AXA Bank Europe

Risk Disclosure Report 2014

redefining / standards

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Risk disclosure policy

The Basel III 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 III Pillar 3 transparency obligation. It is based on the assumption that well informed market participants will reward risk-conscious management strategies and will correspondingly penalise riskier behaviours. 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 (ABE) Board of Directors and Management Board communicate to the market a complete risk disclosure report once a year, after the publication of its audited annual accounts. This yearly frequency is believed to offer sufficient information to allow third parties to form an opinion regarding ABE's risk profile. However, ABE 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 2014 risk report covers the period starting on 1 January 2014 and ending on 31 December 2014.

ABE's management pays a special attention to the bank's obligation of confidentiality. If a situation would arise where private 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 corporate website at http://www.axabank.be.

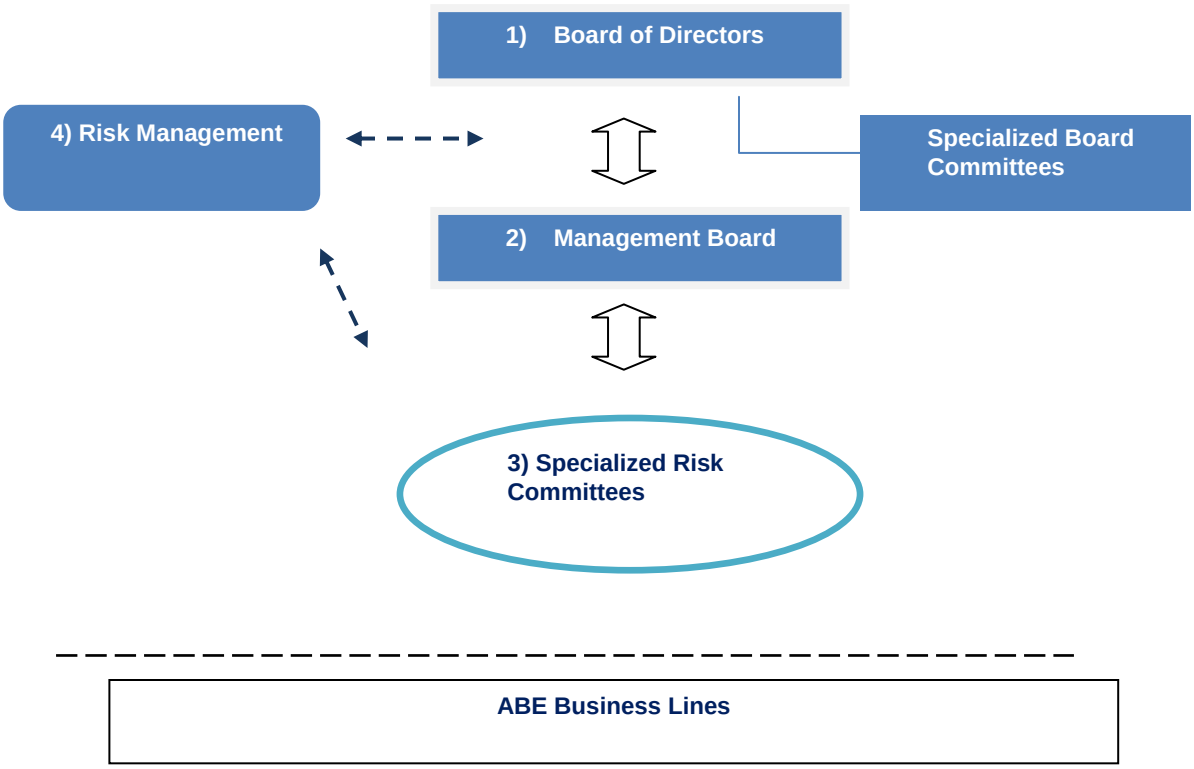
Executive summary

Overall, 2014 has been a year of material de-risking for ABE. Major steps have been undertaken to protect ABE balance sheet:

- the remaining investment portfolio of structured credits has been completely sold. Since 2007, this portfolio knew a trend of continuous and active downsizing, with the total closure in September 2014;
- the Hungarian portfolio has seen a material reduction of its credit risk through
    a) the conversion of foreign currency loans into local currency, protecting the customers against unfavourable changes in exchange rates, thereby reducing credit risk for AXA Bank Europe,
    b) the progressive decrease of the exposure as the portfolio has been in run-off since 2011,
    c) the observed quality improvement of the remaining portfolio (the default rate has decreased from 8.83% to 5.79% over 2014), also a natural feature of a portfolio in run-off as the low-quality loans have gone into default, leaving only the more resilient loans in the portfolio;
- the loans portfolio in Belgium has shown overall improved default rates, triggered by the quality reinforcement and improved product mix of credits in Belgium in 2014;
- Furthermore, ABE has materially strengthened its Tier 1 capital base by EUR 225m.

1 Risk Governance

The following flow-chart provides a graphical summary of ABE's risk management governance and organisation:



1) Board of Directors

ABE Board of Directors defines the strategic objectives and the risk appetite, i.e. the aggregated level and types of risks ABE's business lines and branches are willing to assume to achieve them. ABE Board of Directors approves and oversees the implementation of the bank's capital adequacy assessment process, capital and liquidity plans and compliance policies. It also provides the final validation for proposed organisational and reporting internal control set-up for the management of risks.

To increase efficiency and allow deeper focus in specific areas, the Board of Directors has established the following specialized Board Committees:

- **Risk Committee**

  The Risk Committee assists the Board of Directors' by means of:
  - proposing an adequate and effective risk strategy and appetite to actual or future risks;
  - providing assistance to assess the implementation of that strategy.

- **Audit Committee**

  The Audit committee assists the Board of Directors' oversight of the:
  - adequacy and effectiveness of internal control and risk management framework;
  - financial reporting process and the integrity of the publicly reported results and disclosures made in the financial statements;
  - effectiveness, performance and independence of the internal and external auditors.

- **Remuneration Committee and Nomination Committee** assist the Board of Directors in their respective responsibilities.

2) Management Board

ABE Management Board develops, along with senior management and the CRO, the bank's risk appetite, taking into account the competitive and regulatory landscape, short and long-term strategy, exposure to risks and the ability to manage risks effectively. Moreover, ABE Management Board is responsible for ensuring that the bank's risk appetite framework is respected. (Chapter 2)

The Management Board is also responsible for monitoring and applying specific strategies for all risks of the bank. However, for efficiency purposes, the Management Board may delegate some risk management governance tasks to certain specialized risk committees (see below). In that case, the Management Board remains nonetheless responsible for monitoring and endorsing / reversing (when required) the key decisions of the committees.

The Management Board also reviews consolidated risk reports.

3) Specific Risk Committees

Specific risk committees are responsible to monitor and apply the specific risk strategies set by ABE Management Board (in line with the plans and targets set by ABE's Board of Directors). Specifically, the specific Risk Committees:

- can make decisions related to risk management. These decisions must remain within their delegated scope. However, they must inform the Management Board of their decisions and need to put strategic decisions/frameworks to the Management Board;
- monitor and analyse consolidated risk reports;
- validate and endorse risk indicators and models;
- monitor the adequacy of ABE's risk infrastructure and risk models (validation, stress testing, back testing and calibration).

Their specific roles and responsibilities are described within ABE's specific Risk Management Charters and in the charters of the committees (the charters of the committees are available upon request at the ABE Corporate Secretary).

A list of ABE's specific Risk Committees can be found in the table below

Risk Committes and their scope		
Committees	**Risk Scope**	**Risk Charters**
Retail Risk Committee	Retail risks	Retail Risk Management Charter
Non Retail Credit Committee	Non retail credit risk, Securitization risk Counterparty risk	Non Retail Credit Risk Management Charter
ALCO	Interest rate risk Market risk, Liquidity risk	Interest Rate Risk Management Charter , Market Risk Management Charter, Liquidity Risk Management Charter
Management Board*	Risk Appetite Framework Operational Risk Other risks	Operational Risk Management Charter, Other Risk Management Charter

* Acting as a risk Committee

4) Risk Management

As an independent control function (independent from the business lines) sitting on ABE's Management Board and reporting to its CEO, ABE's Risk Management department[1] assists ABE's Board of Directors, the specialized Board Committees, Management Board and specialized risk committees to manage the bank's risks. It acts as the second line of defence in terms of risk management, after the business lines who are frontline and therefore first responsible to manage their risks.
The coordination of the Risk Management department is done by the Chief Risk Officer.

[1] The Risk Management Department also includes the compliance function.

2 Risk Appetite Framework

ABE's risk appetite framework sets the appropriate governance, reporting requirements, limits, controls and decision processes to drive management decisions.

ABE's risk appetite is integrated into ABE's strategic plan process and reviewed over the year. In addition, ABE's risk appetite is expressed in terms of risk appetite statements.

The risk appetite statement consists of a set of Key Risk Indicators (KRI) on which limits and alerts level are defined. The statement is established by the Risk Committee and validated by the Board of Directors. The indicators, the limits and alerts levels are monitored at least quarterly. Breach resolution processes are defined and in application. The sensitivities of the defined KRI are regularly calculated.

The primary quantitative metrics of ABE's risk appetite are:

- The minimum **solvency** that ABE's is willing to assume in the pursuit of its strategic objectives;
- The maximum **economic value-at-risk** that ABE's is willing to accept in order to achieve its strategic objectives;
- The minimum **liquidity** position that ABE's wants to keep in the pursuit of its strategic objectives.

The risk appetite statements are cascaded further down into a more granular limits system proposed by Risk Management and validated by the Management Board. Those limits are covered by the ABE's specific risk charters.

ABE's risk appetite is documented and reported in various reports for internal and external use (supervisor, AXA Group Risk Management, external and internal audit). Any breach of alerts or limits must be escalated to the member of the Management Board in order to, if needed, take corrective actions.

3 Capital adequacy

3.1 Prudential requirements on capital

Under the EU Capital Requirements Directive (CRD), Capital Adequacy Directive (CAD) as well as the international Basel accords, banks such as ABE must maintain a minimum level of own funds to cover their credit, market and operational risks. 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 assessed in the context of the supervisory review (Pillar 2). The Internal Capital Adequacy Assessment Process (which also quantifies the economic capital requirement) is a result of Pillar 2.
Under each pillar, the "available financial resources" of banks are compared to measured "capital requirements". The differences between the two pillars are due to their measurement methodologies[2] and the scope of the risks that are covered[3].

3.2 ABE's capital adequacy objectives

ABE's capital objectives are the following:

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

  Maintain sufficient own funds to exceed Pillar 1's minimum regulatory capital requirements. Basel III capital requirements have entered into force since 1 January 2014. In its capital planning, ABE has fully integrated the Basel III requirements to assure the compliance to the stricter regulation in the coming years.

- **Pillar 2 – Economic Capital Requirement (economic capital vs. internal capital)**

  ABE's main Pillar 2 objective is to remain sufficiently capitalized to be able to cover all of its material risks at all times calculated with a 99.9% confidence

[2] Under Pillar 1, the methods are defined by the regulator whilst the methods are defined by ABE under Pillar 2.
3 Only three risks are covered under Pillar 1, whilst all material risks must be covered under Pillar 2.

interval over a one year period[4]. This obligation is above AXA SA's Head Office requirement (99.5%).

Usually, a 99.9% level is roughly equivalent to the default risk between an 'A-' and 'BBB+' rated bond. Note that Standard & Poor's rating for ABE is A/A-1 with positive outlook (15/10/2014).

ABE has integrated a security buffer in its risk appetite statement on economic value-at-risk. As such, ABE's Pillar 2 economic capital requirements, defined through Pillar 2 methodologies plus the security buffer, must, at all times, be less than internal available capital.

3.3 Available Capital Resources

Under Basel III, ABE's available capital can be defined from a (Pillar 1) regulatory perspective and from a (Pillar 2) economic perspective.

- Pillar 1 Capital is named "Regulatory Own Funds".
- Pillar 2 Capital is named "Internal Available Capital".

The main difference is that Pillar 1 capital is measured through regulatory given methodologies while Pillar 2 capital requires an internal definition.

Regulatory own funds	Pillar 1	Capital measured through regulatory defined methodologies that banks maintain and which must exceed regulatory capital requirements. ABE measures its capital requirements in compliance with supervisory requirements (e.g. NBB circulars).
Internal available capital	Pillar 2	Capital measured through internally defined methodologies that banks maintain and which must exceed current and forecasted economic capital requirements. Some capital which does not qualify as "own funds under Pillar 1" can be added to cover economic capital requirements if it can be demonstrated that it is of sufficient quality.

Due to the simplicity of its capital structure, ABE's definition of internal available capital is aligned with the "regulatory own funds definition". This means that Basel III requirements are applied on both Pillar 1 and Pillar 2 available capital definitions.

[4] Important to note: ABE does not use a one year time horizon to measure all of its risks. Some risks are evaluated on a shorter horizon since their exposures are easier to hedge or sell in time of stress.

3.4 Measuring capital requirements

- **Regulatory capital requirements**

ABE measures its regulatory capital requirements using the following methods more specifically described in the following specific risk management charters:

Risks	Method	Method defined in
Retail Credit – Belgium	IRB	Retail Risk Management Charter
Retail Credit – Hungary	SA	Retail Risk Management Charter
Securitization (Residential Mortgage Backed Securities)	IRB	Non Retail Credit Risk Management Charter
Securitization (Not Residential Mortgage Backed Securities)	SA	Non Retail Credit Risk Management Charter
Non Retail Credit (Sovereigns, Financial Institutions, Corporates)	SA	Non Retail Credit Risk Management Charter
Counterparty	SA	Non Retail Credit Risk Management Charter
Market	SA	Market Risk Management Charter
Operational	BIA	Operational Risk Management Charter

Note: IRB is the Internal Rating Based Approach. SA is Standardized Approach and the BIA is the Basic Indicator Approach.

- **Economic capital requirements**

Under Basel III principles, the measurement of economic capital requirements must take into account ① all identified material risks. It must also take into account ② planned (expected) business growth. As some risks are correlated to others, the measurement of economic capital requirements may also be reduced for ③ diversification benefits. ABE may also adjust (i.e. increase when relevant) its capital requirements based on its analysis of ④ stress testing exercises. Under some rare (but possible) circumstances, ABE could be required to take a ⑤ "Pillar 2 buffer" under Pillar 1.

From a Pillar 2 perspective, ABE's excess capital can be measured by subtracting from ABE's available internal capital, its total economic capital requirement as defined above. The available capital must always exceed ABE's total economic capital requirements.

ABE measures its economic capital requirements by using the methods described in the table below:

Risks:	Method:
Retail Credit – Belgium	Asymptotic Single Risk Factor model
Retail Credit – Hungary	Compounded V@R (Direct credit risk (V@R) + Indirect credit risk (Stress scenario)
Non Retail Credit	Approach similar to SA
Market Risk (Non-structural Interest and FX risks, Credit Spread Risk)	Monte Carlo V@R (EWMA + Student's t distribution for the residuals)
Interest Rate Risk and Basis Risk (Structural)	Monte Carlo V@R
FX Risk (Structural)	Analytical V@R
Commercial Margins spreads & fees	Analytical V@R
Operational Risk	Monte Carlo V@R

In order to assess capital requirements on a forward looking basis, ABE's risk appetite capital allocation process is done in coordination with the strategic plan during the yearly budget process. Capital requirements are forecasted for every business line/activity by using the assumptions embedded in the strategic plan figures.

The economic capital requirements are adjusted (and reduced) for diversification benefits between risks. ABE's correlation matrix aims at estimating correlations between business lines as well as correlations between risk types.

3.5 Capital Adequacy for 2014

In September 2014, AXA group, as shareholder, has strengthened ABE capital by EUR 225M. This capital increase has taken the form of an injection of EUR 135M Common Tier 1 capital and the issue of a EUR 90 M intra-group Contingent Convertible bond. This capital increase has provided an adequate response to the supervisory requirements following the ECB Comprehensive Assessment.

3.5.1 Regulatory Capital Requirements

The regulatory requirements are based on the concept of Risk Weighted Assets (RWA). The RWA for ABE under the Basel III rules are EUR 5322.4 M on December 2014.

The table below shows the RWA and the capital requirements as of 31 December 2014 according to Basel III pillar 1.

Data as of 31/12/2014 (in Eur million)	RWA	Capital Requirements
Credit risk	**3.475,9**	**278,1**
Market Risk	**191,4**	**15,3**
Operational Risk	**699,4**	**56,0**
Credit Valuation Adjustments	**175,7**	**14,1**
Other Risk Exposure Amount	**779,9**	**62,4**
Total Risk Pillar 1	**5.322,4**	**425,8**

Table 1: overview of the RWA

Since the implementation of Basel III, a capital requirement has to be calculated for the CVA (Credit Valuation Adjustment) risk. (Art 381-386 of the CRR). CVA is the risk of loss caused by changes in the credit spread of a counterparty on derivatives transactions due to changes in its credit quality.

The other risk exposure amount refers to the additional stricter prudential requirements based on Art 458 of the CRR. The Belgian regulator has requested an add-on of 5 % from all Belgian mortgage loans. This additional capital requirement is represented in this amount.

With a total available capital (on a consolidated level) of EUR1,069 M and an overall T1 capital of 969 M in December 2014, ABE benefits from a solid T1 capital ratio[5] increasing from 16.9% in Dec 2013 to 18.2% in Dec 2014.
The CRD ratio[6] has evolved from 20.5 % in Dec 2013 to 20.1% in Dec 2014, impacted by the run-off of the T2 subordinated bonds.
These ratios are far above the minimum level specified in the Basel III framework.

Regulatory capital (in EUR million)	Dec-13	Dec-14
CET1	821,4	878,9
Additional T1	-	90,0
Total T1	**821,4**	**968,9**
Total T2	**173,9**	**100,0**
Total Capital B3	**995,3**	**1068,9**
Risk Weighted Assets B3	**4857,8**	**5322,4**
CET1 ratio	**16,9%**	**16,5%**
T1 ratio	**16,9%**	**18,2%**
CRD ratio	**20,5%**	**20,1%**

Table 2: ABE's regulatory capital ratio at consolidated level

[5] total T1 capital divided by Basel 3 risk weighted assets
[6] total available capital divided by the risk weighted assets

As stated in the Basel III text, the required capital is subject to the Basel I floor[7] until 2017. ABE's assets, mainly mortgage loans, have a low risk profile that is recognised in the Basel III risk weighted assets (Basel III RWA) but not reflected in the Basel I RWA. As a consequence, the Basel I floor imposes an additional buffer on top of the Basel III RWA. With a CRD ratio (incl. BI floor) of 12.8% in Dec 2014 ABE is well above the minimum requirement of 8%.

Regulatory capital (in EUR million)	Dec-13	Dec-14
Required capital (BI floor)	783,5	682,2
CRD ratio (BI floor)	10,2%	12,8%

Table 3: ABE's Basel I floor at consolidated level

3.5.2 Economic Capital Requirements

ABE's risk appetite statement as defined by the Board of Directors limits the total economic capital consumption in order to ensure that ABE is sufficiently capitalized to resist a major unexpected loss (calibrated at a confidence level of 99.9% over a 1-year horizon). As such, the Economic Capital consumption x 125% should always be lower than the Basel III eligible capital (Tier 1 + Tier 2).

Economic capital (in Eur million)	Dec-13	Dec-14
Total Economic Capital Consumption	575,6	537,0
Available Capital	995,3	1.068,9
Internal Limit for Capital Consumption	796,3	855,1
Capital excess in terms of internal limit	220,6	318,1

Table 4: Economic Capital consumption

The available capital in 2014 largely exceeds the consumed economic capital after diversification.
In Dec 2014, ABE had an economic capital excess of EUR318 M versus the internal limit (EUR855 M = (T1+T2 /125%)) .The inter-risk diversification benefit is capped at 30% since 2013.
The evolution in economic capital consumption in 2014 is mainly driven on the one hand by the steady de-risking of the Hungarian portfolio; a lower capital consumption for interest rate risk and the sale of the entire structured products portfolio. On the other hand led the new production of mortgages loans in Belgium to a higher consumption of
Retail credit risk capital.

Figure 1 illustrates the different components of ABE's economic capital buffer

[7] Basel I floor is defined as : 80% * Basel I Risk weighted assets

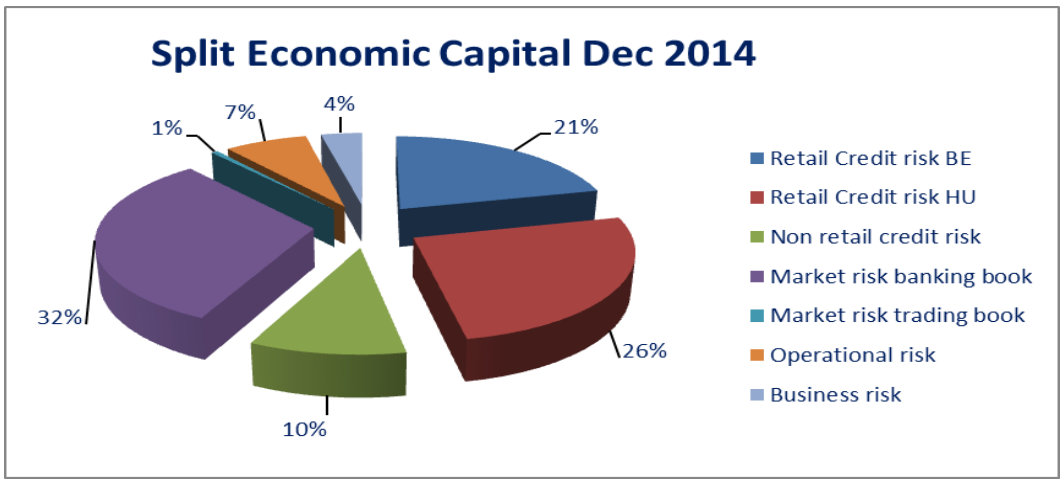


Figure 1: Economic Capital

ABE's economic capital consists of 7 major capital buffers.
The 2 most important capital buffers are those for Market Risk of the Banking book and Credit Risk in Hungary. The economic capital for Market Risk Banking book covers the interest rate risk which is inherent in the Bank's retail activities (see section 5.1 for more details). The size of the buffer for Hungary reflects the challenging macroeconomic and political situation of the Hungarian credit loan portfolio which is put on run-off since 2011. (Section 4.1.4 provides more details on the exposure in Hungary). Both capital buffers decreased substantially over the last year.

Credit Risk Belgium consumes 21% of the Bank's total economic capital. This relatively low consumption for a portfolio of EUR 16,4 billion of loans underlines the good quality of the portfolio (see section 4.1.3). Next, non-retail credit risk accounts for 10% of the economic capital buffer. As the Bank applies a conservative investment strategy which is incorporated in a strict limit framework, the bank has sold its entire structured products portfolio and reduced its positions in PIIGS-countries significantly over the last years. Furthermore, derivatives and money market transactions are mitigated through a strict collateral policy, both for transactions with AXA Insurance entities and external counterparties. Section 4.2 provides a zoom on the non-retail exposures.

Operational Risk represents 7% of the economical capital consumptions. The advanced internal model for Operational Risk incorporates the mitigation actions already implemented at the different departments of the Bank (section 6). Finally, the buffer for business risk covers the potential decrease of the margins on the commercial activities.

4 Credit risk

ABE defines credit risk as the negative consequences associated with the default[8] or deterioration in credit quality[9] of counterparties in lending operations.

The goal of credit risk management is to insure that a (set of) credit event(s) would not significantly threaten the bank's solvency nor profitability. In order to reach this objective, credit risk exposures are maintained within strict boundaries. 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.

The following table presents the breakdown of the credit risk by asset class

Data as of 31/12/2014 (in Eur Million)	RWA	Capital Requirements
CREDIT, COUNTERPARTY CREDIT RISK	**3.475,9**	**278,1**
Standardised approach (SA)	1.466,1	117,3
Institutions	477,6	38,2
Corporates	196,4	15,7
Retail	85,1	6,8
Secured by mortgages on immovable property	389,0	31,1
Exposures in default	135,6	10,9
Items associated with particular high risk	10,1	0,8
Covered bonds	23,9	1,9
Other items	148,3	11,9
Internal ratings based Approach (IRB)	2.009,8	160,8
Retail - Secured by real estate SME	62,8	5,0
Retail - Secured by real estate non-SME	1.525,3	122,0
Retail - Other SME	18,6	1,5
Retail - Other non-SME	403,1	32,2

Table 5: credit risk by asset class

Within ABE, credit risks are categorized as either retail credit risks or non-retail credit risks and managed accordingly.

Data as of 31/12/2014 (in Eur million)	RWA	
Credit risk	**Retail**	**Non retail**
Internal ratings based Approach (IRB)	2009,8	-
Standardised approach (SA)	609,7	856,4
Country specific risk (Add-on)	779,9	-

Table 6: credit risk by business line and approach

The country specific risk refers to the other risk exposure Art 458 of the CRR. This risk will be considered as retail credit risk further down in the document.

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

4.1 Retail credit risk

ABE's main business is to provide credit facilities to private individuals, professionals and small businesses. These facilities were offered in Belgium only (there was no new production in Hungary).

4.1.1 Risk management governance

The management of ABE's retail credit risk is formalized by a Retail Risk Management Charter. This charter applies to ABE and to all of its branches and subsidiaries. It sets the organization, risk appetite framework, product approval processes and modelling requirements that must be followed internally to mitigate ABE'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 ABE's retail credit risk management can be summarized as follows:

- **ABE' Board of Directors** and **ABE's Management Board** assume the responsibilities described in chapter 1 of this report.

- **ABE's Retail Committee** oversees the bank's credit strategies defined by ABE's Board of Directors and instructed and implemented by ABE'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 ABE's retail credit risk infrastructure and risk models (stress testing, back testing and calibration).

- **The management committees of local branches** ensure that ABE'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 defence 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 modelling team which works closely with ABE's (head office) modelling team to set up and maintain the appropriate risk indicators and models described below.

- As a control function (independent from the business lines), **ABE's Risk Management** department assumes the responsibilities described in chapter 1.

4.1.2 Capital requirement assessment

ABE measures its minimum capital requirements for retail credit risk in the following way.

In Belgium, almost all mortgage loans, consumer loans and professional loans are measured by an Internal Rating Based (IRB) model. Some less important and rather atypical credit products in Belgium are measured by the Basel III Standardised Approach. ABE, as all Belgian banks using IRB models, has to comply with the law on capital requirements for mortgage loans. This law, published on 8 December 2013 and applicable as of 31/12/2013 results in an additional own fund requirement for ABE's mortgage portfolio[10].

The credit loan portfolio in Hungary is measured by the Standardised Approach.

The following two sections describe the risk exposures and risk management specificities applicable to ABE's retail credit exposures in Belgium and Hungary.

4.1.3 Retail credits in Belgium

The risks on ABE's Belgium mortgage credits, personal loans and professional credits are managed in four phases (acquisition, management, remedy and recovery) based on retail credit policies.

1. **Credit acquisition**: During this phase, specific proposals are made for clients based on predictive acquisition probability of default (PD) models.
2. **Management**: During this phase, retail credit risk management models use behavioural information on a client per client basis to refine their individual scores. The credits are divided into different "pools". A "pool" is a group of contracts that are relatively homogenous in terms of probability of default (PD) and loss given default (LGD) compared to other contracts within the retail portfolio. This gives the bank a better visibility on the quality of its retail credit risks allowing taking better risk and business decisions.
3. **Remedy**: This phase occurs when the client does not respect its contractual obligation. The bank tries to find an agreement with the customer on how to pay their credit arrears.
4. **Recovery**: This is the last phase and specific actions are taken by the bank in order to recover the amount due.

Almost all Belgian credit loans are measured by IRB models. These internal predictive models are developed in compliance with Basel's III Internal Rating Based Approach, which is mainly split in:

[10] This prudential capital requirement is calculated as a 5% Add-on on the IRB RWA for mortgages covering residential real estate in Belgium

- Probability of default (PD) of retail credits (incl. acquisition and behavioural model)
- Loss given default (LGD)
- 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.

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

The evolution of the credit risk is actively tracked as part of the reporting for the Retail Risk Committee which reviews the risk on a regular basis. All these principles lead to a highly effective risk management system with control processes that prevent undesired manipulations. This system is strongly integrated into the operations of the "Retail Credits" division and is subject to continuous monitoring.

Zoom on the exposures in Belgian credit portfolio

The Belgian credit risk portfolio consists of mortgages, consumer loans and professional loans, with mortgage loans representing the most important share. Given the good cover and low probability of default of this financing, the risk profile of the total credit portfolio is low.
The growth of the total credit portfolio in 2014 is driven exclusively by the production of mortgage loans while other products' balance is slightly decreasing. The mortgages portfolio rises with more than EUR 750 M Eur thanks to the high new production of mortgages, partially offset by a high volume of refinancing in the Belgian market .
The consumer loans dropped with nearly EUR 90 M, mainly reflected in the loans without purpose caused by the tightening of the acceptance criteria for this population since 2013. The volume of professional loans remained stable.
The overall, more selective acceptance policy resulted in new production with better quality loans, hence improving the quality of the entire credit portfolio.

Credit Retail Portfolio AXA Bank Belgium		
M Eur	Dec-13	Dec-14
Total Portfolio	**15.794**	**16.414**
Mortgage Loans	*13.345*	*14.104*
Consumer Loans	*993*	*898*
Professional Loans	*1.457*	*1.412*

Table 7: Belgian credit portfolio

We witnessed overall recovering of the observed default rates[11] (over a one year horizon) in the Belgian portfolio (from 1.35% in Dec 2013 to 1.22 % in Dec 2014) which evidences the quality reinforcement and improved product mix of credits in Belgium in 2014.
The 12M default rate for mortgage loans remained stable at 0.9% although the vintages on the new production are clearly decreasing. This will be reflected in the future portfolio as economic conditions remain unchanged.
The 12M default rate for professional loans dropped to 2.28% and reflects the defensive approach of recent years.
The 12M default rate for consumer loans clearly improved to reach 1.65% thanks to a better risk selection and an evolution of the product mix to loans with a particular purpose.

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

Table 8 provides information concerning those exposures measured through ABE (Belgium Branch)'s Internal Rating Based approach. Within this approach, it should be noted that ABE categorizes its exposures through 10 buckets. Exposures in buckets 1 to 9 are considered performing while exposures in buckets 10 are considered non-performing.

Data as of 31/12/2014 (in Eur million) **Belgian retail Credit risk**				
Loan types by IRB Approach	**Buckets**	**EAD**	**RWA**	**Povisons**
Mortgages	1-9	14.869,8	2.153,9	4,8
	10	180,0	97,8	41,4
Consumer loans	1-9	877,2	319,8	1,8
	10	32,3	62,3	13,6
Commercial loans	1-9	1.358,4	138,9	1,6
	10	46,3	17,3	18,0

Table 8: Breakdown of Belgian retail credit risk exposures measured by l IRB Approach

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

[11] Default rate = number of defaults occurring during year after sample date /number performing loans at sample date

Data as of 31/12/2014 (in Eur million) Belgian retail Credit risk			
Loan types by STA Approach	**EAD**	**RWA**	**Povisons**
Mortgages	115,8	40,5	0,0
Consumer loans	10,0	7,5	0,0
Commercial loans	47,4	30,5	4,7
Current accounts	172,3	42,4	5,9
Other loans	12,2	9,9	7,3

Table 9: Breakdown of Belgian retail credit risk exposures measured by Standardised Approach

Note that 3.3 Million of provision has been added on the closing 2014 of Belgium part to cover AQR related changes

4.1.4 Retail credits in Hungary

Due to the run-off situation of the mortgage portfolio in Hungary, the Hungarian branch of ABE manages its retail credit risk through daily management and recovery phases. The daily management has the objective to develop mitigation measures to help debtors in difficulties. First, the Bank encourages the debtors to convert their combined loans into annuity loans. Second, the Bank is proposing specific solutions to help debtors in default (e.g. review of payment scheme) and to maximise the value of the collaterals that must be sold (e.g. involvement of the debtors in the sale).

AXA Bank Hungary's risk exposures are measured through the Basel III Standardised Approach. The table below summarized the capital requirements for the Hungarian retail activity. [12]

Data as of 31/12/2014 (in Eur million) Hungary	RWA	Capital Requirements
Credit risk Standardised approach	478,9	38,3
Retail	3,7	0,3
Secured by mortgages on immovable property	347,2	27,8
Exposures in default	127,9	10,2

Table 10: capital requirements for Hungary

Zoom on the exposures in Hungarian credit portfolio

We measure a progressive decrease of the exposure as the portfolio has been in run-off since 2011, the total outstanding exposure decreased by 9% since Dec 2013 to reach EUR1.041 M in Dec 2014.

[12] The limited capital requirements for the non-retail components (€ 0.9M) in Hungary are included in the non-retail risk part (4.2.1)

The reduction of the non-annuity loans has been continued in 2014 (in Dec 2014 they represent 20.4% of the portfolio compared to 23.7% one year before).
Most of the FX portfolio is converted to HUF with fixed FX rates as a result of the new conversion law[13]. Before the legal conversion takes place (in March 2015), the FX risk has been fully hedged.
This conversion of foreign currency loans into local currency will decrease the credit risk on the portfolio by reducing the exposure of the customers and removing the underlying FX risk for the customer.
The default rate of the credit portfolio in Hungary continues its decreasing trend from 8.83% to 5.79% over 2014. The observed quality improvement of the remaining portfolio is also a natural feature of a portfolio in run-off as the low-quality loans have gone into default, leaving only the more resilient performing loans into the portfolio.

The NPL (Non-performing loan) ratio stabilized at 22.28% although the volume of the portfolio has fallen and more specifically for the healthy loans.
The provision rate slightly increases to stabilize at 16.52% (15.45% in 2013). Note that in December 2014, ABH extended its definition of non-performing loans in order to apply the notion of 'unlikely to pay'.
The net loss of EUR -16.8 M outside exceptional items (EUR -27.6 M in 2013) reflects the structural improvement of the portfolio thanks to the constant efforts for the active management of the portfolio that translates into other internal indicators.

4.2 Non retail credit risk and large exposure

Besides retail related credit risk, ABE incurs credit exposure to high quality counterparties and issuers through its portfolio management, treasury and asset & liability management activities.
ABE is also designated by AXA Group to act as a centralised platform which provides AXA Insurance entities access to financial markets. Various insurance entities within AXA Group use this platform, which provides two services. First and foremost ABE acts as an intermediary for pure derivatives such as interest rate swaps, used by the insurance entities of AXA Group use to cover the market risk of their life insurance. Secondly, ABE provides the insurance entities of liquidity via standardized money market transactions (reverse repos). The Bank's exposure to derivatives and money market transactions – including the transactions within AXA Group that are described in the previous section – is restricted through a very strict policy. The exposures to such transactions are monitored daily and exchanged securities are limited to cash and high quality paper in order to ensure an appropriate limitation of the credit exposures. ABE is subject to the large exposures limit framework described in part IV of the CRD/CRR regulation. On a quarterly basis, a large exposure report is submitted to ABE's regulator.

[13] With the conversion law, adopted on November 25th 2014, the FX portfolio would be converted to HUF with fixed FX rates (256.47 CHF/HUF, 308.97 EUR/HUF).

1.1.1 Risk management governance

The management of ABE's non retail credit risk is centralized at its head office. The key governing bodies being:

- **ABE's Board of Directors** and **ABE's Management Board** assume the responsibilities described in section 1 towards the management of non-retail credit risk.

- **ABE's Non Retail Credit Committee** has been setup to oversee the bank's non-retail credit exposures. It meets on a monthly basis and its members are the CRO, the Head & Deputy Head of Financial Services and ABE's CEO and CFO. Relevant specialists from the ABE Risk department and from the Treasury and Intermediation department may attend as well. It approves new counterparties and investments (in compliance with ABE's risk appetite framework). It reviews non retail credit and securitization risk reports. It also validates and ensures the maintenance of ABE's non retail credit and securitization indicators and models.

ABE's Impairment Committee receives a delegation from ABE's Management Board to set appropriate provisions with regards to ABE's non retail credit and securitization exposures.

ABE's Financial Services Department (consisting Asset and Liabilities Management (ALM) and Treasury & Intermediation department are the first line of responsibility for the management of non-retail credit and securitization risks. They must respect ABE's non retail credit risk mitigation measures.

As a monitoring & control function (independent from the business lines), ABE's Risk Management department assists the Bank's Board of Directors, Management Board and Non Retail Credit Committee in managing the bank's non-retail credit risk.

4.2.1 Capital requirements assessments

On the 31 December 2014, ABE measured its minimum regulatory requirements for non-retail credit risk in the Standardized Approach (SA)

Data as of 31/12/2014 (in Eur million) Non retail Credit risk	RWA	Capital Requirements
Credit risk Standardised approach	856,4	68,5
Institutions	477,6	38,2
Corporates	196,4	15,7
Items associated with particular high risk	10,1	0,8
Covered bonds	23,9	1,9
Other items	148,3	11,9

Table 11: breakdown capital requirements non retail by asset class

The graph below shows the breakdown of the RWA by product type

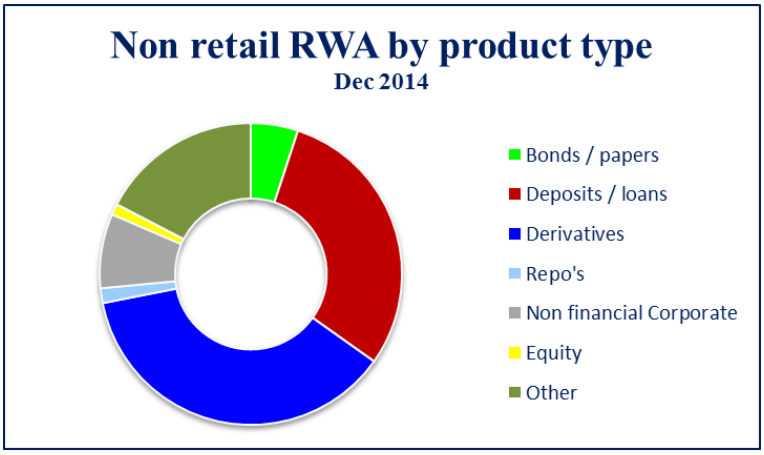


Figure 2

The majority of the derivative positions that the Bank is taking are related to the activities with the AXA Insurance entities. ABE provides to AXA Group entities a centralised platform to access financial markets. This platform is used for plain-vanilla derivatives and standardised money market transactions (repos and reverse repos). Within this framework, all positions are back-to-back, which means that the positions with an AXA entity are almost perfectly backed by mirror transactions with the financial markets.

4.2.2 Exposures

ABE sold its remaining portfolio of structured credits in 2014. This action was part of the de-risking strategy of ABE to protect its balance sheet.
The graph below illustrates the continuous and active downsizing of this portfolio since 2007, with the total closure in September 2014;

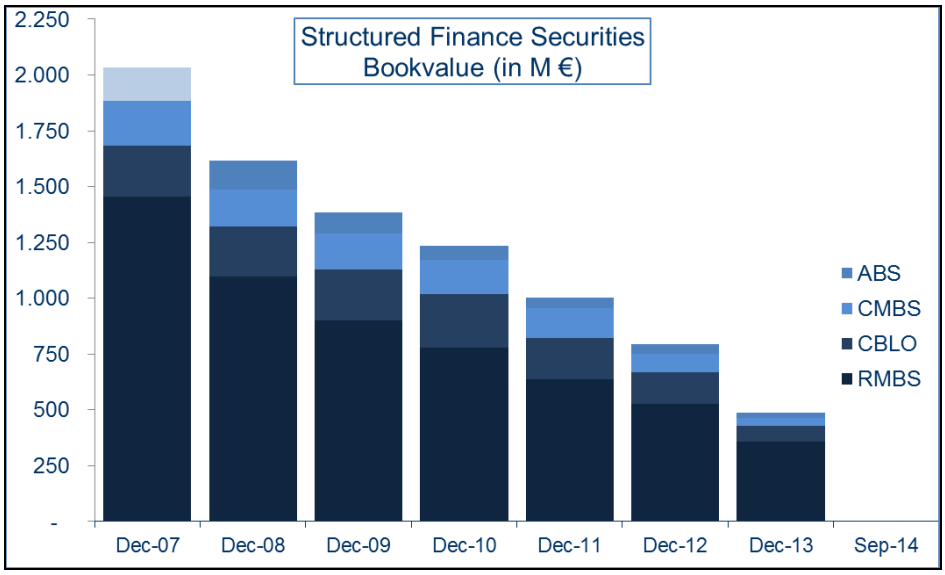


Figure 3

- Investment portfolio

Table 12 illustrated the exposures in ABE's non-retail investments expressed in market value. The Bank's conservative investment strategy is reflected in its exposure
The book value of the investment portfolio increased slightly from EUR8.5 billion at end of 2013 to EUR 8.6 billion in Dec 2014. ABE continued the active downsizing of its structured products and sold its remaining portfolio in 2014. The bank also reduced its share of European supranational bonds (EFSF, EIB, ...) from EUR 2.6 to EUR 1.7 billion. On the other hand, ABE further invested in European government bonds; especially from the Netherlands and Austria. Its exposure to Central European bonds has been completely sold (EUR 20 M, Slovenia).
The investment portfolio remains a solid portfolio of supra-nationals (20%) and sovereign bonds (76%).

In EUR MM		Dec-13			Dec-14		
		NOT	MV	BV	NOT	MV	BV
ALM Portfolio (and CSP)	Supranational	2.563	2.622	2.649	1.665	1.865	1.715
	Sovereign	4.296	4.688	4.541	5.788	6.608	6.170
	Covered bonds	222	225	221	222	237	221
	Struct. products	502	431	482	-	-	-
	Total	**7.583**	**7.966**	**7.892**	**7.675**	**8.711**	**8.106**
Treasury portfolio	Sovereign	370	371	371	345	345	344
	Hungary	0,7	0,7	0,7	0,7	0,7	0,7
	Certificate of deposits	190	190	190	100	100	100
	Total	**561**	**561**	**561**	**446**	**445**	**445**
Total Investment portfolio		**8.143**	**8.527**	**8.454**	**8.120**	**9.156**	**8.551**

Table 12: Investment portfolio

- Exposure to PIIGS

ABE maintained the close monitoring of its exposure to PIIGS countries. ABE‘s exposures to this countries are limited to Sovereign Bonds.
Its exposures to Portugal (from EUR 51 to EUR 16 M over 2014) and to Spain (from EUR 356 to EUR 298 million EUR in 2014) decreased mainly due to the sale of its remaining structured products. Its exposure to Italy increased (from EUR 467 to EUR 591 M) because of new investments in Sovereign bonds.

4.3 Securitisation of retail credits

With its covered bond program, ABE wants to complement its traditional funding basis of retail deposits with another stable funding source. The strong underlying quality of ABE’s retail mortgage portfolio in Belgium is the ideal collateral for a covered bond program. The Bank issued its first covered bonds in November 2010. Meanwhile, a total of EUR3.150 M covered bonds have been placed in the financial markets, €750 M of covered bonds are held by ABE and € 400 M of covered bonds were bought by AXA Banque France.

The securitisation process of ABE is the following. ABE sells a part of its retail mortgage loans portfolio to Royal Street[14]. On the balance sheet of Royal Street, the mortgages are repacked in Retail Mortgages Backed Securities (RMBS) with different tranches. Afterwards, ABE SCF[15] purchases the RMBS AAA senior notes of Royal Street. These RMBS are the collateral for the covered bonds issued by the SCF. The notional amount of the RMBS of the SCF is higher than the nominal amount of the issues covered bonds. This over-collateralization is financed by a senior loan granted by ABE to the SCF.

Disclosures on these originated securitisations and ABE SCF covered bond issuance can be found on the following websites.

Securitisation
https://www.axabank.be/nl/over-axa-bank/investor-relations-financial-information/royal-street
Covered bonds:
https://www.axabank.be/over-axa-bank/investor-relations-financial-information/covered-bonds
These disclosures detail the structure of the securitisation and covered bonds issuance, ABE's involvement in them and its governance. A quarterly investor report[16] completes the information in the above disclosure, by providing the markets with relevant quantitative information.

[14] Royal Street is a Belgian Securitisation vehicle, the purpose of which is to acquire residential mortgage loan receivables originated by AXA Bank Europe.
[15] AXA Bank SCF is a banking entity, subsidiary of AXA Bank Europe, created for the purpose of issuing covered bonds / obligations foncières for the benefit of its parent company AXA Bank Europe
[16] Also on the above mentioned website.

5 Market Risk

ABE is dividing its market risk in 2 parts: market risk trading book which is covering the trading activities of the bank and market risk banking book which is covering the retail banking activities.

5.1 Market Risk Banking Book

The market risk in ABE's Banking book is principally the exposure to movements in interest rates of the Banking Book.

The 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. Moreover, it also includes the sensitivity to movements in spreads between interbank rates and rate of government bonds, sometimes called basis risk.

ABE'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 ABE is exposed to higher interest rate risk due to the long duration of a part of the mortgage portfolio.

5.1.1 Risk management governance

The **Board of Directors** defines ABE's risk appetite and validates or proposes organizational and reporting structures for the management of the interest rate risk.

ABE's Management Board ensures that ABE's risk appetite is respected and delegates to ALCO the management and optimization of the Bank's interest rate risk position.

ABE's ALCO optimises the transformation result within the risk appetite limits set by ABE's Management Board. It takes decisions to manage the interest rate risk exposures and allocates various envelopes to manage this risk.

ABE's ALM department reports on the Bank's structural interest rate risk to its senior management. It ensures that ALCO decisions pertaining to the management of structural interest rate risk are implemented. It also develops, calibrates and maintains ABE's interest rate risk indicators[17].

[17] Short term interest rate positions are managed by AXA Bank Europe's Treasury department in application and execution of ALCO decisions; See section 4, market risk banking book.

ABE's Treasury & Intermediation department take assets and liabilities positions, by executing ALCO's decisions.

ABE's Risk Management department independently ensures that all sources of interest rate risk are identified, analysed, reported and managed.

Strategic Planning and Performance Management, acting as a process control unit, is responsible for generating and reconciling ABE's balance sheet. As such, it provides its figures and various relevant reports to ABE's ALM and ABE's Risk Management departments.

5.1.2 Monitoring market risk in banking book

ABE uses different indicators to identify, measure, and analyse its sources and components of interest rate risk.
The 'solvency indicator ' is an important control instrument of the ALCO. In absolute terms it represents the impact of a parallel shock of the market interest rates on the economic value of the banking book. The relative indicator expresses a percentage of this impact from regulatory own funds.
The economic capital for interest rate risk is measured through a Monte-Carlo Value at Risk (V@R) analysis, with a confidence level of 99.9% and a holding period of two months. The OLO credit spread risk is also integrated in the economic capital model of the banking book. This risk is defined as the risk of a lower economic value or at lower interest revenue of the banking book by movements of the OLO-IRS spread (the difference between the yield of the government bond and the interbank rate).

The table below shows the value of a 1% parallel shock (100 basis points)

Solvency Indicator 1%	2013.12	2014.12
Absolut	19.4 M EUR	15.5 M EUR
Relative	1.9 %	1.5 %

Table 13

5.1.3 Exposures

The banking book of ABE including its branches mainly consists of retail loans (€17,4 billion) and investments (€8,6 billion) on the asset side, retail savings and deposits (€17.1 billion) and non-retail long term funding including covered bonds and EMTNs (€4.6 billion) on the liability sides.

The largest share of retail loans are Belgian mortgage loans (€14,1 billion), from which 57% have a fixed interest rate and 43% floating interest rate. The interests of the variable

rate mortgages are linked to the evolution of the OLO[18] rates. The Belgian law imposes a cap on the variable interest rates of these loans but, given the historical low OLO rates, the embedded value for the client of this cap and the corresponding risk for the Bank are currently small.

In order to mitigate the interest rate risk and to keep the interest rate gap within the internal limits, the bank is actively managing a portfolio of derivatives for hedging purpose within its banking book activities.

5.2 Market risk trading book

ABE maintains a very conservative approach to market risk of its trading book. The trading activities of the Bank derive mainly from its role as centralized platform for access to the derivatives markets for the insurance entities of the AXA Group. The market risk is strongly limited because all positions that are taken with entities of AXA Group are mirrored by positions with external counterparties on almost back-to-back basis.

1.1.1 Risk management governance

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

The governance of ABE's market risk can be summarized as follows:

- **ABE'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 ABE's business lines and branches. It also provides the final validation for proposed organizational and reporting structures setup for the management of this risk.

- **ABE's Management Board** is also responsible for ensuring 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 for ensuring 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 ABE's Management Board and Board of Directors).

[18] OLO stands for "Obligation Linéaire/Lineaire Obligatie" which is the abbreviation of Belgian Government Bonds

- The Bank's **Financial services business lines (Treasury & Sales, Execution Desk)** are responsible for managing the market risk exposure they generate.

- Nevertheless, **ABE's Risk Management department** also independently ensures that all sources of market risk are identified, analysed, reported and managed.

Market risk exposures are the object of a continuous follow-up. These exposures are compared to an overall economic capital limit covering all of ABE'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 ABE's Risk Management department to ensure that ABE remains within its conservative risk appetite for market risk.

5.2.1 Capital requirement assessment

To meet its Basel III minimum regulatory capital requirements, ABE uses the Standardised Approach defined in Title IV of the CRD/CRR regulation 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
- Foreign exchange risk

Within the above regulatory methods, ABE has made the following methodological choices:

- For its general interest rate risk, ABE uses the Duration-based method.

6 Operational Risk

ABE defines operational risk, as the risk of loss resulting from inadequate or failed internal processes, or from employees or systems. The failure or inadequacy may result from both internal and external causes.

In Basel III framework, operational risk is divided into 7 categories:

i. **Internal Fraud**: misappropriation of assets, tax evasion, intentional mismarking of positions, bribery, etc.
ii. **External Fraud**: theft of information, hacking damage, third-party theft and forgery, etc.
iii. **Employment Practices and Workplace Safety**: discrimination, workers compensation, employee health and safety, etc.
iv. **Clients, Products and Business Practices**: market manipulation, antitrust, improper trade, product defects, fiduciary breaches, account churning, etc.
v. **Damage to Physical Assets**: natural disasters, vandalism, terrorism, etc.
vi. **Business Disruption and Systems Failures**: utility disruptions, software failures, hardware failures, etc.
vii. **Execution, Delivery and Process Management**: data entry errors, accounting errors, failed mandatory reporting, negligent loss of client assets, etc.

For ABE, the definition of Operational Risk also includes Compliance 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.

For ABE, the definition of Operational Risk excludes Reputation Risk and Strategic Risk. However when assessing the impacts of operational risks the potential damages to AXA's reputation[19] are considered by a qualitative indicator while major damages are followed by the Group.

6.1 Risk management governance

ABE'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, risk assessments, measurements and mitigations. ABE measures its economic capital using a methodology similar to the Basel II Advanced Measurement Approach (AMA) under Pillar 1.

[19] Using the framework of the Group: no impact, impact (not yet assessed), insignificant (minor isolated stakeholder concerns/impacts), minor (serious segmented stakeholder concerns/incidents), moderate (broader and more vocalized concerns within the industry), major (negative public exposure with significant impact), and severe (dramatic loss of stakeholder confidence – extensive negative public exposure).

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

ABE's Management Board follows the implementation of the operational risk management framework, gives guidelines to embed it in ABE's business-as-usual activities and reviews and validates all important decisions or information relating to ABE ORM Cycle (ORM Charter, economic capital results, new methodology, processes, reporting, documentation, etc.).

All business lines and entities within ABE have full ownership of the operational risks they face in the practice of their activities.

The Operational Risk management team ensures the Operational Risks are identified, assessed, measured and mitigated in accordance with the AXA Group standard.

6.2 Capital requirement assessment

For the regulatory capital ABE applies the Basis Indicator approach (i.e. equals to 15% * mathematical average of the sum of all positive operational results over the last 3 annual exercises) and is only updated at the end of each year.
For its economic capital, ABE has implemented an internal model that has been developed by AXA Group. This model is similar to AMA. The economic capital computation is then a yearly process based on risk assessments that identifies and quantifies the relevant and material operational risks faced by ABE.

7 Liquidity Risk

ABE's Risk Taxonomy considers the following two aspects of liquidity risk which all fall within the scope of liquidity risk management:

- **Short Term Liquidity Risk** defined as the risk that ABE 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 ABE cannot meet its financial liabilities when they come due on a medium and long term horizon (more than one month), at a reasonable cost and in a timely manner.

7.1 Risk management governance

The governance of ABE's liquidity risk can be summarized as follows:

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

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

- ABE's ALCO is assisted in this work by ABE's Asset & Liability Management department (ALM), Treasury & Portfolio Management, Financial Control and Risk Management departments.

- The functional management of ABE'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 structural liquidity risk are implemented. It also develops, calibrates and maintains ABE's liquidity risk indicators.

- ABE's Risk Management department independently ensures that all sources of liquidity risk are identified, analysed, reported and managed.

7.2 Monitoring liquidity risk

In order to evaluate and manage its consolidated liquidity risk, ABE's ALCO monitors 2 kinds of indicators:

1. Internal indicators
2. Regulatory indicators

1. Internal Liquidity Stresses (ILS)

ABE has developed two tailor-made stress scenarios in order to assess the adequacy of Bank's liquidity buffer. The stress scenarios are developed in collaboration with AXA Group risk management. The internal scenarios are more restrictive than the NBB LI and LCR scenarios, which results in a lower liquidity excess under the internal scenarios. The Bank has expresses its liquidity risk appetite in terms of these internal scenarios.

The ILS scenarios cover multiple time horizons (1 month, 3 month, 6 month and 1 year) and the indicators are expressed in term of liquidity excess in euro after the scenario. The stock of liquid assets under the ILS indicators only retains ECB eligible assets. The liquidity excess is the difference between the stock of liquid assets minus the stressed in- and outflows under both scenarios.

Scenario 1 assumes a parallel downshift of interest rates while scenario 2 assumes an upward shift of the interest rates. Both scenarios imply a credit spread increase for the Bank and a downgrade of the Bank's rating.

2. Regulatory Indicators

Since 2011, ABE monitors the LCR and NSFR of the new Basel III framework.
LCR (Liquidity Coverage Ratio) will become binding as from October 2015 and NSFR (Net Stable Funding Ratio) as from 2018.

7.3 Liquidity Buffer assessment

Both BIII indicators are well above the minimum requirements at the end of 2014 (100% limit) thanks to a comfortable stock of liquid assets and a strong financial structure.

	2013.12	2014.12	Limit
LCR ratio (conso)	147%	143%	100%
NSFR (conso)	116%	122%	100%

Table 14

ABE's strong liquidity position is reflected in the internal indicators as well. These indicators are aligned with the liquidity indicators of AXA Group but adapted to the specific context of ABE. Moreover, these internal indicators cover at the same time short (1 month time horizon) and longer liquidity stresses (1 year time horizon) occurring now or at any time over the horizon of our business plan.

- Funding

ABE's strategy is based on attracting stable funding on a long-term basis. The main stable sources of funding for the Bank are Retail deposits (€ 17.1 billion on 31 December 2014) and covered bonds (€ 3.2 billion on 31 December 2014).

2014	< 3 months	< 12 months	1-5 years	> 5 years	Total
Central bank Funding	0	0	153.950.000	0	153.950.000
Borrowings from financial customers:	7.489.591.870	1.106.123.309	0	202.898.611	8.798.613.790
Unsecured	200.431.977	0	0	0	200.431.977
Repurchase agreements	7.289.159.893	1.106.123.309	0	0	8.395.283.202
Collateralized borrowings	0	0	0	202.898.611	202.898.611
Retail funding:	14.457.930.201	439.837.964	2.051.005.914	236.188.564	17.184.962.643
Non-maturing retail funding	13.896.376.260	0	0	0	13.896.376.260
Maturing retail funding (term dep., EMTNs to retail, kasbons)	561.553.941,24	439.837.964	2.051.005.914	236.188.564	3.288.586.383
Axa Group funding:	509.397.952	15.634.778	112.770.192	675.693.804	1.313.496.726
Unsecured funding	506.395.840,37	15.634.778,00	0	0	522.030.618
EMTNs	3.002.112	0	112.770.192	675.693.804	791.466.108
Other counterparties:	110.780.711	0	2.422.977.632	757.180.510	3.290.938.853
Deposit	110.780.711	0	0	0	110.780.711
Covered bonds	0	0	2.422.977.632	757.180.510	3.180.158.142
Total	**22.567.700.734**	**1.561.596.051**	**4.740.703.738**	**1.871.961.489**	**30.741.962.012**

Table 15

In short, ABE enjoys a very robust liquidity position as demonstrated by its strong liquidity buffer that clearly exceeds regulatory and internal limits

8 Other Risks

The following section describes the management of other risks that ABE considers material through its Internal Capital Adequacy Assessment Process. These risks are hedged through capital/and or processes. The material risks covered by this section are:

- Commercial margins and fees risk
- Model risk
- Strategic risk
- Reputation risk
- Remuneration policy risk
- Capital risk
- Political and regulatory risk
- Intangible assets and deferred tax asset risk

8.1 Business Risk on commercial margins and fees

ABE's commercial margins and fees risk, is the risk arising from deteriorating margins and fees on commercial products (retail products and non-retail products) due to the competitive environment. It is a material risk hedged by capital and processes.

ABE's Management Board reviews margins and volumes for products on a regular basis. Targets for volumes and margins are fixed at the beginning of each year, by ABE's Management Board and Board of Directors. Moreover, the Asset and Liability Committee regularly monitors and manages the margins on the assets and liabilities from an ALM point of view.

ABE's commercial margins and fees risk is mitigated through a series of mitigating actions taken by ABE's Management Board, ABE's Asset and Liability Committee and local Management, which include:

- Regular competitors review
- Regular review of the margins
- Regular review of product mix
- Reporting at entity level and at ABE's Management Board level (monthly reporting by ABE Finance)
- Economic capital

8.2 Model risk

ABE defines model risk as the risk that occurs when a financial or risk model used to measure capital requirements for a risk exposure does not perform the tasks or capture the risks it was designed to. It is a material risk, hedged by processes.

Risk models and reviews of risk models are independently validated by the Validation Team, which is part of the "Risk Reporting & Validation" Team. This team is an independent team, reporting directly to the CRO. Each model or model review validation is submitted to the CRO for endorsement and then to the relevant Committee for review and sign-off (see Chapter 1 for a list of Committees).

Mitigation processes for model risk include:

- Model back-testing and stress-testing
- Independent validation
- According to the Solvency K1 statement, the economic capital consumption X 125 % should always be lower than the Basel III eligible capital (Tier 1 and Tier 2).Thus, as ABE is keeping an amount of capital above its economic capital consumption, this can be considered an additional mitigation process for model risk.

8.3 Strategic risk

ABE defines strategic risk as the risk that ABE's main objectives and risk tolerance targets are not attained due to late or inappropriate strategic decisions from the Board of Directors with regard to external business environment, internal organisation or new strategic opportunities. It is a material risk, hedged through processes.

Different governance bodies/structures are in place to advise the Management Board on ABE's strategy and so mitigate strategic risk. These governance bodies/structures include: AXA Group and NORCEE Region, ABE Strategic plan & performance Management, ABE Risk Management, ABE Business and product development.

The monitoring of the strategic risk can be split in two types of processes:

- General Strategic Processes
- Specific Strategic Processes

General Strategic Processes: The General Strategic Processes occur on a regular basis, through strategic reviews and the translation of the strategy into operational and functional business objectives. Moreover, ABE's strategy must be aligned with ABE's

risk appetite. Therefore, ABE's risk appetite is integrated into ABE's strategic planning process.
Specific Strategic Processes: Strategic decisions are taken on specific occasions when new products are launched/or significantly modified and also when major projects are launched.

8.4 Reputation risk

ABE 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. It is a material risk hedged through processes.

Responsibility for the management of ABE's reputation belongs to ABE's Board of Directors and Management Board. These boards are assisted in this task by various departments among which the Bank's head office HR & Communication department, AXA Group's communication teams, Compliance department and Risk Management department.

ABE's HR & Communication and Risk Management departments have identified a number of processes for the mitigation of reputation risk:

1) Processes towards the general public
2) Processes towards the market
3) Processes towards retail customers and distribution network
4) Processes towards staff and employees
5) Processes towards regulator
6) Crisis management

8.5 Remuneration policy risk

ABE defines its remuneration policy risk as the risk that its overall remuneration policy does not support its business strategy, risk tolerance, objectives, values, long-term interests or that it encourages excessive risk-taking. It is a material risk hedged through processes.

ABE's remuneration policy is based on AXA Group's remuneration policy while conforming to local rules and market practices. ABE's remuneration policy for the Board of Directors, Management Board, Internal Control and Trading room functions is described in the *"Politique de Remuneration"* which can be found in ABE's

Memorandum of Governance. It explains the philosophy and structure behind ABE's remuneration policy and how performance for variable and non-variable remunerations is measured.

The remuneration policy is annually reviewed by AXA Group in coordination with ABE's Remuneration Committee.

The Remuneration Committee also prepares the remuneration decisions to be taken by the Board of Directors. Decisions are based on the one hand on the repercussion on the company's risk management, and on the other hand on the long-term interests of the organisation's stakeholders.

Remuneration policies for all other ABE staff (not included in ABE's remuneration policy described above) are in line with local labour agreements at ABE and entity level and with AXA Group's remuneration policies.

Key mitigation processes for remuneration risk are:

- ABE's remuneration policies
- Assessment of the remuneration risk by the Transversal risks team in the context of the Global Assessment

8.6 Capital risk

ABE describes this risk as the risk arising from having insufficient and/or unbalanced available capital to cover the risk the bank exposes itself, or from difficulties to flexibly raise risk coverage capital if necessary. It is a material risk hedged through processes.

ABE mitigates this risk through monitoring the composition of its internal available capital (Tier 1 and Tier 2 capital) and by aligning to regulation on capital adequacy (Basel III).

8.7 Political and Regulatory risk

Political and regulatory risks can be defined as the risks of losses due to changes that occur in a country's government or regulatory environment:

- The political risk is the risk of losses due to unfavourable changes in political climate (like populism and protectionism).

- The regulatory risk is the risk of losses, due to the application of adverse rules and/or arbitrary changes in the regulation.

It is a material risk hedged through processes. ABE mitigates this risk through a political and regulatory monitoring in all countries where it is active by the local senior management and local legal teams.

8.8 Intangible assets and deferred tax assets risk

This risk is defined as the risk of adverse change in the book value of intangible assets and deferred tax assets. It is a material risk hedged through processes, through reporting and monitoring by the ABE accounting department.

Appendix - Risks resulting from other ABE 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 ABE to its retail clients and to onlend their proceeds to ABE. AXA Belgium Finance structured notes are 100% (irrevocably and unconditionally) guaranteed by ABE (both capital and interest). All the risks generated by these activities are transferred to (and managed by) ABE.

2. Beran

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

3. Motor Finance Company NV

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

4. Royal Street SPV (Special Purpose Vehicle)

Royal Street is an SPV created to securitize a part of ABE's residential mortgage portfolio. As an SPV, Royal Street does not engage in any specific businesses. More information on this company can be found in section 4.3 of this report.

5. ABE SCF (Société de crédit foncier)

ABE SCF is a banking entity, subsidiary of ABE, created for the purpose of issuing covered bonds / obligations foncières for the benefit of its parent company ABE. It assists ABE in managing its liquidity positions. ABE SCF is a French regulated bank.

ABE SCF has no specific business activities for its own benefit. It only maintains activities that support ABE's covered bonds program done for liquidity management.