beta) assigned to that business line. Taken from its applicable regulation, a 12% beta is assigned to all business lines except for the dealing room that receives an 18% beta.

On 31/12/2009, on a consolidated basis & without taking diversification benefits into account, AXA Bank Europe's economic capital for operational risk represented 4.7 % of AXA Bank Europe's economic capital.

3.5. Interest Rate Risk

AXA Bank Europe's business focus on retail banking means that the bank concentrates its credit exposures on lower risk prime mortgage loans. The corollary of this business strategy is that AXA Bank Europe is exposed to higher interest rate risk due to the long duration of a part of the mortgage portfolio.

Interest rate risk is defined as the risk of potential adverse changes to the fair value of interest sensitive positions after movements in interest rates. This risk is itself composed of:

- **Yield curve risk** defined as the risk arising from changes in the level, slope and shape of the (risk free) yield curve;
- **Repricing risk** defined as the risk arising from timing differences in maturity of fixed-rate positions & resets of floating-rate positions;
- **Basis risk** defined as the risk arising from imperfect correlations in the adjustment of rates of different instruments with similar repricing characteristics;

- **Optionality risk** defined as the risk arising from options embedded in bank assets, liabilities and off-balance sheet portfolios;
- **Residual Risk** defined as the risk of loss arising from imperfect behavioral assumptions related to FTP mechanism.

3.5.1. Risk management governance

The senior management for AXA Bank Europe's interest rate risk belongs to its Board of Directors which defines AXA Bank Europe's risk appetite and which validates or proposes organizational and reporting structures for the management of risks.

AXA Bank Europe's Management Board ensures that AXA Bank Europe's risk appetite is respected & delegates to ALCO the management and optimization of IRR position.

The day to day management of AXA Bank Europe's interest rate risk can be summarized as follows:

- ALM department reports to the ALCO on all AXA Bank Europe's interest rate risk exposures and proposes scenarios for further interest rate risk management decisions;
- ALCO takes decisions to manage interest rate risk exposures and allocates various envelopes to do so;
- ALCO decisions are executed by AXA Bank Europe's Treasury department;
- Compliance with ALCO decisions and with AXA Bank Europe's ALM risk appetite and risk management frameworks is independently monitored by Central Risk Management department.

3.5.2. Risk appetite policies

AXA Bank Europe uses different indicators to identify, measure, and analyze its sources and components of interest rate risk:

- The **Carry Indicator** is a P&L stress test reported to AXA Bank Europe's ALCO. It is produced by the ALM department and represents the impact of an abrupt rate shock of plus or minus 100 basis points applied to the whole yield curve on the interest rate margin for the coming twelve months. It is a forward looking stress test as it includes expected figures derived from AXA Bank Europe's business plans. The comparison of a base scenario with these shock scenarios expresses the influence of rate shocks on the interest margin of AXA Bank Europe.

- The **Solvency Indicator** (option adjusted) is calculated and reported by AXA Bank Europe's ALM department to the ALCO. It represents the sensitivity of AXA Bank Europe's market value in case of a positive parallel shift on the interest rate yield curve with 100 basis points. This indicator equals to the difference between the market value calculated on the basis of the shifted curve and the market value calculated on the basis of the initial (end-of-month) curve.

- The **Gap 3 Months Indicator** is calculated and reported by the ALM department to the ALCO. It assesses the excess of assets and liabilities that must be reinvested within the upcoming 3 months in order to ensure that they aren't overly concentrated. It protects AXA Bank Europe's profitability against the temporary volatility of interest rates.

Quantitative information on this risk can be found in section 4.7 of AXA Bank Europe's IFRS Annual Report.

3.5.3. Capital requirement assessment

AXA Bank Europe's Risk Management department calculates its economic capital for interest rate risk through a Monte-Carlo Value at Risk (V@R) analysis, with a confidence level of 99.9% and a holding period of two months.

As of the 31/12/2009, on a consolidated basis & without taking diversification benefits into account, AXA Bank Europe's economic capital for interest rate risk represented 40.6 % of AXA Bank Europe's economic capital.

In 2009, AXA Bank Europe's Risk Appetite Steering Committee also considered and measured basis risk for all mortgage loans coming to re-pricing in a one year horizon. Through an internal model, AXA Bank Europe maintained an economic capital representing 4.15%[10] of its total economic capital to hedge against this risk.

Economic capital, for an amount representing 6.27%[11] of AXA Bank Europe's economic capital was also set aside to hedge against residual risk.

3.6. Liquidity Risk

AXA Bank Europe's Risk Taxonomy considers the following four aspects of liquidity risk which all fall within the scope of liquidity risk management:

- **Short Term Liquidity Risk** defined as the risk that AXA Bank Europe cannot meet its financial liabilities when they come due (within a month), at a reasonable cost and in a timely manner. It results from short term cash and collateral positions (intra-day, overnight, one day to one month)

- **Structural Liquidity Risk** defined as the risk that the structural, long term balance sheet can not be financed at reasonable cost and in a timely manner. In this view of liquidity risk, the total on and off balance sheet positions are considered from a structural asset and liability management perspective.

- **Contingent Liquidity Risk** related to the organization and planning for liquidity management in times of stress.

- **Country Risk** defined as the risk that a country prevents / hinders the free flows of money, as this could impact both short term and/or long term liquidity.

[10] On a consolidated basis & without taking diversification benefits into account.
[11] On a consolidated basis & without taking diversification benefits into account.

3.6.1. Risk management governance

AXA Bank Europe manages its liquidity risk at its head office level. Branches and subsidiaries are not responsible for the management of their liquidity. The risks are transferred to AXA Bank Europe's head office for management through a Fund Transfer Pricing Mechanism Framework which takes into account country, liquidity and interest rate risks.

The governance of AXA Bank Europe's liquidity risk can be summarized as follows:

- AXA Bank Europe's Board of Directors and AXA Bank Europe's Management Board assume the generic responsibilities described in section 1.6 for the management of liquidity risk.

- AXA Bank Europe's Asset & Liability Committee (ALCO) manages the structure of the bank's balance sheet, aiming to optimize its liquidity position. Consequently, it applies and implements liquidity risk management strategies. It reviews liquidity risk reports and monitors compliance with agreed limits by following relevant liquidity indicators.

AXA Bank Europe's ALCO is assisted in this work by AXA Bank Europe's Asset & Liability Management department (ALM), Treasury & Investment, Financial Control and Risk Management departments:

- Short term liquidity (including intra-day) is managed by AXA Bank Europe's Treasury in application and execution of ALCO decisions.

- The day to day management of AXA Bank Europe's structural liquidity belongs to its ALM department. ALM reports on the bank's structural liquidity risk to its senior management. It ensures that ALCO decisions pertaining to the management of liquidity risk are implemented. It also develops, calibrates and maintains AXA Bank Europe's liquidity risk indicators.

- AXA Bank Europe's Risk Management department independently ensures that all sources of liquidity risk are identified, analyzed, reported and managed.

3.6.2. Monitoring liquidity risk

AXA Bank Europe's ALCO monitors the following sets of liquidity risk indicators to evaluate and manage its consolidated liquidity risk:

- **Dynamic indicators** which provide a one year (and more) perspective on AXA Bank Europe's liquidity risk. These indicators report on the evolution of expected assets compared to expected liabilities sources. Projections and assumptions from strategic business plans are included to provide senior management with a more realistic "dynamic" view of the AXA Bank Europe's expected liquidity situation.

- **CBFA Observation Ratio** which provides a "static" instant assessment of AXA Bank Europe's available liquidity (required liquidity against available liquidity, in billion Euros on different time horizons). The assumptions for this ratio can be found in the CBFA Circular 2009-18.

- **Internal Static Indicator** This indicator is the same as the CBFA observation ratio, except that its assumptions are customized to AXA Bank Europe' specificities.

More qualitative and quantitative information concerning AXA Bank Europe's liquidity can be found in section 4.8 of ABA Bank Europe's 2009 Annual Accounts.

3.6.3. Capital requirement assessment

In 2009, AXA Bank Europe decided to maintain an economic capital representing 3.42%[12] of its total economic capital to hedge the bank against its structural liquidity risk.

3.7. Other Risks

The following section describes the management of other risks that AXA Bank Europe considers material through its Internal Capital Adequacy Assessment Process.

- It first presents risks mitigated both by internal risk management processes and by economic capital: business risk and pension risk.
- It then presents risks solely mitigated by internal risk management processes: strategic risk, reputation risk and country risk.

3.7.1. Business

AXA Bank Europe defines this risk as the risk of falling short of planned profits, for example due to the bank's inability to adjust its fixed costs to its income situation.

In 2009, AXA Bank Europe's Risk Appetite Steering Committee considered and measured this risk for the bank's new retail credit portfolio and for its total deposit portfolio. Through an internal model, AXA Bank Europe maintained an economic capital of 0.7 % of total economic capital to hedge against this risk.

3.7.2. Pension

AXA Bank Europe defines this risk as the risk of facing excess contributions to pension schemes.

In 2009, due to exposures to defined benefits pension schemes, AXA Bank Europe's Risk Appetite Steering Committee considered and measured this risk for the bank. Through an internal model, AXA Bank Europe maintained an economic capital of 0.23% of its total economic capital, to hedge against this risk.

Quantitative information concerning AXA Bank Europe's pension liabilities can be found in AXA Bank Europe's IFRS annual report in its section 32.

3.7.3. Strategic

AXA Bank Europe defines the strategic risk as the risk associated with the bank's future business plans and strategies and their adaptation to unexpected changes in the macroeconomic and political environment.

Strategic risks are overseen by AXA Bank Europe's Board of Directors and Management Board.

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[12] On a consolidated basis & without taking diversification benefits into account.

AXA Bank Europe's strategic planning process, risk appetite framework and capital allocation processes empower these Boards to set the bank's corporate strategies, priorities and objectives. They also allow them to review strategic performance, to allocate resources and align limits with priorities. The planning process is cascaded through business units and support departments, ensuring that operational business plans are aligned with the bank's objectives.

Strategic risks are also monitored on a continuous basis during the year. Business units & local branches must monitor development and business trends in their markets. They must report developments that could generate strategic risks for the bank. Ongoing regulatory surveying complete these monitoring to ensure that changes to the legal frameworks do not generate undue strategic risks.

Formal product approval processes are in place to make sure that strategic risks are reviewed before new products or activities are launched (or modified).

3.7.4. Reputation

AXA Bank Europe defines this risk as the risk of loss resulting from a decrease in the number of clients, transactions and funding opportunities arising from the adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators.

Responsibility for the management of AXA Bank Europe's reputation lies with its Board of Directors and Management Board. These boards are assisted in this task by various departments among which the bank's head office Communication department, Compliance department and Risk Management department.

AXA Bank's reputation is also supported by AXA Group through group wide applicable and defined media relation standards, social media guidelines & financial communications standards.

AXA Group also provides support by being responsible for the defense of the AXA brand.

Locally, business continuity plans also provide other communication elements to help AXA Bank Europe's maintain its reputation during the occurrence of a crisis.

3.7.5. Country

Within AXA Bank Europe, country risk could materialize in relationship with international credit activities and to a smaller extent, with regards to treasury, liquidity and financial market activities.

Nevertheless, AXA Bank Europe's exposures are limited to OECD countries and strongly focused on EU countries. Credit exposures are further monitored within the governance processes described for non retail credit risk. As such, AXA Bank Europe does not maintain economic capital to hedge against this risk.

Appendix I - Risks resulting from non banking entities

1. AXA Belgium Finance

The activities of this company are the issuance of different types of structured notes destined to be sold and distributed by AXA Bank Europe to its retail clients and to onlend their proceeds to AXA Bank Europe. AXA Belgium Finance structured notes are 100% (irrevocably and unconditionally) guaranteed by AXA Bank Europe (both capital and interest). All the risks generated by these activities are transferred to (and managed by) AXA Bank Europe.

2. AXA Hedging Services

AXA Hedging Services only provides advisory services exclusively for AXA Group insurance companies on hedging strategies and hedging transactions. Its risks (including compliance and legal risks) are mitigated through AXA Bank Europe's risk appetite processes. Economic capital is taken (and consolidated at AXA Bank Europe's head office level) for these risks.

3. Beran

Beran owns land property rights on which some of AXA Bank Europe's operations in Antwerp are located. It financed its purchase of those rights through credits from AXA Bank Europe. Having no revenues, Beran has been capitalized by AXA Bank Europe so that it can honor its debts to AXA Bank Europe. The market value of its land property rights (which are held solely for operational purposes) exceeds their original acquisition cost.

4. Motor Finance Company NV

The purpose of this company is to have ATM installed within AXA Bank Europe's network. It is financed by AXA Bank Europe through a mix of capital investment and credit facilities. This company is profitable and capable of honoring its commitments.

5. Sofifo / Société Foncière de l'Hexagone / Imopole

These 3 subsidiaries no longer have any activities. AXA Bank Europe desires to liquidate these companies but wishes to ascertain (before it does so) that this would not result in undesired fiscal consequence. These 3 companies have accumulated important financial losses which have been financed by AXA Bank Europe credit facilities. Adequate provisions[13] have been taken by AXA Bank Europe to cover itself against any defaults by these 3 subsidiaries.

[13] Quantitative information on provisions can be found in AXA Bank Europe's Annual IFRS report.