AXA Bank Europe

Risk Disclosure Report 2015

redefining / standards

Table of contents

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 2015 risk report covers the period starting on 1 January 2015 and ending on 31 December 2015.

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

In pursuing the realization of the strategic objectives, AXA Bank Europe is exposed to a wide range of risks. The main risks are credit risk, market risk, liquidity risk and operational risk. Specific attention is paid to other risk types such as reputational risk or regulatory risk. These risks are managed through a framework defined annually by the Board of Directors.

During 2015, the Belgian mortgage loan market experienced a significant amount of refinancing activity, as a materialization of interest rate risk. This has also led to a reduction in the overall credit risk of our main portfolio through a significant origination of new credits with a very good quality risk profile. Our revised credit strategy, the aim of which is to improve the quality of the portfolio and which has been implemented since 2013, is making a significant contribution to the reduction of credit risk on this portfolio.

The conversion of our portfolio from Swiss Francs (CHF) to Hungarian Forints (HUF) of loans managed by the Hungarian branch has led to a substantial reduction in credit risk. The result of this conversion had been provisioned in 2014 and did not lead to any significant P&L impact in 2015. Given the reduction in underlying risk and the improvement in the Hungarian property market, AXA Bank Europe reversed provisions on this portfolio. With the sales agreement for these activities and in the event of a positive closure of this transaction, the credit risk relating to this portfolio will disappear in 2016.

Liquidity for AXA Bank Europe remained at a comfortable level throughout 2015. As per 31 December 2015, the Liquidity Coverage Ratio (LCR) is at 139% (143% in 2014) and Net Stable Funding Ratio (NSFR) at 139% (122% in 2014). This position is based on a combination of funding sources such as deposits from retail customers and covered bonds from the institutional market.

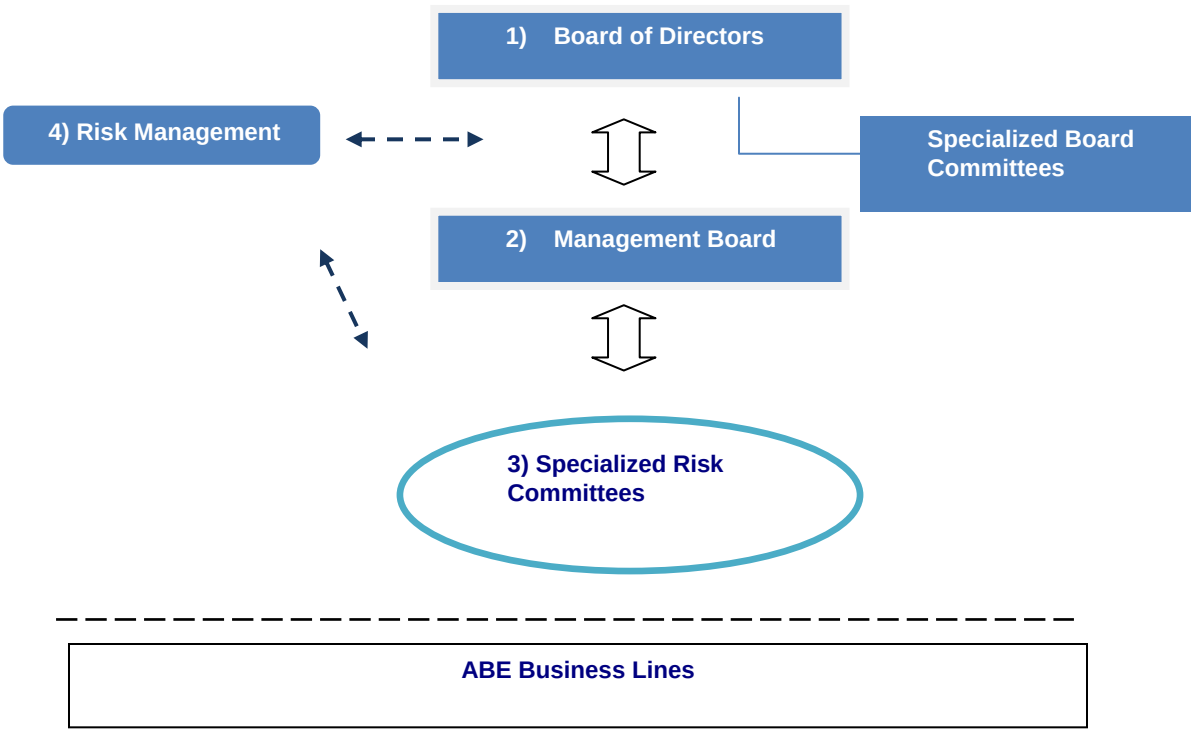
AXA Bank Europe shows high solvency further strengthened over 2015 thanks to its continued prudent investment strategy and reservation of end of year profits. All solvency ratios improved over the year. As per 31 December 2015, AXA Bank Europe's Tier 1 ratio stands at 20.0% (18.2% in 2014) and total capital ratio at 21.2% (20.1% in 2014). These ratios significantly exceed the regulatory requirements.

In connection with the contemplated implementation of the non-risk based leverage ratio, basically comparing Tier1 capital to unadjusted total assets, the bank has started a program to decrease its balance sheet. As a consequence, the bank's leverage ratio has significantly improved to 3.42%[1] at the end of December 2015 (2.84% in 2014) or 3.81% (3.22% in 2014) when fully loaded.

[1] Pursuant to the EU Regulation on prudential requirements for credit institutions as amended by the delegated Regulation of 10 October 2014 on the leverage ratio.

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 the strategic objectives. 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 Committees and their scope

Committees	Risk Scope	Risk Charters
Retail Risk Committee	Retail risks	Retail Risk Management Charter
Wholesale Risk Committee	Non retail credit risk, Securitization risk Counterparty risk Risks generated by the intermediation activity (market , liquidity , operational 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[2] 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.

[2] 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 proposed by Risk Management, discussed at the Risk Committee and finally validated by the Board of Directors, upon advice from the Risk Committee. 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 maximum **earnings-at-risk** that ABE is willing to accept in the pursuit of 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[3] and the scope of the risks that are covered[4].

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. In its capital planning, ABE has fully integrated the Basel III requirements (entered into force since 1 January 2014) 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 at all times all of its material risks hedged through economic capital calculated with a 99.9% confidence interval over a defined time horizon[5]. This obligation is above AXA SA's Head Office requirement (99.5%).

[3] Under Pillar 1, the methods are defined by the regulator whilst the methods are defined by ABE under Pillar 2.
4 Only three risks are covered under Pillar 1, whilst all material risks must be covered under Pillar 2.
[5] Important to note: The standard time horizon that ABE uses to measure its risks is one year. Some risks are evaluated on a shorter horizon since their exposures are easier to hedge or sell in time of stress

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 (29/10/2015).

ABE integrates 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
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.

The Internal Available Capital definition is defined by ABE Board of Directors. 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.

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 (Mortgages, Consumer loans and professional loans)	IRB	Retail Risk Management Charter
Retail Credit – Belgium (other loans)	SA	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. (hedged through capital). 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 Trading Book (Non-structural Interest and FX risks, Credit Spread Risk)	Monte Carlo V@R
Market Risk Banking Book (Structural (Interest Rate Risk and Basis Risk)	Monte Carlo 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 by means of a typical Var-CoVar approach. ABE's correlation matrix aims at estimating correlations between business lines as well as correlations between risk types.

3.5 Capital Adequacy for 2015

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 4.891 million on December 2015.

The table below shows the RWA and the capital requirements as of 31 December 2015 according to Basel III pillar 1.

Data as of 31/12/2015 (in Eur Million)	RWA	Capital Requirements
Credit risk	**3.187,5**	**255,0**
Market Risk	**111,6**	**8,9**
Operational Risk	**731,9**	**58,6**
Credit Valuation Adjustments	**98,1**	**7,8**
Other Risk Exposure Amount	**761,9**	**61,0**
Total Risk Pillar 1	**4.891,0**	**391,3**

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 on derivatives transactions caused by changes in the credit spread of counterparty. 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 EUR1,038 million and an overall T1 capital of 980 million in December 2015, ABE benefits from a solid T1 capital ratio[6] increasing from 18.2% in Dec 2014 to 20% in Dec 2015.
The CRD ratio[7] has evolved from 20.1 % in Dec 2014 to 212% in Dec 2015, 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-14	Dec-15
CET1	878,9	890,4
Additional T1	90,0	90,0
Total T1	**968,9**	**980,4**
Total T2	**100,0**	**57,8**
TOTAL CAPITAL B3	**1068,9**	**1038,1**
RISK WEIGHTED ASSETS B3	**5322,4**	**4891,0**
CET1 ratio	**16,5%**	**18,2%**
T1 ratio	**18,2%**	**20,0%**
CRD ratio	**20,1%**	**21,2%**

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

[6] total T1 capital divided by Basel 3 risk weighted assets
[7] 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[8] 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 12.2% in Dec 2015 ABE is well above the minimum requirement of 8%.

Regulatory capital (in EUR million)	Dec-14	Dec-15
Required capital (BI floor)	**682,2**	**693,9**
CRD ratio (BI floor)	**12,8%**	**12,2%**

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-14	Dec-15
Total Economic Capital Consumption	537,0	490,9
Available Capital	1.068,9	1.038,1
Internal Limit for Capital Consumption	855,1	830,5
Capital excess in terms of internal limit	318,1	339,6

Table 4: Economic Capital consumption

The available capital in 2015 largely exceeds the consumed economic capital after diversification.
In Dec 2015, ABE had an economic capital excess of EUR 339,6 million versus the internal limit (EUR 830,5 million = (T1+T2 /125%)).
The evolution in economic capital consumption in 2015 is mainly driven by the steady de-risking of the Hungarian portfolio.

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

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

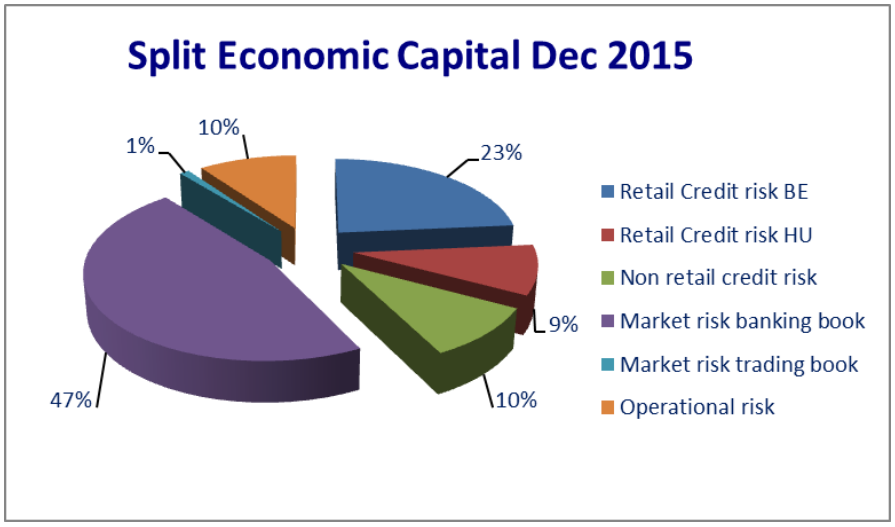


Figure 1: ABE's Capital Consumption

ABE's economic capital consists of 6 major capital buffers.
The most important capital buffer is the economic capital for Market Risk of the Banking book (47%). It covers the interest rate risk which is inherent in the Bank's retail activities (see section 5.1 for more details).

Credit Risk Belgium consumes 23% of the Bank's total economic capital. This relatively low consumption for a portfolio of EUR 17 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 decreased its investment 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 also 10% of the economical capital consumptions. The economic capital model for Operational Risk incorporates the mitigation actions already implemented at the different departments of the Bank (section 6).
The size of the buffer for Hungary (9%) decreased substantially over the last year due to the de-risking of the portfolio both in size and risk features. (Section 4.1.4 provides more details on the remaining exposure in Hungary)
Finally, the buffer for Market Risk in the Trading Book (1%) reflects the very conservative approach of ABE towards this risk. (see section 5.2).

3.5.3 Leverage ratio

The leverage ratio is a supplementary measure to the Basel framework. It is the carry between Tier 1 and the total exposure measure (balance and off-balance sheet items).

The aim is to constrain excessive leverage and to bring institutions' assets more in line with their capital.

The ratio will be binding on 1 January 2018 but the BCBS (Basel Committee on Banking Supervision) guidelines provide for disclosure of the leverage ratio and its components starting from 1 January 2015.

The EU commission published a new regulation (No 680/2014) with regard to the Leverage Ratio (LR), following the EC Delegated Act.

In connection with the contemplated implementation of the non-risk based leverage ratio, the bank has started a program to deleverage its balance sheet. As a consequence, the bank's leverage ratio according to the Delegated Act has significantly improved in 2015 to 3.42% at the end of December 2015 (2.84% in 2014) or 3.81% (3.22% in 2014) when fully loaded.

The different Leverage ratio components at consolidated level can be found in the table below:

Date as of 31/12/2015 (in EUR Million)	Leverage Ratio Components
Total Derivatives	568,0
Total repos	1.043,0
Total other assets	26.942,4
Total on balance	28.553,3
Total off balance	288,7
Deducted from T1 fully-fledged	-64,4
Deducted from T1 transitional	-181,9
Total exposure fully-fledged	**28.777,7**
Total exposure transitional	**28.660,2**
T1 capital fully-fledged	1.097,8
T1 capital transitional	980,4
Leverage Ratio fully-fledged	**3,81%**
Leverage Ratio transitional	**3,42%**

Table 5: leverage ratio components at consolidated level

3.5.4 Additional capital disclosure requirements

Basel III established certain high level disclosure requirements to improve transparency of regulatory capital.
ABE published a set of disclosure templates in order to ensure the uniform application of Regulation (EU) No 575/2013.

This disclosure (AXA Bank Additional Pillar 3 disclosures 2015.xls) can be found on our website:
https://www.axabank.be/nl/over-axa-bank/investor-relations-financial-information/general-risk-profile/

Annex I: Reconciliation of own funds items to audited financial statements
Annex II: Description of the capital instruments' main features
Annex VI: Disclosure of nature and amounts of specific items on own funds during the transitional period

4 Credit risk

ABE defines credit risk as the negative consequences associated with the default[9] or deterioration in credit quality[10] of counterparties in lending operations.

The goal of credit risk management is to ensure 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 31/12/2015 (in Eur Million)	RWA	Capital Requirements
CREDIT, COUNTERPARTY CREDIT RISK	**3.187,5**	**255,0**
Standardised approach (SA)	1.154,8	92,4
Institutions	187,7	15,0
Corporates	310,7	24,9
Retail	83,1	6,6
Secured by mortgages on immovable property	271,1	21,7
Exposures in default	133,8	10,7
Items associated with particular high risk	10,1	0,8
Covered bonds	23,2	1,9
Other items	135,1	10,8
Internal ratings based Approach (IRB)	2.025,1	162,0
Retail - Secured by real estate SME	77,2	6,2
Retail - Secured by real estate non-SME	1.547,0	123,8
Retail - Other SME	26,8	2,1
Retail - Other non-SME	374,3	29,9
Risk exposure amount for contributions to the default fund of a CCP	7,6	0,6
OTHER RISK EXPOSURE AMOUNTS	**761,9**	**61,0**

Table 6: credit risk by asset class

The 'other risk exposure amounts' refers to the additional stricter prudential requirement based on Art 458 of the CRR. This country specific risk will be considered as credit risk further down in the document.

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

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

Data as of 31/12/2015 (in Eur Million)	RWA	
Credit risk	**Retail**	**Non retail**
Internal ratings based Approach (IRB)	2025,1	-
Standardised approach (SA)	672,4	482,4
Risk exposure amount for contributions to the default fund of a CCP		7,6
Country specific risk (Add-on)	761,9	-

Table 7: credit risk by business line and approach

The 'risk exposure amounts for contributions to the default fund of a CCP' refers to the own funds requirements for the exposures arising from its trade exposures to a central counterparty and its default fund contribution based on Art 310 of the CCR.

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 Risk 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 8/12/2013 and applicable as of 31/12/2013 results in an additional own fund requirement for ABE's mortgage portfolio[11].

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 loans, personal loans and professional credits are managed in four phases (acquisition, management, remedy and recovery) based on retail credit policies.

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:

[11] 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. The main goal is to assess the sensitivity of credit losses for the existing credit portfolio as well as to assess the solvency of the bank 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 loan portfolio consists of mortgages, consumer loans and professional loans, with mortgage loans representing the most important share. (+/-87% of the credit portfolio). Given the good collateral coverage and low probability of default of this loan portfolio, the risk profile of the total credit portfolio is low.
The growth of the total loan portfolio (+ EUR 611 million) in 2015 is driven exclusively by the production of mortgage loans while other products' balance is slightly decreasing.
The mortgages portfolio rises with EUR 715 million thanks to the high new production of mortgages, partially offset by a high volume of refinancing in the Belgian market . The consumer and professional loans portfolio slightly decreased with respectively EUR 65 million and EUR 39 million.
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-14**	**Dec-15**
Total Portfolio	**16.414**	**17.025**
Mortgage Loans	*14.104*	*14.819*
Consumer Loans	*898*	*833*
Professional Loans	*1.412*	*1.373*

Table 8: Belgian credit portfolio (on balance)

We witnessed overall recovering of the observed default rates[12] (over a one year horizon) in the Belgian portfolio which evidences the quality reinforcement and improved product mix of credits in Belgium.
The 12M default rate for mortgage loans decreased from 0.9% in Dec 2014 to 0.8% observed in Dec 2015. The vintages on the new production are still decreasing and therefore it is expected that this decreasing trend continues when economic conditions remain unchanged.
The 12M default rate for loans to professionals and small businesses dropped from 2.20% observed in Dec 2014 to 1.86% in Dec 2015 reflecting the defensive approach of recent years.
Also for consumer loans a decrease in the 12M default rate is observed (from 1.57% in Dec 2014 to 1.31% in Dec 2015) 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'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 31/12/2015 (in Eur million) **Belgian retail Credit risk**				
Loan types by IRB Approach	**Buckets**	**EAD**	**RWA**	**Provisions**
Mortgages	1-9	15.043,0	1.377,4	4,8
	10	281,1	152,9	49,5
Consumer loans	1-9	816,2	287,8	1,5
	10	27,7	57,1	10,8
Commercial loans	1-9	1.334,8	125,7	1,5
	10	64,5	24,3	22,9

Table 9: Breakdown of Belgian retail credit risk exposures (balance & off balance) measured by IRB Approach

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

[12] *'one-year default rate' means the ratio between the number of defaults occurred during a period that starts from one year prior to a date T (observation date) and the number of obligors assigned to this grade or pool one year prior to that date (sample date).*

Data as of 31/12/2015 (in Eur million) Belgian retail Credit risk			
Loan types by STA Approach	**EAD**	**RWA**	**Provisions**
Mortgages	117,5	45,3	0,0
Consumer loans	9,5	7,1	0,0
Commercial loans	118,8	72,0	0,3
Current accounts	183,1	45,3	5,7
Other retail	204,4	139,1	6,4

Table 10: Breakdown of Belgian retail credit risk exposures measured by Standardised Approach

In 2014, ABE took part in the ECB's Asset Quality Review. This exercise has led, amongst others, to the drawing up of qualitative recommendations. All of these were dealt with in 2015. The main impact which resulted from this was the implementation of a new definition of default (in line with the Implementing Technical Standard published by the EBA in July 2014) on our retail loan portfolio. AXA Bank Europe has chosen to implement a very strict definition of default which has been reflected in an increase of the amount of "unlikely to pay" loans and the relevant provision amounts without the quality of the underlying portfolios being changed.

4.1.4 Retail credits in Hungary

In 2015, the strategy of reducing exposure to portfolio risks continued.
The Compensation & Conversion law provided for the most significant change. On date of March 31st 2015, the foreign currency denominated loan portfolio was converted to a loan portfolio denominated in HUF.
On top of the recent government schemes which improved the situation of the clients substantially, active management of non-performing loans continued at the branch (i) through mechanisms for assistance with the sale of properties , (ii) by optimizing the utilization of governmental programs such as help from the National Asset Management Company (NAMaC) that facilitates the sale of loans to a social institution and (iii) by making new loans available with customized monthly payments to borrowers in financial difficulty.
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[13].

Data as of 31/12/2015 (in Eur Million) Hungary	RWA	Capital Requirements
Credit risk Standardised approach	363,5	29,1
Retail	3,1	0,3
Secured by mortgages on immovable property	231,1	18,5
Exposures in default	129,3	10,3

Table 11: capital requirements for Hungary

[13] The limited capital requirements for the non-retail components (€ 0.6M) in Hungary are included in the non-retail risk part (4.2.1)

Zoom on the exposures in Hungarian credit portfolio

The credit portfolio of the Hungarian branch has been placed in run-off since 2011, meaning that no more loans have been granted by AXA in Hungary since that date.
The total outstanding exposure shrunk by 21% since Dec 2014 to reach EUR 818 million in Dec 2015 thanks to the Compensation & Conversion program that has been accomplished during March 2015.
This conversion of our FX loan portfolio to Hungarian Forints (HUF) loans eliminated all FX risk related to the lending operations of the branch as all loans in the branch are now denominated in the local currency (HUF). The P&L loss of this conversion had been provisioned in 2014 and did not lead to any significant P&L impact in 2015.
Additionally, a substantial improvement in the quality of the loan portfolio was observed after the corresponding legal rules were implemented in March 2015, resulting in lower monthly instalments for the majority of the clients.

The reduction of the non-annuity loans has been continued in 2015 (in Dec 2015 they represent 18.3% of the portfolio compared to 24% one year before).
The default rate of the credit portfolio in Hungary continues its decreasing trend from 5.79% to 2.97% over 2015. This positive evolution is the result of the lower risk experienced after the Compensation & Conversion program, the recovery of the house price market and the de-risking measures taken by ABE.
The NPL (Non-performing loan) ratio is of 27.9% in Dec 2015, comparatively to 22.28% on Dec 2014. The increase is explained by the fact that the portfolio is in run-off, performing portfolio decreased more rapidly than non-performing portfolio. Moreover, this effect was amplified in 2015 by the fact that cancellations were stopped by the Compensation & Conversion program until August 2015.
The provision rate slightly increases to stabilize at 17.4% in December 2015 (versus 16.5% in December 2014) due to the higher weight of non-performing portfolio.
The net profit of EUR+24.9 million for loan loss provisioning at year end 2015, (EUR -16.8 million in 2014 outside exceptional items) reflects the structural improvement of the portfolio.

As per February 2nd 2016, AXA Bank Europe signed a business transfer agreement for the sale of its Hungarian branch with OTP Bank. Completion of the transaction is subject to the approvals of the competent authorities and customary conditions.
With the sales agreement for these activities and in the event of a positive closure of this transaction, the credit risk relating to this portfolio will disappear in 2016.

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 treasury & intermediation 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 to cover the market risk of their life insurance. Secondly, ABE provides the insurance entity in Belgium 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 collateral 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.

4.2.1 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 Wholesale Risk Committee has been setup to oversee the bank's non- retail and securitization portfolios and related risks within ABE's treasury and financial market activities. It meets on a monthly basis and its members are the CRO, CEO, Deputy CEO/CFO, the Head of European Treasury & Intermediation and Head of non-retail Risks management and relevant specialists from the ABE Risk department. The Wholesale risk committee monitors adherence to risk appetite framework for non- retail credit & securitisation risks, as well as all risks linked to ABE's intermediation activity. It takes decisions concerning proposed investments and disinvestments.

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 Wholesale Risk Committee in managing the bank's non-retail credit risk.

4.2.2 Capital requirements assessments

On the 31 December 2015, ABE measured its minimum regulatory requirements for non-retail credit risk in the Standardized Approach (SA)

Data as of 31/12/2015 (in Eur Million) Non retail Credit risk	RWA	Capital Requirements
Credit risk Standardised approach	482,4	38,6
Institutions	183,9	14,7
Corporates	261,5	20,9
Retail	0,1	0,0
Items associated with particular high risk	10,1	0,8
Covered bonds	23,2	1,9
Other items	3,6	0,3

Table 12: breakdown capital requirements non-retail by asset class

4.2.3 Exposures

Zoom on the Investment portfolio

Table 12 illustrates the exposures in ABE's non-retail investment portfolio. The Bank's conservative investment strategy is reflected in its exposure.
The book value of the investment portfolio decreased from EUR 8.6 billion at end of 2014 to EUR 7.24 billion in Dec 2015 mainly due to the sale and maturing of sovereign bonds. The investment portfolio remains a solid portfolio of supra-nationals (24%) and sovereign bonds (73%).

In EUR MM		Dec-14			Dec-15		
		BV	MV	NOT	BV	MV	NOT
ALM Portfolio	Sovereign	6.170	6.608	5.788	5.311	5.657	5.070
	Supranational	1.715	1.865	1.665	1.709	1.856	1.665
	Covered bonds	221	237	222	216	230	217
	Total	**8.106**	**8.711**	**7.675**	**7.236**	**7.743**	**6.952**
Treasury Portfolio	Sovereign	344	345	345	-	-	-
	Hungary	1	1	1	1	1	1
	Certificate of deposits	100	100	100	-	-	-
	Total	**445**	**445**	**446**	**1**	**1**	**1**
Investment portfolio		**8.551**	**9.156**	**8.120**	**7.237**	**7.744**	**6.953**

Table 13: Investment portfolio

In addition, the ratings of credit and changes in the market price of ABE positions are being carefully monitored to examine the vulnerability of the credit portfolio for a number of adverse developments. Only 0.2% of the investment portfolio has a rating lower than investment grade.
Geographically, the investment portfolio credit risk is mostly limited to countries that are members of the European Union.

AXA Bank Europe monitors its investment portfolio also in terms of:

1) Adequacy of securities for calculation of the liquidity coverage ratio (see Liquidity Risk). The AXA Bank Europe's investment policy is almost exclusively limited to the assets of the highest liquidity class as defined by Basel III (L1);
2) Adequacy of securities for calculation of the solvency ratio.

Zoom on the exposure to PIIGS

ABE maintained the close monitoring of its exposure to PIIGS countries. ABE‘s exposures to these countries are limited to Sovereign Bonds.
Its exposures to Portugal (EUR 15 million) remained stable. Its exposures to Spain (197 million EUR) and Italy (EUR 340 million) dropped mainly due to the maturity of some positions.

Zoom on the Derivatives business

The majority of the derivative positions that the Bank is taking are related to the activities with the AXA Insurance entities.
AXA Bank Europe provides derivative execution and processing services, exclusively for insurance entities of AXA Group worldwide. The provided services include execution, clearing, valuation and (EMIR) reporting publications. Above all, AXA Bank Europe is an intermediary for pure derivatives such as interest rate swaps that the AXA Group's

insurance entities use to hedge market risk on their life insurance. Second, AXA Bank Europe provides liquidity to the insurance entity in Belgium (AXA Belgium) via standardized money market transactions ('reverse repos'). The amount of reverse repos significantly decreased since last year. In addition, AXA Belgium provides ABE a comfortable initial margin to neutralize the credit risk.
Although the new volume of derivatives dealt over 2015 for this purpose were at an unprecedented high level, AXA Bank Europe's off balance sheet derivative outstanding with AXA Group entities were maintained relatively stable from 62.3 billion euro in 2014 to 64.4 billion euro in 2015, as volume compressions in plain vanilla derivatives were organized more frequently and were more important in size. EMIR central clearing of new derivative transactions and regular backloads of the stock of plain vanilla derivatives have become common practice at AXA Bank Europe since 2014 and continued over 2015.
Exposure of the Bank to derivatives and money market transactions is limited via a strict policy regarding collateral requirements. Exposures to such transactions are subject to a daily credit risk monitoring and collateralized on a daily basis with market counterparties and on a weekly basis with AXA Group counterparties. Guarantees exchanged are limited to cash and high quality securities in order to ensure adequate limitation of credit exposures.

4.3 Credit valuation adjustments (CVA)

Credit valuation adjustment or 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. Since the implementation of Basel III in 2014, the capital requirement for this risk is integrated in the risk volumes (see table 1 in this document).

Capital requirement assessment:

On the 31 December 2015, ABE measured its own funds requirements for CVA risk with the Standardised method (article 384 of the CRR).

Exposures:

The majority of the derivative positions that the Bank is taking are related to the derivatives intermediation activities with the AXA Insurance entities (see paragraph 4.2.3 above).
The trades are executed with market counterparties with a minimum rating of A- as defined in the Credit Risk Charter. ABE monitors on a daily basis these ratings and follows a strong and clear limit framework.

In 2015, ABE reduced exposure on market counterparties by 46% through moving contracts to LCH.Clearnet Ltd as well as renegotiating collateral arrangements. This is

reflected in the table below: the capital requirements related to CVA risk decreased significantly between December 2014 and December 2015.

In Eur Million	Dec-14		Dec-15	
	RWA	Capital Requirements	RWA	Capital Requirements
CVA Risk	175,7	14,1	98,1	7,8

Table 14: CVA risk

4.4 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 launched its first covered bonds in November 2010. The covered bond program size remained stable in 2015 at EUR 3.900 million of which EUR 3.150 million remains on a consolidated level : 3.150 million is placed in the market and the EUR 750 million retained by AXA Bank Europe were eliminated in the consolidated balance sheet . AXA Banque France has subscribed EUR 400 million of these covered bonds.

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

[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

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.

[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 model covers the 'Interest Rate Risk and the 'OLO Spread Risk (Basis Risk)'. The Interest rate risk is defined as the risk of potential adverse changes to the fair value of interest sensitive positions after movements of interbank rates. The OLO Spread Risk or Basis Risk is defined as the risk of potential adverse changes to the fair value of credit spread sensitive positions after movements in spread between OLO-rates and interbank rates

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].

ABE's Treasury & Intermediation department takes 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 table below shows the value of a 1% parallel shock (100 basis points)

Solvency indicator 1%	Dec-14	Dec-15
In absolute terms	15.5 mio EUR	-28,2 mio EUR
In relative terms	1.5%	-2,7%

Table 15: Solvency Indicator

Treasury activities, included in ABE's banking book, are also subject to sensitivities and V@R limits monitored on a daily basis.

5.1.3 Exposures

The banking book of ABE including its branches mainly consists of retail loans and investments on the asset side, retail savings and deposits and non-retail long term funding including covered bonds and EMTNs on the liability sides.

[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.

The largest share of retail loans are Belgian mortgage loans, 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.

AXA Bank Europe is experiencing an intense refinancing and prepayment wave, which started mid-2014.
ALM has actively hedged the net new interest rate position, arising from the monthly production of retail assets and liabilities, including pipeline risk. The cap risk embedded in variable rate retail mortgages (most at risk of materializing in a rising interest rate environment) was hedged consequently.

5.2 Market risk trading book

The market risk in ABE's Trading book is the risk of loss arising from movements in interest rates, market prices or exchange rate fluctuations of the 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.

5.2.1 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.

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

- **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).

- The Bank's **financial services business lines (Execution Desk & Sales)** 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.

5.2.2 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

The standardised approach for foreign exchange risk applies to all bank positions meaning positions from both ABE's trading and banking books.

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

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

5.2.3 Exposures

ABE complies with the new Belgian banking Law entered into force as from January 1st 2015 which sets out a new Belgian specific regulation for trading activities consisting of 2 complementary rules:

- Prohibition of proprietary trading and
- Increased capital requirements for excessive trading when banks exceed the predefined materiality thresholds

ABE's non-risk based (volume ratio) is well below threshold. ABE's risk based ratio (RWA ratio) is also significantly below regulatory threshold because ABE follows a low market risk strategy for its trading book resulting in low Market Risk Weighted Assets.

Furthermore, ABE's risk limit framework does ensure that the VAR (holding period 1 day, confidence interval 99%) does not exceed 0.25% of T1 capital as requested as well by the banking law**.**

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**: Fraudulent financial reporting, improper of fraudulent financial activity as well as misappropriation of assets and other internal frauds
ii. **External Fraud**: theft and fraud as well as information system fraud
iii. **Employment Practices and Workplace Safety**: Employee relations, diversity and discrimination; Safe environment; loss of key staff and talent management.
iv. **Clients, Products and Business Practices**: Suitability, disclosure and fiduciary. Improper business or market practices, incl. advisory activities. Breach of regulation and legislation ; Unauthorized activity ; Product flaws
v. **Damage to Physical Assets**: natural disasters, vandalism, terrorism, etc.
vi. **Business Disruption and Systems Failures**: System disruptions and breach of information security.
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.

[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).

ABE measures its economic capital using a Monte Carlo V@R, which is similar to the Basel II Advanced Measurement Approach (AMA) under Pillar 1.

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% * of the 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 : Internal Liquidity Stress indicator
2. Regulatory indicators : LCR and NSFR

All these indicators are underpinned by a common approach: guarantee that ABE's liquidity buffer is sufficient to cope with a range of stress events. More specifically, ABE's own Internal Liquidity Indicator has been designed to ensure that ABE maintains an adequate liquidity cushion to be able to withstand combined idiosyncratic and market stresses over a one year horizon.

Those key liquidity indicators have been used to define ABE's risk appetite statements.

2015 ABE Risk Appetite Statements		Limit	Alert
L1	(ILS*) The available liquidity resources for the internal liquidity indicator under all time horizons (1W, 1M, 3M, 6M and 1Y) should always be higher than the stressed requirements + EUR 500m	EUR 500m	EUR 1bn
L2	(LCR) The excess available high quality liquid assets resources for the Basel III Liquidity Coverage Ratio (LCR) (1M horizon) must be above EUR 500m and above the supervisory requirement to be communicated by ECB	EUR 500m	EUR 1bn
L3	(NSFR) The available amount of stable funding for the Basel III Net Stable Funding Ratio (1Y horizon) should always be higher than the stressed requirements + EUR 1bn	EUR 1bn	EUR 1.5bn

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 LCR scenarios, which results in a lower liquidity excess under the 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.

The Excess Liquidity indicator is defined as the worst liquidity position, over all time horizons and stress scenarios.

in MM EUR	End of Dec 2015	Limit	Buffer
Internal Liquidity Stress indicator	1,222	500	722

2. Regulatory Indicators

ABE monitors the LCR and NSFR of the Basel III framework.
LCR (Liquidity Coverage Ratio) became binding in October 2015 while NSFR (Net Stable Funding Ratio) will be binding as from 2018.

7.3 Liquidity Buffer assessment

ABE enjoys a very robust liquidity position as demonstrated by its strong liquidity buffer that clearly exceeds regulatory and internal limits
Both BIII indicators are well above the minimum requirements at the end of 2015 (100% limit) thanks to a comfortable stock of liquid assets and a strong financial structure.

	Dec-14	Dec-15	Limit
LCR ratio (conso)	143%	139%	100%
NSFR (conso)	122%	139%	100%

Table 16: Liquidity ratios

- 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 (€ 17.5 billion on 31 December 2015) and covered bonds (€ 3.2 billion on 31 December 2015). More detail can be found in table 15 below.

2015 (in EUR million)	< 3 months	< 12 months	> 12 months	Total
Central Bank financing	-	-	154,2	154,2
Loans from financial customers	4.131,2	552,0	3,0	4.686,2
Unsecured funding (savings & current accounts of 'other financial corporates' + CIFP)	466,0	1,2	3,0	470,2
Repurchase Agreements	3.665,2	419,9	-	4.085,1
Secured loans	-	130,9	-	130,9
Retail funding:	15.089,1	442,3	1.924,8	17.456,1
Non maturing retail funding (savings and current accounts)	14.613,3	-	-	14.613,3
Maturing retail funding (deposits with agreed maturity, EMTN for retail, customer saving certificates)	475,8	442,3	1.924,8	2.842,8
AXA Group Financing:	313,8	7,3	750,0	1.071,1
Unsecured financing	313,8	3,2	-	317,0
EMTN	-	4,0	750,0	754,1
Other counterparties	70,6	500,0	2.678,7	3.249,4
Unsecured funding from non-financial customers	70,6	-	0,3	70,9
Covered bonds	-	500,0	2.678,4	3.178,4
Total	19.604,6	1.501,5	5.510,8	26.616,9

Table 17: Maturity analysis

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:

- Business risk
- Model risk
- Strategic risk
- Reputation risk
- Remuneration policy risk
- Political and regulatory risk
- Pension risk

8.1 Business Risk

ABE's business risk is the risk arising from deteriorating margins on commercial products (retail products and non-retail products) due to the adverse events, including the competitive environment. This risk is managed through 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 business 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:

- Governance
- Regular competitors review
- Regular review of the margins and the product mix
- Reporting at entity level and at ABE's Management Board level
- Product Approval Process

8.2 Model risk

ABE defines model risk as the risk of loss arising from decisions based on incorrect or misused model output and reports. 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 of models, reviews, back-testing and stress-tests
- Model risk governance (e.g. common modelling guidelines)

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 adapt external business environment, improve internal organisation or resize 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.

A specific function of Strategic Advisor is set up within the Risk Management department since 2015.

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:

- Processes towards the general public
- Processes towards the market
- Processes towards retail customers and distribution network
- Processes towards staff and employees
- Processes towards regulator
- Crisis management
- Dedicated functions (e.g. legal counsel , reputation manager)
- Reputation Risk Governance (e. g crisis management standards)
- Follow up of Key Risk Indicators, escalation and resolution process

8.5 Remuneration risk

ABE defines its remuneration 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 assists the Board of Directors by means of
- overseeing the compensation system's design and operation;
- ensuring that the compensation system is appropriate and consistent with the bank's culture, long term business, risk appetite, performance and control environment and any legal and regulatory requirements.

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
- Yearly assessment of the remuneration risk including benchmarking

8.6 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.

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.

8.7 Pension Risk

This risk is defined as the risk of facing additional contributions to pension schemes owned by ABE. It is a material risk hedged through processes.
Mitigation processes are the governance and the monitoring of the risk by KRI and escalation and resolution process.

9 Unencumbered Assets

Disclosure of encumbered and unencumbered assets for ABE on 31/12/2015 is done in accordance with the disclosure templates foreseen in the EBA Guidelines released in June 2014.

This disclosure (ABE disclosure asset encumbrance 2015.xls) can be found on our website:

https://www.axabank.be/nl/over-axa-bank/investor-relations-financial-information/general-risk-profile/

Appendix - Risks resulting from other ABE entities

1. AXA Belgium Finance

The activities of this company consist of issuing notes under programmes that are unconditionally and irrevocably guaranteed by its sole shareholder ABE S.A./N.V. The notes issues by the Company are mainly placed among European investors. The net proceeds of these notes are lent to ABE that uses the proceeds for general corporate purposes.
An assessment of the risk profile of the Company is described in the annual AXA Belgium Finance (NL) B.V audited financial report published on the AXA bank website.

https://www.axabank.be/nl/over-axa-bank/investor-relations-financial-information/notes-issuance-programme

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 4.4 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.