

AXA Bank Europe



Disclosure Report 2011



redefining / standards

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Note: AXA Bank Europe is referred to in this document as “ABE”

Risk disclosure policy

The Basel II accords require banks to disclose a complete risk report to the market at least once a year. This obligation is known as the “market discipline” Basel II Pillar 3 transparency obligation¹. It is based on the assumption that well informed market participants will reward risk-conscious management strategies and will correspondingly penalize 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, ABE's 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. Due to ABE's conservative and low risk profile, 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 2011 risk report covers the period starting on the 1st of January 2011 and ending on the 31st of December 2011.

ABE's management pays a special attention to the bank's obligation of discretion. 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 ABE's corporate website at <http://www.axabank.eu/eng>.

¹ In Belgium, this obligation is found under Title XIV of CBFA's Circular PPB-2007-1-CPB dated 08/02/2007.

Executive summary

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

AXA Bank Europe is AXA Group's banking arm in Belgium, Czech Republic, Slovakia and Hungary. On 31/12/2011, it provided retail banking solutions to individuals and small companies in these countries. It also provides hedging services to AXA insurance companies for their variable annuities products. Finally, it facilitates AXA insurance companies with access to the money markets via repo and reverse repo agreements.

Overall, AXA Bank Europe's risk profile remains conservative:

- The bank is mainly exposed to retail credit risk through its portfolio of retail loans (consumer, mortgage and small enterprises) in Belgium and of retail mortgage loans in Hungary.
- In 2011, ABE's retail credit risk in Belgium was still enjoying low default rates that were in line with historical levels. Due to a stable credit policy and product mix, ABE does not expect any important changes to the credit risk profile of its Belgium loan portfolio over the coming year.
- The mortgage portfolio in Hungary is vulnerable to Foreign exchange (Forex) volatility, as it is mainly in Swiss Franc (CHF). In 2011, the Hungarian branch was hit by the launch of the forced conversion programme by the government, allowing customers to early repay their mortgage loans at a favourable Forex rate. However, the programme led also to a reduction of the mortgage portfolio by 20%. Moreover, in December 2011, ABE decided to stop new mortgages and put the mortgage portfolio in run-off.
- ABE maintains a very prudent approach to market risk. The treasury and financial market activities are focused on the risk management of liquidity, interest rate and Forex positions generated by the bank's portfolio.
- Growing exposures to interest rate derivatives taken to provide hedging services to AXA insurance companies are mitigated by strict back-to-back hedging and collateral management policies.
- Finally, since 2010, the bank has modified its (already prudent) investment policy to focus on Basel III liquidity eligible assets. ABE only maintains credit exposures on well rated sovereigns, financial institutions and asset backed securities (although the latter have been put in run-off).

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

The bank aims to meet all regulatory capital obligations and to remain sufficiently capitalized to be able to cover its risks at all time at a 99.90% confidence interval over a one year period. On 31/12/2011, AXA Bank Europe's Capital Requirements Directive

(CRD) ratio incl. Basel I floor was 11,24%, exceeding market average and legal requirements (min. 8%). AXA Bank Europe's internally defined available capital also exceeded AXA Bank Europe's economic capital by a comfortable margin.

Through the nature of its activities, ABE benefits from a very sound liquidity situation. The bank maintains a comfortable liquidity buffer exceeding the regulatory requirements that came into force at the end of 2010.

1 Presenting AXA Bank Europe

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

1.1 Strategy

AXA Bank Europe is AXA Group's banking arm that provides retail banking solutions to individuals and small companies in Belgium, Czech Republic, Slovakia and Hungary. It works in close cooperation with AXA's local insurance companies to complement their financial product offering with a range of retail banking products. AXA Bank Europe also provides intra-group hedging services to AXA insurance companies.

ABE's has a very conservative approach to market risk. Its treasury and financial market activities are focused on liquidity risk, interest rate risk and Forex risk management.

ABE maintains limited exposures in high quality assets. It does not engage in equity or commodities trading. Being a retail bank, AXA Bank Europe is not involved in investment banking, corporate banking or trade finance. Its only structured finance activities (issuance of covered bonds and of securitization) are done for liquidity risk management purposes.

1.2 Corporate structure

The ABE entities must comply at all times with the rules and requirements set forth by the Risk management charters or must seek ABE's Central Risk Management prior written approval (under a "comply or explain" policy).

Non-material entities (defined as entities whose activities do not expose ABE to any material risks) remain covered by the Risk management charters. This non-materiality must always be proven and documented for ICAAP purposes. Such entities may not change their activities (if any) or adapt their product offering (if any) in any material way, without undergoing ABE's Product Approval Processes (PAP).

For the same reasons, ABE's Central Risk Management must be given sufficient prior notice to assess any proposed creation (or inclusion) of a new ABE entity (defined as an ABE subsidiary or branch) in order to ensure to ABE's Management Board that proposed (existing or projected) activities & product offering will meet the requirements set forth by the charters.

AXA Banks	Ownership as of 31/12/2011	Type	In scope	Risk Materiality
ABE Head Office	*	Head Office	Yes	Material
ABE Belgium	**	Branch*	Yes	Material
ABE Hungary	**	Branch	Yes	Material
ABE Czech Republic	**	Branch	Yes	Material
ABE Slovakia	**	Branch	Yes	Material
ABE Execution Desk Paris	**	Branch	Yes	Material
ABE SCF	99.9%	Subsidiary	Yes	Material
AXA Bank France	0%	Affiliate	No	Out of ABE scope
AXA Bank AG (GER)	0%	Affiliate	No	Out of ABE scope
Non Banking				
AXA Hedging Services (IRL)	100%	Subsidiary	Yes	Immaterial
AXA Belgium Finance	100%	Subsidiary	Yes	Immaterial
Beran	99.9%	Subsidiary	Yes	Immaterial
Motor Finance Company	99.9%	Subsidiary	Yes	Immaterial
Royal Street	10% ²	SPV	Yes	Immaterial

* ABE Head Office is an internal definition used to segregate the activities of ABE that are performed & managed at the Head Office level from those activities that are performed and managed in branches and subsidiaries. As such, ABE Head Office is not a separate legal entity from AXA Bank Europe. ABE Belgium Branch is an internal definition used to segregate Belgium activities which are not performed & managed at the Head Office level.

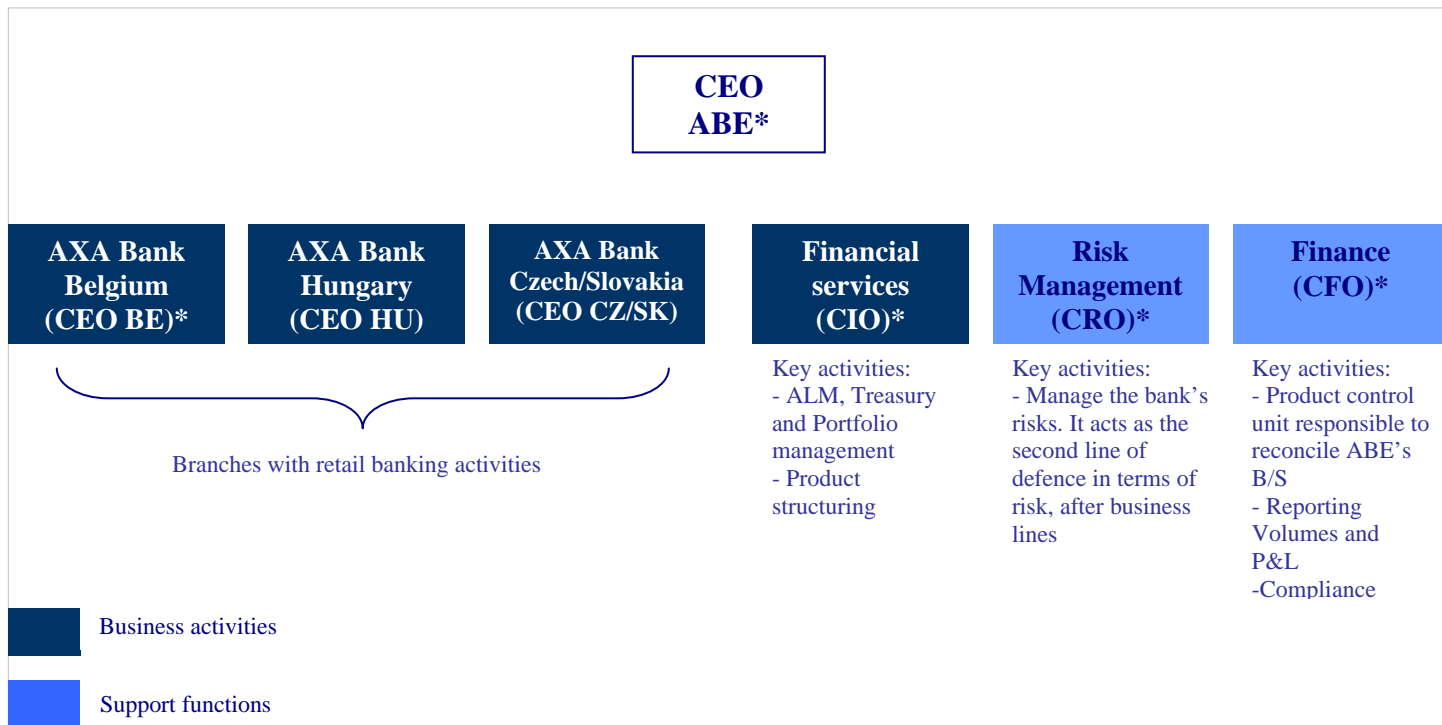
** ABE branches are not separate legal entities from AXA Bank Europe.

ABE's IFRS consolidation scope is described in section 2.1 of its IFRS Consolidated Financial Statements 2011.

² Royal Street is fully integrated to ABE because ABE has an indirect participation through the certificates that the foundation Bachelier has issued and ABE has in portfolio. This foundation is owner of the remaining 90% of the participations. From economic point of view ABE is also the primary beneficiary of the SPV which is a condition of consolidation in IFRS.

1.3 Organizational structure and Business activities

ABE's organizational structure per business activity is described in the chart below (extract of ABE's organization). The chart shows that ABE's risk management has the role of an independent control function, independent from the business lines, sitting on ABE's Management Board and reporting directly to its CEO.



* sitting at Management Board ABE

ABE's business activities are described in detail below.

ABE Financial services:

- ALM: Structural management of ABE's balance sheet, namely optimization of the bank's liquidity & interest rate risk positions.
- Treasury and Portfolio management:
 - Treasury: Short term management of ABE's liquidity & interest rate risk positions, as well as Forex and market risk exposures;
 - Portfolio management: Management of ABE's high quality investment portfolio structured to optimize compliance with Basel III's liquidity requirement.

- Hedging services/Investment product services:
 - Provides advice to insurance companies (financial modelling services for hedging variable annuities products)³;
 - Structures savings & investments products ;
 - Executes derivative transactions (incl. Back-to-back hedging of derivatives for AXA Group insurance companies).

AXA Bank Belgium:

- Provides consumer loans, mortgage loans and commercial loans, as well as savings & investments products to retail customers.

AXA Bank Hungary:

- Provides mortgage loans, as well as saving and current accounts to retail customers.

AXA Bank Czech Republic:

- Provides saving accounts to retail customers.

AXA Bank Europe Slovakia:

- Provides saving accounts to retail customers.

³ This was a service provided by AXA Hedging services, which was sold to the AXA Global carrier on 16 March 2012

1.4 Risk management objectives

ABE's Risk Management department is responsible for:

Ensuring adequate risk oversight:

- Coordinating and leading the implementation of the risk management system (governance, risk metrics, analysis tools & stress tests) within the different branches and subsidiaries of ABE;
- Providing a centralised process for aggregating and reporting risk information from various sources to provide a comprehensive view to senior management of overall risk exposure;
- Monitoring and validating risk measurement and valuation methodologies to ensure the alignment of the bank's risk management capabilities with its strategic direction;
- Ensuring the right design and operational effectiveness of the risk management systems to identify, measure, monitor, manage and report risks;
- Giving independent risk opinion before the launch of every new product within relevant Product Approval Processes (loans, deposits, investments, derivatives...);
- Conducting risk management education and training to further develop ABE's risk culture.

Ensuring that all the risks are under control:

- Ensuring the definition of a comprehensive risk cartography for the company (including detecting, identifying and assessing emerging risks);
- Maintaining a framework for the measurement of all material risks;
- Ensuring that proper limits are defined and monitored for all material risks with appropriate escalation procedures in case of breach of limits or modification of the hypotheses on which the limits have been defined;
- Maintaining an organisation-wide and aggregated view on ABE's risk profile;
- Acting as a second layer of control for the management of ABE's risks, independently monitoring and challenging the risk management practices of ABE's main business lines and support functions.

Ensuring compliance with relevant banking regulation and AXA Group requirements in the area of risk management:

- Ensuring compliance with applicable laws and regulation, with a particular focus on the Belgian national transposition of the international Basel Accords and EU Capital Requirement Directive;
- Ensuring appropriate and timely communication with AXA Group Risk Management;

- Proactively managing the relation with the relevant control authorities⁴ for risk matters, providing them with all necessary information and reporting concerning ABE's risk exposures to ensure:
 - An appropriate level of understanding of the risk profile of the bank;
 - Compliance with all relevant regulations;
 - An appropriately positive and accurate appreciation of the company's risk profile and procedures.

Assisting senior management with their (risk management related) responsibilities and strategic decisions:

- Assisting the Management Board and the Board of Directors with the development and communication of risk management strategy and governance (policies);
- Assisting the Management Board and the Board of Directors in the effective operation of the risk management system, in particular by performing specialised analysis and performing quality reviews;
- Assisting management to integrate risk management within the strategy development process;
- Providing an independent risk view regarding proposed business plans and transactions;
- Reporting details on risk exposures to help the senior management in their decisions.

Supporting the definition & implementation of ABE's Risk Appetite Framework:

- Identifying the desired risk profile of ABE's different stakeholders, supporting the Board of Directors and Management Board in defining ABE's risk appetite;
- Translating the risk appetite defined by ABE's Board of Directors into functional risk limits to be respected in day-to-day activities;
- Ensuring that both the right governance and reporting are in place to manage the Risk Appetite Framework in case of limit breaches;
- Assisting in developing risk mitigation strategies.

Calculating and supporting the allocation of economic capital:

- Taking the ownership of internal models to determine ABE's needs in economic capital:
 - Designing and implementing required internal models;
 - Testing and validating internal models;
 - Documenting internal models and any subsequent changes made to them;

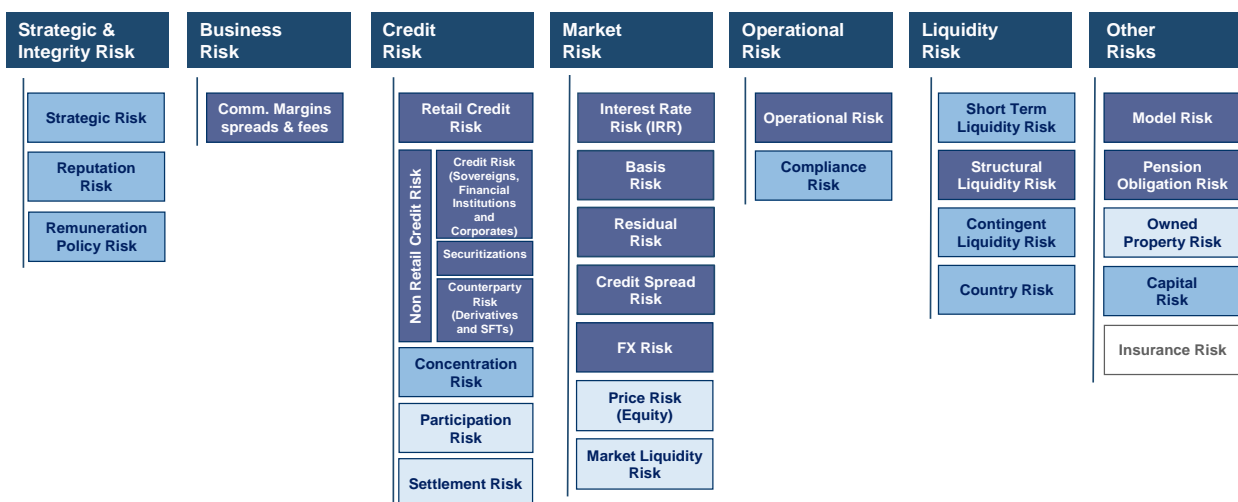
⁴ Currently: (for Belgium) the National Bank of Belgium & the Financial Services and Markets Authority, (for Hungary) the Hungarian Financial Supervisory Authority, (for Czech Republic), the Czech National Bank and (for Slovakia) the National Bank of Slovakia.

- Regularly reviewing internal models and informing the management body about their performance, suggesting areas needing improvement;
 - Keeping the relevant management bodies informed on the status of efforts to improve previously identified weaknesses;
- Assisting the CEO and the Management Board with capital allocation to the different activities.

1.5 Risk taxonomy

This section presents ABE's risk taxonomy. The objectives are:

- Description how risks are defined and assessed;
 - Identification of centrally managed risks versus risks co-managed through central & local efforts;
 - Identification of risks solely hedged by processes versus risks hedged by processes and capital.
- **Risk is considered material:**
 - The relevant risk has been identified and is considered material.
 - It is measured and hedged by capital as well as by processes: Such risks, through losses, can lead to degradation of ABE's solvency or liquidity.
 - It is assessed and hedged by processes: These risks do not immediately translate within a degradation of ABE's solvency or liquidity, but trigger other risks. For example, reputation risk can lead to unexpected withdrawal of ABE's retail deposits that will trigger liquidity risk.
 - **Risk is considered immaterial:**
 - The relevant risk has been assessed, measured and found immaterial. This is documented and no mitigation measures are required.
 - **Risk is considered out of scope:**
 - It has been assessed that ABE entities are not exposed to this risk (ex insurance risk). This risk is irrelevant to ABE's business model.

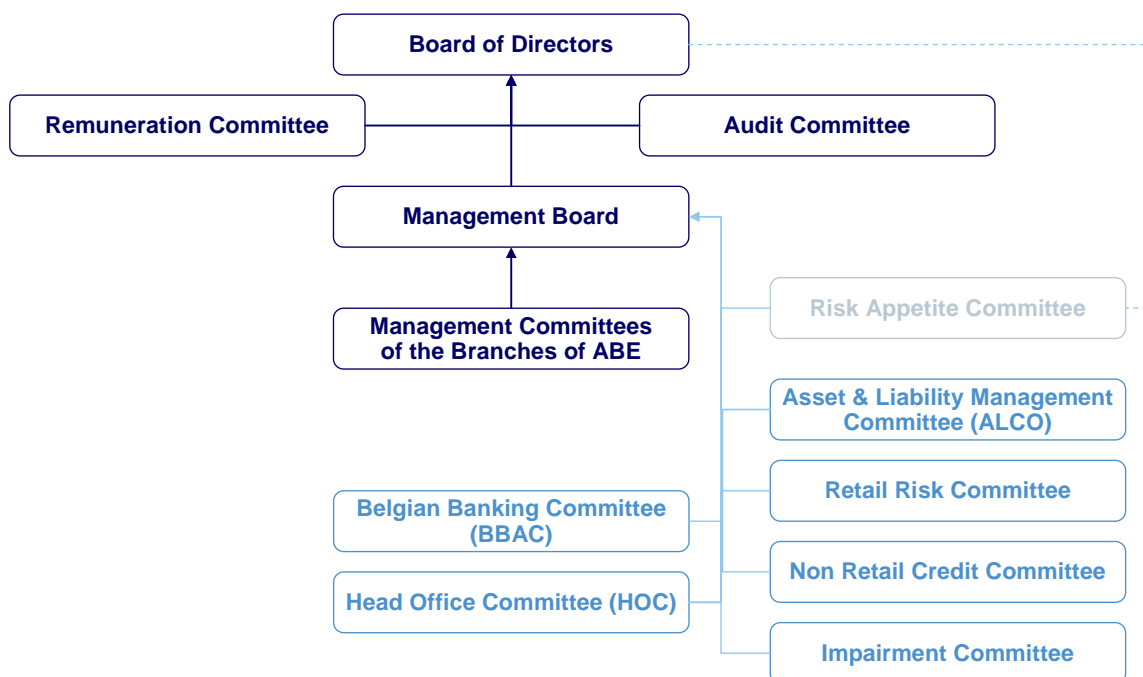


Legend:

Material	Potentially Material – Hedged through capital & through processes
Material	Potentially Material – Solely hedged through processes
Immaterial	Documented immaterial risk (no mitigation measures required)
Out of scope	Irrelevant to business model

1.6 Risk management organization

The following chart provides a graphical summary of ABE's risk management organization:



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

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

The management committees of the local branches ensure that ABE's risk management strategies are implemented and followed locally. They also ensure that the risks taken by the branches remain within local risk appetite limits. Business lines act as the first line of defence in the management of their risks.

Specific risk committees oversee specific risk strategies set by ABE's Management Board. Generally, they monitor and analyze consolidated risk reports. They validate

risk indicators and models. They monitor the adequacy of ABE's risk infrastructure and risk models (stress testing, back testing and calibration). The risk committees are:

- Risk Appetite Committee (all risks incl. operational risk)
- Retail Committee = All retail risks
- Non-retail credit Committee= Non retail credit risks
- Assets & Liabilities Committee (ALCO) = Liquidity risk, interest rate risk & market risk

Among the Committees ABE's risk appetite Committee is differently positioned, created by the Board of Directors, due to its mission. It advises the Board of Directors in the definition and implementation of the risk appetite framework and the Internal Capital Adequacy Assessment Process (ICAAP).

AXA Bank Europe's Risk Management Direction assists ABE's Board of Directors, Management Board and specialised risk committees 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 first responsible to manage their risks.

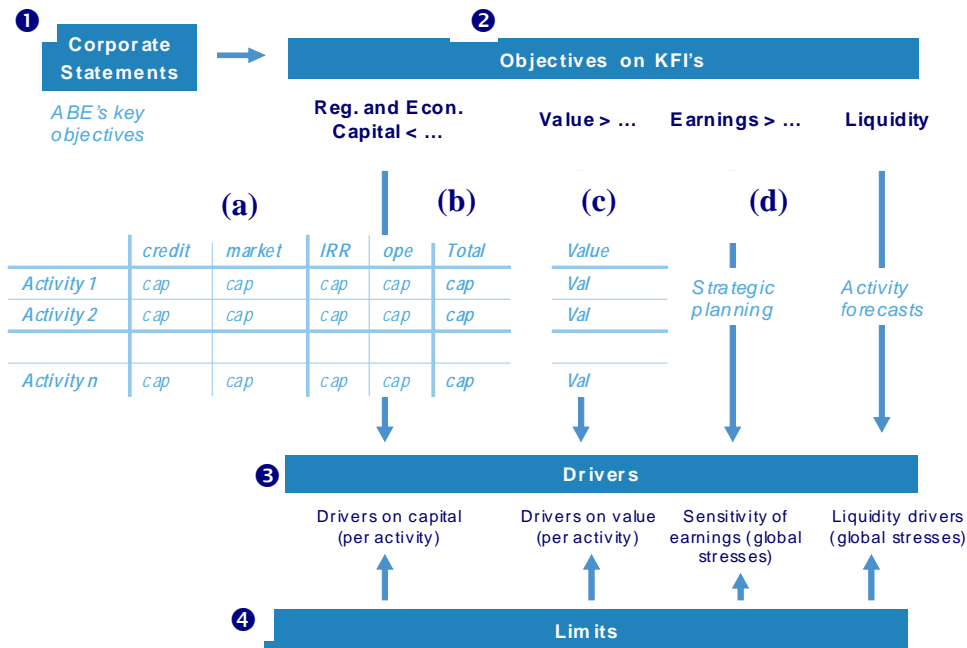
ABE's risk management strategies and processes are fully described within internal risk management charters, reviewed and validated on a yearly basis by ABE's Board of Directors and Management Board.

2 Risk Appetite and Capital Adequacy

2.1 AXA Bank Europe's risk appetite framework

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

The setting of ABE's risk appetite is structured around four major elements illustrated through the following flowchart:



1 Corporate Statements:

ABE's Management Board and Board of Directors define and document their key objectives through Corporate Statements. These corporate statements form the cornerstone upon which ABE's risk appetite can be set.

2 Key Financial Indicators:

For risk appetite purposes, these key objectives are then translated into KFIs which are monitored by ABE's Management Board & Board of Directors. These aggregated indicators concern "capital", "value", "earnings" and "liquidity" requirements. They provide benchmark quantitative figures through which ABE's overall financial performance can be measured. These aggregate indicators are defined below:

- (a) **Capital:** "Capital" represents the constraints in terms of internally available capital that can be allocated to the different activities of ABE.

- (b) **Earnings:** The “Earnings” KFI reports on ABE’s P&L sensitivities (IFRS earnings).
- (c) **Value:** “Value” represents ABE’s objectives in terms of returns on allocated capital.
- (d) **Liquidity:** This KFI reports on the adequacy of ABE’s Liquidity. It is based on indicators defined in ABE’s Liquidity Risk Management Charters.

③ Risk Drivers:

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

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

Risk drivers must be proposed by business lines when new business activities are launched or when existing activities are modified. Risk Management analyses their relevance and submits its recommendations to ABE’s Senior Management (usually through a Specialised Risk Committee, then ABE’s Risk Appetite Committee and finally ABE’s Management Board) which decides and validates on their use.

ABE’s risk drivers are fully described within ABE’ specific risk management charters.

④ Risk appetite limits:

Risk appetite limits are used to keep identified risk at desired levels. They are imposed by ABE’s Management Board based on selected risk drivers and can be found within ABE’ specific risk management charters.

2.2 Prudential governance and Capital adequacy

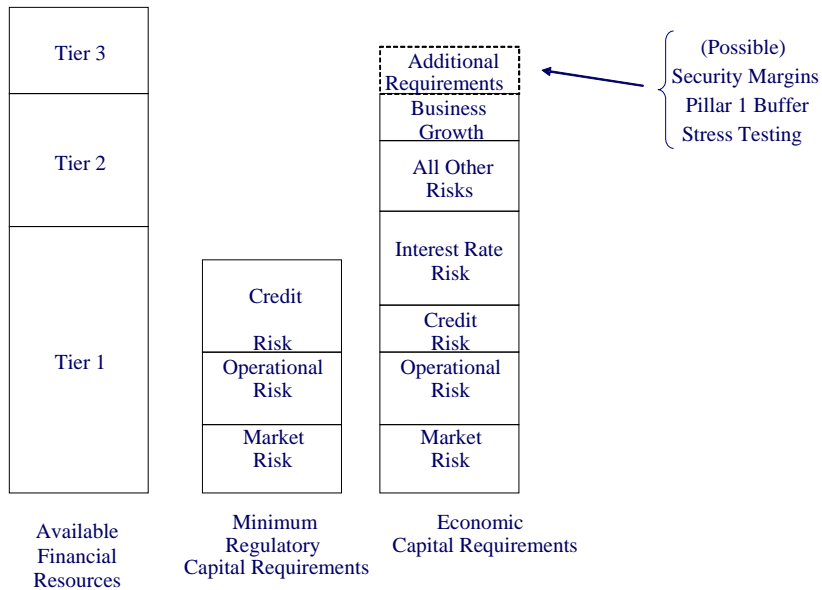
This section starts by explaining regulatory requirements concerning capital. It then details AXA Bank Europe’s financial governance and capital objectives. It further provides information on AXA Bank Europe’s available financial resources, stating how minimum regulatory capital and economic capital requirements are measured. It then concludes by providing quantitative information demonstrating AXA Bank Europe’s compliance with capital adequacy requirements.

2.2.1 Prudential governance

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

Banks must also have in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed to. This obligation is known as the (Pillar 2) “economic capital requirement”.

Under each pillar, the “available financial resources” of banks are compared to the measured “capital requirements”. The differences between the two pillars are their measurements methodologies⁵ and the scope of the risks that are covered⁶.



⁵ Under Basel II Pillar 1, the methods are defined by the regulators whilst the methods are defined by AXA Bank Europe under Basel II Pillar 2.

⁶ Only three risks are covered under Pillar 1. All material risks must be covered under Pillar II.

2.2.2 Capital objectives

In terms of risk management, AXA Bank Europe'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 by a sufficient margin.

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

AXA Bank Europe'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 99.90% confidence interval over a one year period⁷. This obligation is above AXA S.A.'s Head Office requirement (Solvency II imposes 99.5%).

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

This can be explained by:

1. High diversification effect across entities of AXA SA. For example, ABE's interest rate risk (ALM) is offset in different subsidiaries (one subsidiary is "long" the risk and the other subsidiary is "short" the risk). This leads to a net reduction in the particular risk factor.
2. ABE belonging to a conglomerate, capital management issues are primarily addressed at holding level (AXA SA). Debt holders, policyholders, regulators and rating agencies are primarily concerned with the solvency of the institution (AXA SA).

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

⁷ 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.

2.2.3 Available capital resources

Under Basel II, 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. <i>(The method to calculate own funds is described in NBB’s Circular PPB-2007-1-CPB)</i>
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 definition of internal available capital is largely based on the “regulatory own funds definition”. This means that Basel II (and gradually Basel III as from 2013) requirements are applied on both Pillar 1 and Pillar 2 “available financial resources” definitions.

The only difference comes from the adjustment that is made for the ‘provisions excess or shortfall’⁸: the nature of the expected losses taken into account differs under Pillar 1 (= expected losses computed according the Basel II IRB approach) and Pillar 2 (internal assessment of expected loss).

“Regulatory own funds” calculations are provided by ABE’s Accounting department except for the excess/shortfall of provisions which are calculated by Risk Management. “Internal available capital” calculations are conducted by ABE’s Risk Management Direction.

On 31/12/2011, ABE had EUR 1,140 Bn of regulatory own funds and EUR 1,193 Bn of internal available capital. The CRD ratio including Basel I floor was 11.24%.

⁸ Expected losses (when in excess of relevant taken provisions) are deducted from ABE’s regulatory own funds. In the opposite case (provisions exceed expected loss) they are added, up to 0.6% of risk weighted assets.

OWN FUNDS ('000 €)	2010.12	2011.12
TIER 1 CAPITAL		
Paid in capital	546.318	546.318
Reserves including retained earnings	458.010	466.465
minus : loss of financial year	0	-147.758
minus : valuation differences in FVO financial liabilities (own credit risk)	-1.867	-5.568
minus : other valuation differences affecting the eligible reserves	-1.362	16.907
minus : intangible fixed assets	-18.896	-18.505
TOTAL TIER 1 CAPITAL	982.203	857.859
TIER 2 CAPITAL		
Positive fair value revaluation reserve on available-for-sale equities	576	65
Perpetual subordinated debts	185.763	189.330
Subordinated debts	144.244	128.093
TOTAL TIER 2 CAPITAL	330.584	317.488
minus : IRB provisions shortfall	-37.455	-34.931
TIER 3 CAPITAL	4.434	0
TOTAL CAPITAL	1.279.767	1.140.417
TOTAL WEIGHTED RISK VOLUME (RWA)	4.432.181	4.460.230
BASEL RATIO	28,87%	25,57%
BASEL RATIO (incl. Basel I floor)	13,54%	11,24%

The above tier 2 capital contains the following bank deposit notes:

1. Subordinated perpetual certificates, i.e. deposit bonds having an unlimited duration ("perpetual"), although with a split between the first 10 years, during which a fix interest rate applies, and the period after 10th anniversary. As of the 10th anniversary and on each later anniversary, the bank has a call option for complete and immediate redemption of the bonds; in the absence of exercise of the call, the bonds are automatically extended for a new year. While a fix rate is applicable during the first 10 years, the rate afterwards is equal to OLO⁹ 10 years + x % (x was equal to 2 for the first issuing; for the latter x = 1). The perpetual certificates are subordinate-debt instruments. Redemption in case of insolvency of the bank is subject to the subordination provision in the terms and conditions of the certificates
2. Subordinated certificates, i.e. deposit bonds at a fix interest rate and a fix term, however with subordinated debt character. Redemption in case of insolvency of the bank is subject to the subordination provision in the terms and conditions of the certificates.

More quantitative information on the above can be found within ABE's IFRS Consolidated Financial Statements 2011, namely in its sections:

⁹ Belgian government bonds

- Consolidated statement of changes in equity (page 7 of IFRS annual accounts);
- Risk Management & capital management (#4);
- Goodwill & other intangible fixed assets (#23);
- Equity (#35);
- Distribution of profits & dividends per share (#36).

2.2.4 Compliance with minimum regulatory capital requirements

The methods used by ABE to measure its regulatory capital requirements are summarized in the table below and described in more details in the risk sections 3 to 7 of this report.

Risks:	Method:
Retail Credit – Belgium	Internal rating based approach
Retail Credit – Hungary	Standardized approach
Securitization (Residential Mortgage Backed Securities)	Internal rating based foundation approach
Securitization (Not Residential Mortgage Backed Securities)	Standardized approach
Non Retail Credit (Sovereigns, Financial Institutions, Corporates)	Standardized approach
Counterparty	Standardized approach
Market	Standardized approach
Operational	Basic Indicator Approach

At the end of the year 2011, ABE reports that its Basel (Pillar 1) ratio was 25.57% and its CRD ratio incl. Basel I floor 11,24%, above market average and legal requirements (see table page 20). ABE further reports that during the year 2011, the available own funds always exceeded regulatory compliance requirements.

Basel II Pillar 1 on 31/12/2011 (in '000 €)		
Minimum Regulatory Capital Requirement		356 818
Basel I Floor *		454 535
	Total requirements	811 353
Basel II Pillar 1 Own Funds		1 140 417
	Surplus	329 063

* The Basel II Accord laid down that a minimum solvency requirement ('floor') had to be imposed (on a transitional basis) on institutions like ABE using an internal model for credit risk for their measurement of minimum regulatory capital requirement. This floor was based on the old Basel I framework and was therefore referred to as the 'Basel I floor'. It aimed to prevent institutions from releasing significant amounts of regulatory capital by switching to internal models. The transitional Basel I floor was introduced in 2006 and initially scheduled to be released on the 31.12.2009. However, with the ongoing revision of the Basel II Accords and EU Capital Requirements Directive, it was maintained in 2010 and 2011 and will likely be maintained until 2015.

2.3 Internal economic capital adequacy

ABE sets up an Internal Capital Adequacy Assessment Process (ICAAP) project to comply with the new Basel II Pillar 2 requirements. Amongst others, this process aims to improve methodologies and to integrate all the risks faced by the institution within its capital management framework, and namely those not covered under the Basel II Pillar 1 regulatory framework (interest rate risk, liquidity risk, strategic risk, business risk, reputation risk, pension risk, owned property risk, capital risk, etc...) through an internal assessment of required risk capital (also known as economic capital).

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

2.3.1 Measuring economic capital requirements

Under Basel II 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. Because some risks are correlated to others, the measurement of economic capital requirements may also be reduced for ③ diversification benefits.

ABE may also adjust (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. Finally, ABE's management has decided to maintain a ⑥ security margin above measured economic capital requirements to hedge ABE against cyclical or unexpected events.

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 level of ABE's (Pillar 2) excess capital is set by ABE's Board of Directors and shareholders. It must always exceed ABE's total economic capital requirements.

The 6 properties of ABE's economic capital are detailed below.

1) Economic capital requirements for material risks

This sub-section provides an overview of the methods used by ABE to measure its core capital requirements under Pillar 2. In compliance with CRD regulation, these methods are defined internally. More detailed information on these methods can be found within the specific risk sections of this report (see sections 3 to 7).

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

Risks:	Method:
Retail Credit – Belgium	Montecarlo V@R at 99.9% Confidence Interval (CI)
Retail Credit – Hungary	Compounded V@R at 99.9% CI (Direct credit risk) + Indirect credit risk (Stress scenario)
Non Retail Credit ABE HO	Approach similar to SA
Market Risk	Montecarlo V@R 99,9% CI (EWMA + Student's t distribution for the residuals)
Operational Risk	Montecarlo V@R 99,9% CI
Interest Rate Risk	V@R at 99.9% CI
Credit Risk – Other branches	Basel II Standardized approach

2) Planned (expected) business growth: Economic capital forecast

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 (in the last quarter of the year) during the yearly budget process. Capital requirements are forecasted for every business line/activity for a period of 1 year by using the assumptions embedded in the strategic plan figures. The final figures are allocated to the business lines.

3) Diversification benefits

Under Basel II, economic capital requirements must be adjusted (and reduced) for diversification benefits between risks.

ABE's new correlation matrix aims to estimate correlations between business lines (currently between retail Belgium, retail Hungary and non retail) as well as correlations between risk types (currently credit, market & operational).

4) Stress Testing

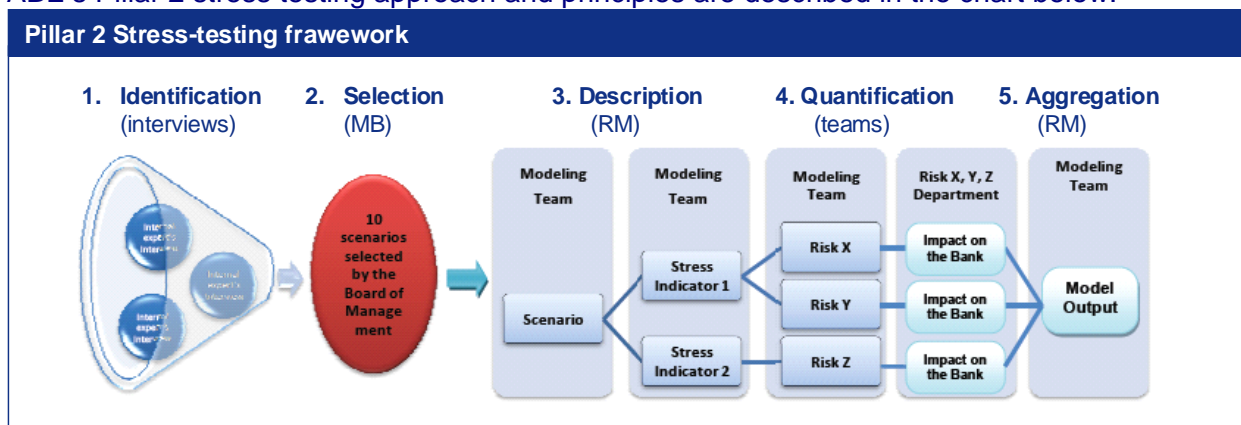
In compliance with ICAAP requirements, ABE may adjust (increase when relevant) its Pillar 2 economic capital requirements based on its analysis of stress testing exercises.

This is due to the fact that the determination of capital requirements for risk mitigation must be forward looking. It must take into account the impacts of unexpected (but plausible) severe scenarios which could affect the institution.

ABE's Pillar 2 (ICAAP) stress testing has a company-wide scope. The stress tests analyse the potential impacts of 10 or 11 severe (but plausible) hypothetical scenarios (validated by ABE's Management Board) on all material risk types (interest rate risk, retail credit risk, counterparty risk, FX risk, operational risk and liquidity risk).

The analysis are updated on a yearly basis including the definition of the scenarios. This permits an adaptation of the scenarios to the current market environment. Both qualitative and quantitative analysis methods are used to transpose stressed macroeconomic variables to portfolio risk parameters. The transposition to risk parameters is performed by the different ABE's risk teams, to ensure a complete coverage of portfolio risks.

ABE's Pillar 2 stress testing approach and principles are described in the chart below:



Some examples of scenarios (list is not exhaustive):

- Scenario 1 : Price inflation + High Yield
- Scenario 2 : Real Estate Crash + Economic Crisis
- Scenario 3 : Downgrading ABE
- Scenario 4 : Sovereign Default Hungary
- Scenario 5 : Crash Payment System Belgium
- Scenario 6 : Crash IT System Hungary
- Scenario 7 : Sovereign debt bubble
- Scenario 8 : European Sovereign Debt Bubble
- Scenario 9 : Belgian Bonds Attack
- Scenario 10 : Major Fraud
- Scenario 11 : Liquidity Problem

5) Pillar 2 Buffer

Should ABE's Pillar 2 economic capital requirements ever exceed ABE's Pillar 1 regulatory capital requirements, ABE would take a "Pillar 2 buffer" under Pillar 1.

The purpose of this "Pillar 2 buffer" under Pillar 1 is to ensure that ABE's total capital accurately reflects the bank's global capital requirements. On 31/12/2011, this was not necessary.

6) Security Margin

The volatility of risk exposures may impact the results of economic capital modelling. ABE's management may maintain a security margin above measured economic capital requirements to hedge ABE against cyclical or unexpected events.

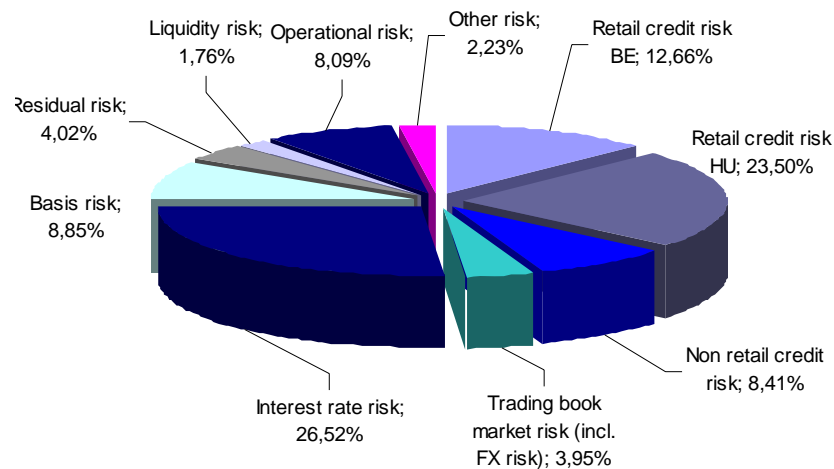
Due to the fact that we are now in a period of economic downturn, the security margin is now set at 0% of economic capital after diversification benefits.

2.3.2 2011 ICAAP results

On 31/12/2011, ABE's internal capital adequacy assessment process showed that AXA internally defined available capital (as described in section 2.3) exceeded ABE's economic capital by a comfortable margin.

The chart below depicts the total amount of economic capital with the split per individual risks. More details on the different risks are given in the following chapter of this report.

% of Economic capital before diversification



Risks	% Economic capital before diversification
Retail credit risk BE	12,66%
Retail credit risk HU	23,50%
Non retail credit risk	8,41%
Trading book market risk (incl. FX risk)	3,95%
Interest rate risk	26,52%
Basis risk	8,85%
Residual risk	4,02%
Liquidity risk	1,76%
Operational risk	8,09%
Other risk	2,23%
Total	100%
Total after diversification in 000s EUR	741,260

3 **Credit risk**

ABE defines credit risk as the negative consequences associated with the default¹⁰ or deterioration in credit quality¹¹ 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.

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

3.1 Retail credit risk

ABE's main business is to provide retail credit facilities to private individuals, professionals and small businesses in selected European countries. In 2011, such facilities were offered in Belgium through ABE SA and in Hungary through a local branch of ABE SA.

3.1.1 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 section 1.6 for the management of retail credit risk.
- ABE's Retail Committee oversees the bank's credit strategies defined by the 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

¹⁰ Counterparty not able to fulfill contractually agreed financial obligations.

¹¹ Potential loss due to change in the fair value of credit exposures as a result of rating transitions of counterparties.

that the retail credit exposures taken by the branches remain within local risk appetite limits and that local retail credit risk indicators and models are properly developed and used.

- Local credit business lines are responsible for the acquisition, management and recovery of retail credits. They act as the first line of defense in the management of retail credit risk. They are responsible to propose (or amend) retail credit products and policies. In some branches and subsidiaries, they also maintain a local 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 section 1.6.

3.1.2 Capital requirement assessment

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

Retail credit risk exposures	Basel II framework Minimum regulatory capital requirements (Pillar 1)	Economic capital requirements (Pillar 2)
AXA Bank Europe - Belgium	Internal Rating Based Approach *	Value at Risk (V@R) at 99.9% Confidence Interval
AXA Bank Europe - Hungary	Standardized Approach	Compounded V@R at 99.9% CI

* About 1,5% of AXA Bank Europe SA Belgium's retail credit risk exposures (for which insufficient historical data exist to feed an Internal Rating-Based Approach) are measured using Basel II's Standardized Approach.

On the 31/12/2011, ABE measured its minimum regulatory requirements for retail credit risk as follows:

Retail credit risk exposures by approach (on 31/12/2011)	Minimum regulatory capital requirements (Consolidated in '000 €)
Internal Rating Based Approach	116 082
Standardized Approach	50 793
Total:	176 874

As of 31/12/2011, on a consolidated basis and without taking diversification benefits into account, ABE's economic capital for retail credit risk amounted to 36.2% of ABE's total economic capital.

Retail credit risk exposures by country (on 31/12/2011)	% of Economic capital requirements (Consolidated & without taking diversification benefits into account)
AXA Bank Europe - Belgium	12,66%
AXA Bank Europe - Hungary	23,50%
Total:	36,2%

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

3.1.3 Retail credits in Belgium

Risk policies and evolution

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.

Credit acquisition: During this phase, specific proposals are made for clients based on predictive acquisition Probability of default (PD) models.

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 to take better risk and business decisions.

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.

Recovery: This is the last phase and specific actions are taken by the bank in order to recover the amount due.

Retail credit risk is measured through internal predictive models developed in compliance with Basel's II Internal Rating Based Approach, which are mainly split in:

- 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.

These models are used for different purposes, such as:

- Granting new loans
- Granting change requests by the customer to an existing loan
- Price-setting of loans for professional purposes
- Determining the product mix strategy for retail loans, approved by ABE's Management Board

The evolution of the credit risk is actively tracked as part of the reporting for the Retail 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.

In 2011 ABE's retail credit risk in Belgium was still influenced by low default rates that were in line with historical levels. Due to a stable credit policy and product mix, ABE does not expect any important changes to the credit risk profile of its Belgium loan portfolio over the coming year

Maintenance of the IRB predictive models

ABE has setup a strong governance to maintain its IRB predictive models:

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

- Finally, continuous usage feedback is required from model users and is incorporated into the development processes of advanced IRB models.

Stress Testing

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.

Exposures

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

The first table 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.

Loan Types	Buckets	EAD		RWA		Provisions	
		31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Mortgage	1-9	11.778.630	10.836.691	846.356	815.381	1.035	1.112
	10	116.988	96.237	16.942	22.483	16.196	13.157
Consumer	1-9	1.013.121	842.956	342.300	315.746	2.574	2.710
	10	29.866	27.229	0	0	11.833	9.768
Commercial	1-9	1.437.666	1.357.586	235.972	234.258	1.230	1.188
	10	44.788	40.866	9.452	13.898	14.126	10.011

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

Loan Types	EAD (in '000€)		RWA (in '000€)		Provisions (in '000€)	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Mortgage	14.615	55.431	5.155	20.777	0	0
Commercial	112.407	103.417	99.693	94.173	5.180	5.257
Current Accounts	61.236	61.457	41.455	43.862	7.556	7.025
Consumer ¹²	10	2.871	8	2.153	-	-

ABE retail credit exposures in Belgium are principally composed of mortgage financing, with a share of approximately 82% in terms of outstanding balance.

¹² The decrease compared to 2010 is due to the fact that in 2011 part of the consumer loans are taken within the IRB approach.

Given the good cover and low chances of default of this type of financing, the risk profile of AXA Bank's retail credit portfolio in Belgium is very low.

3.1.4 Retail credits in Hungary

Risk policies and evolution

Due to the run-off situation of the mortgage portfolio, the Hungarian branch of ABE manages its retail credit risk through daily management and recovery phases. The daily management has the objective to decrease the embedded credit risk of the portfolio, using specific conversion campaigns (e.g. re-pricing frequency of mortgage).

Credit exposures are managed through a set of specialized internal risk indicators and specific risk appetite measures. These measures include risk appetite acquisition limits based on economic capital allocation as well as specific remedial measures for loans under default risk. Additional measures (including installation of software) were also taken in order to strengthen the collection capacities

AXA Bank Hungary's retail credits are measured through the Basel II Standardized Approach. ABE planned to implement the IRB approach in 2011. However, this project was closed, as in December 2011 ABE decided to put retail credit activities in run-off. The regulator agreed to stop the project by considering the standardised approach more appropriate to the new situation.

AXA Bank Hungary continued to face challenges in 2011 because a significant portion of its retail credit exposures consists of credits in foreign currency. These loans are vulnerable to foreign exchange rate fluctuations.

Moreover, in 2011 the credit portfolio of the Hungarian branch was hit by the Forced Conversion Plan, launched by the Hungarian government. This programme allowed customers to reimburse their loans at a favourable FX rate which led to substantial losses for the whole banking industry. However, the programme had at the same time a positive impact, as it allowed to decrease the total exposure of AXA Bank Hungary by more than 20%.

More qualitative and quantitative information can be found within the section below and within section 4.3.1 of ABE's IFRS Consolidated Financial Statements 2011.

Exposures

On the 31/12/2011, the outstanding portfolio amounts to HUF 454 billion or EUR 1,4 million (with EUR/HUF 314,58 and CHF/HUF 239,88).

In EUR, the breakdown was:

- Contracts in Swiss frank: 1.099 billion
- Contracts in Forint: 12,96 million
- Contracts in Euro: 333,4 million

3.1.5 Other countries

ABE branches in Slovakia and Czech Republic had no retail credit exposures in 2011.

3.2 Non retail credit risk

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.

Within this scope, ABE is exposed to the following non retail credit risks:

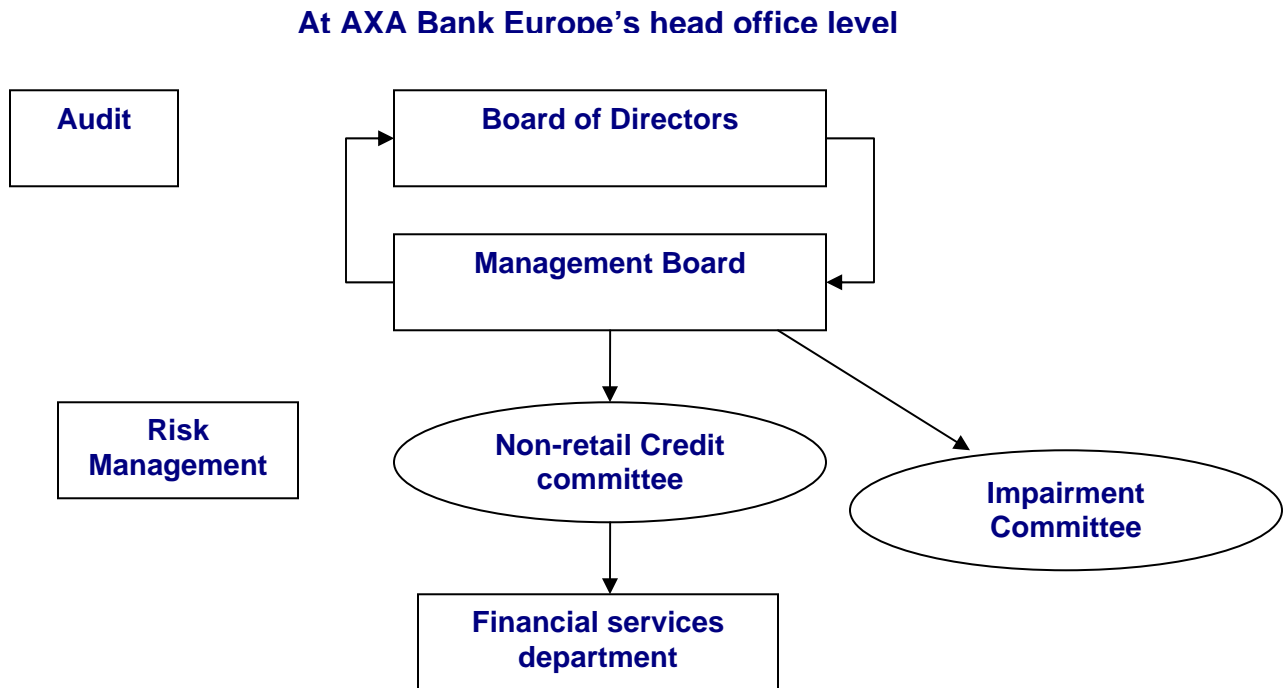
Types of counterparty	
Sovereigns	<ul style="list-style-type: none"> ▪ Governments & central banks ▪ Regional authorities with taxing power ▪ Regional authorities without taxing power explicitly guaranteed by central governments ▪ Supranational institutions
Financial institutions	<ul style="list-style-type: none"> ▪ Deposit taking institutions (banks, credit unions, trust companies, mortgage loan companies) ▪ Insurance companies & pension funds ▪ Brokers, underwriters & investment funds ▪ Multi-lateral
Corporates	<ul style="list-style-type: none"> ▪ Quoted international companies (private or public) ▪ Non quoted international companies (private or public)
Securitization exposures (Investment)¹³	<ul style="list-style-type: none"> ▪ Securitization (structured credits) – Investment side

Since 2009, ABE is also designated by AXA Group to act as a centralized platform to access financial markets and provide to AXA insurance companies hedging services for their variable annuities products. As part of these activities ABE incurs credit exposure related to derivative products.

¹³ See section 3.3 for more info.

3.2.1 Risk management governance

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



The key governing bodies being:

ABE's Board of Directors and ABE's Management Board assume the responsibilities described in section 1.6 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 of Non Retail Credit Risks, 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 Investment departments 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 of Treasury and Portfolio management & Asset and Liabilities Management (ALM) and Investment products services) form the first line of responsibility for the management of non retail credit and securitization risks. They must honour 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.

3.2.2 Risk appetite policies

Within the bank, counterparty risks are managed by limits.

- The exposures that ABE's Treasury, Asset & Liability Management and Portfolio Management departments can take must remain within a general economic capital limit.
- They must also respect specific country exposure limits which are set through rating and qualitative analysis.
- They must also comply with individual limits per type of transaction and per counterparty (again based on rating observation and qualitative analysis). As such, specific limits exist for exposures on government bonds, T-bills, securitization, corporate bonds and commercial papers. Exposures to financial institutions are limited differently whether they arise from derivatives, bonds or from treasury requirements.

These limits are reviewed regularly¹⁴.

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

Moreover, following the bankruptcy of Lehman Brothers, AXA Group also put in place a very strict policy for the management of derivatives, particularly in terms of collateral requirements. A mandatory rule to request from ABE's counterparties the signature of an ISDA master agreement with a credit support annex (English Law) before entering into derivative transactions was introduced. It greatly reduced ABE's potential losses from default by its counterparties in the framework of derivatives contracts. Due to ABE's new involvement in the hedging of variable annuities products for AXA insurance companies¹⁵, this requirement is strictly enforced.

¹⁴ For example, in 2010, AXA Bank Europe revised its investment policy to prepare for Basel III. It also revised retail credit policies in Hungary to better face the challenges experienced in that market.

¹⁵ See section 3.2.2 above.

3.2.3 Capital requirements assessments

On the 31/12/2011, ABE measured its minimum regulatory requirements for non retail credit risk as follows:

Minimum Regulatory Capital Requirement	31/12/2011 (Consolidated) (‘000 €)
Non Retail Credit Risk	79,557
Total:	79,557

As of the 31/12/2011, on a consolidated basis & without taking diversification benefits into account, ABE’s economic capital for non retail credit risk represented 8.41.% of ABE’s economic capital (on a consolidated basis and without taking into account diversification benefits).

3.2.4 Exposures

Quantitative tables showing ABE’s total non retail credit exposures on 31/12/2011 can be found in Appendix I.

Further detailed information concerning ABE’s total non retail credit exposures on 31/12/2011 can be found within sections 4.3.2, 4.3.3 and 4.4 of ABE IFRS Consolidated Financial Statements 2011.

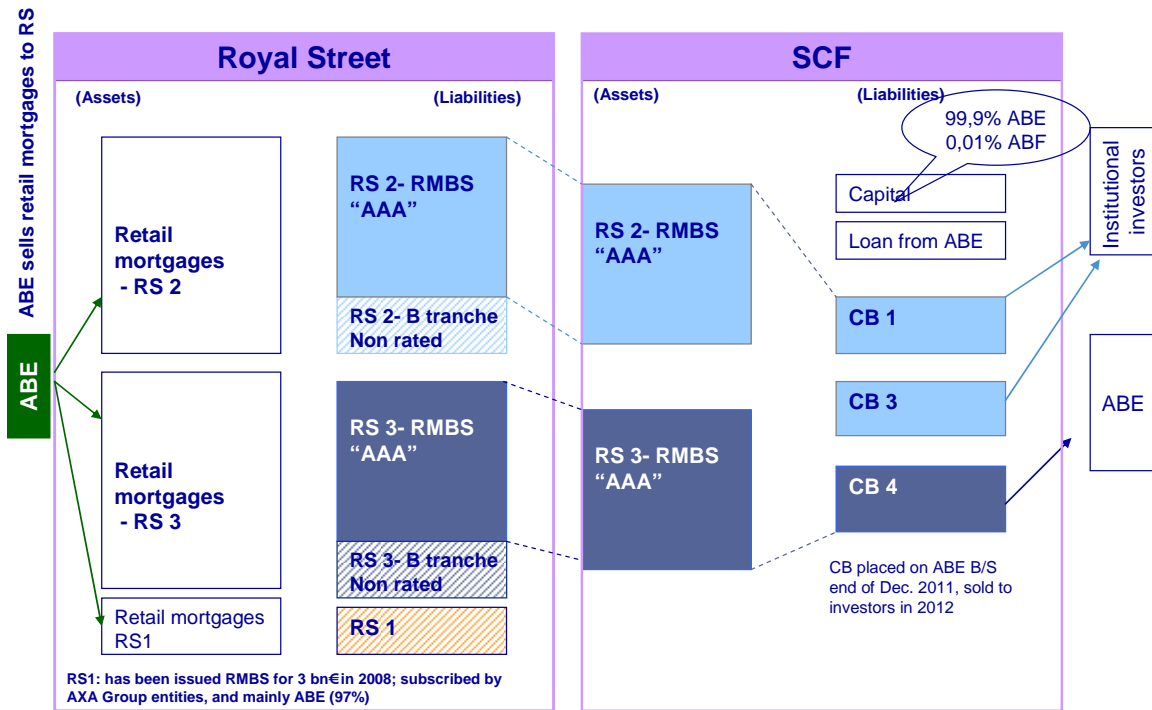
3.3 Securitization

ABE maintains two types of securitization activities. It acts as the originator of a series of securitizations named Royal Street, a Belgian securitization vehicle. It also maintains investments in some high quality securitized products in a run-off portfolio. The objectives and details of these two roles are described in the following sub-sections.

3.3.5 AXA Bank Europe as originator

AXA Bank Europe setup a retail credit securitization origination capacity, because of the strong underlying quality of its retail mortgage credit portfolio. Through this activity ABE manages and mitigates its liquidity risk.

The securitization process is described by the chart below:



ABE sells a portfolio of retail mortgage loans to Royal Street. Royal Street¹⁶, acting through one of its compartments 2 or 3 (compartments are set up depending on the funding requirements of Royal Street) purchases them by issuing different classes of Residential Mortgage Backed Securities (RMBS notes):

- RMBS AAA senior notes sold to the ABE Société de crédit foncier (SCF) ;
- and RMBS – B non rated notes, not transferred to SCF, purchased by ABE at closing of the issuance.

ABE SCF purchases the RMBS AAA senior notes by issuing the covered bonds and the RMBS AAA notes being the collateral of covered bonds. Covered bonds are backed by the entire aggregate pool of RMBS AAA notes (not just from RMBS issued by the RS compartment created for the issuance of one Series). In respect of the over-collateralization principle, the RMBS notes nominal amount is higher than the nominal amount of the Covered bonds. This over-collateralization is financed by a senior loan granted by ABE to ABE SCF.

Covered bonds are sold on the market to investors or subscribed by ABE (retained on ABE's balance).

¹⁶ Royal Street is a Belgian Securitization vehicle, the purpose of which is to acquire residential mortgage loan receivables originated by AXA bank Europe.

As of 31/12/2011, as detailed in its IFRS Consolidated Financial Statements 2011, ABE SCF (Société de crédit foncier) purchased €3,337,500,000 of the above “Royal Street 2 and 3” RMBS notes. These RMBS notes acted as security for the issue of Covered Bonds by ABE SCF. The first issue of these Covered Bonds amounted to €1,250,000,000 in November 2010. In April 2011 and November 2011, ABE issued two other tranches of covered bonds for €500,000,000 and €1,500,000,000

RMBS in million		
Class	Date	Amount
RS-2	Nov 2010	€1,500
RS-3	Dec 2011	€1,837.5
Total		€3,337.5

Covered bonds in million		
Class	Date	Amount
Series 1	Nov 2010	€750
Series 3	April 2011	€500
Series 4	Dec 2011	€1,500
Total		€2,750

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

Securitization: <http://www.axabank.eu/eng/financialinformation-overview/royalstreet>

Covered bonds:

<http://www.axabank.eu/eng/financialinformation-overview/coveredbonds>

These disclosures detail the structure of the securitization and covered bonds issuance, ABE's involvement in them and its governance. A quarterly investor report¹⁷ completes the information in the above disclosure, by providing the markets with relevant quantitative information.

In 2011, on a consolidated basis¹⁸, ABE did not apply any capital relief with regards to its minimum regulatory capital requirements for the above securitized retail credit risk exposures.

¹⁷ Also on the above mentioned website.

¹⁸ On a statutory basis, AXA Bank Europe SCF (purchaser of some Royal Street SA residential mortgage backed securities) maintains audited and sufficient regulatory capital for its credit exposures as well as for its other risks.

3.3.6 AXA Bank Europe as investor

ABE no longer invests in securitisation and structured products (ABS, CMBS, RMBS, CDO, CLO and CSO). A legacy portfolio is maintained in run-off and the credit quality of this portfolio is being carefully monitored. Remaining exposures are being gradually de-risked and are subject to regular impairment reviews.

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

Quantitative information concerning ABE's exposures to securitized products can be found in sections 4.3.2 and 4.4 of its IFRS Consolidated Financial Statements 2011.

Capital requirement assessment

On the 31/12/2011, ABE measured its minimum capital regulatory requirements for securitization risk as follows:

Securitization Exposures by Approach (As of 31/12/2011)	Minimum Regulatory Capital Requirements (Consolidated) (In '000 €)
Internal Rating Based Foundation Approach*	11 556
Standardized Approach	24 308
Total:	35 864

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

3.4 Large exposures

ABE is subject to the large exposures limit framework described in articles III.4 & III.5 of the CBFA circular 2007-1- CPB, transposed from articles 106-119 of the EU CRD and updated in 2011 with circular letter CBFA_2011_03 dated 27 January 2011. On a quarterly basis, a large exposure report is submitted to ABE's regulator.

Moreover, ABE applies the AXA Group Credit Risk Management Framework to manage concentration risk. The Group Credit Risk Management Framework consists of two complementary frameworks that ensure that a minimal level of diversification is applied at both Group and entities levels and that the P&L impact resulting from a single default is limited.

ABE's Risk Management department reports the concentration of its non retail credit exposures to AXA Group's Global Risk Management (GRM) department and to ABE's Non Retail Credit Committee.

Quantitative information concerning ABE's concentration risk can be found in section 4.4 of ABE's IFRS Consolidated Financial Statements 2011.

4 Market Risk

4.1 Market risk trading book

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

ABE's risk taxonomy defines market risk through its following components:

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

In 2011, ABE maintained a very conservative approach to market risk. ABE does not invest nor trade in commodities. Equity exposures already at minimal level were kept in run-off.

ABE' short term interest rate risk is induced either by derivative activities done to provide hedging services to AXA insurance companies for their variable annuities products as well as by on-balance sheet positions with maturity lower than 1 year managed by Treasury. The short term interest rate risk remains extremely limited:

- Back-to-back hedging of AXA Group variable annuities business, which leaves only a very limited residual risk position.
- Interest rate risk coming from Treasury has to remain within a reasonable sensitivity limit internally defined by the Assets and Liabilities Committee (ALCO). Overnight Index Swaps are used to hedge interest rate positions or to remain under defined sensitivity limit.

4.1.1 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 Treasury, and Investment product services departments. 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 to ensure that market risk management strategies are implemented and followed. It ensures that the bank's market risk appetite is respected.
- The bank's Asset & Liability Committee (ALCO) is responsible to ensure that market risk management strategies are applied. It reviews market risk reports and monitors compliance with agreed risk appetite limits. It monitors the adequacy of the risk infrastructure, pre-validates (as well as maintains) risk indicators and models (before they are sent for validation and endorsement to ABE's Management Board and Board of Directors).
- The bank's Treasury and Investment product services department are responsible to manage the market risk exposure they generate.
- Nevertheless, ABE's Risk Management department also independently ensures that all sources of market risk are identified, analyzed, 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.

4.1.2 Capital requirement assessment

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

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

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

- For the general interest rate risk, it uses the Maturity Method.
- For the specific interest rate risk, ABE uses the risk weights specified in compliance with CBFA's Circular 2007-1 Article IX.25.
- For the general equity position risk, ABE uses a 8% risk weight in compliance with CBFA's Circular 2007-1 Article IX.48.
- For the specific equity position risk, ABE uses a 4% risk weight in compliance with CBFA's Circular 2007-1 Article IX.47.
- For the foreign exchange risk, ABE uses a 8% risk weight in compliance with CBFA's Circular 2007-1 Article IX.73.

Minimum Regulatory Capital Requirement	31/12/2011 (Consolidated) (‘000 €)
Market Risk	19 612
Total:	19 612

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

On 31/12/2011, on a consolidated basis & without taking diversification benefits into account, ABE's economic capital for market risk (excluding Forex risk) represented 2.76% of ABE's total economic capital.

In 2011, ABE considered and measured its Forex risk using a 2 months Value at Risk model at a 99.9% confidence interval.

On a consolidated basis and without taking diversification benefits into account, ABE's economic capital for Forex risk represented 1.19% of ABE's total economic capital.

4.2 Interest Rate risk banking book

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.

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. This risk is itself composed of:

- **Yield curve risk** defined as the risk arising from changes in the level, slope and shape of the (risk free) yield curve. It includes re-pricing risk and optionality risk;
 - ⇒ **Repricing risk** defined as the risk arising from timing differences in maturity of fixed-rate positions and resets of floating-rate positions;
 - ⇒ **Optionality risk** defined as the risk arising from options embedded in bank assets, liabilities and off-balance sheet portfolios;
- **Basis risk** defined as the risk arising from imperfect correlations in the adjustment of rates of different instruments with otherwise similar repricing characteristics.

4.2.1 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 optimizes the transformation result within the risk appetite limits set by ABE's Management Board. It takes decisions to manage the interest rate risk 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 indicators¹⁹.

ABE's Treasury and Portfolio management 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, analyzed, reported and managed.

Financial Control Bank, acting as a product control unit, is responsible to generate and reconcile ABE's balance sheet. As such, it provides its figures and various relevant reports to ABE's ALM and ABE's Risk Management departments.

4.2.2 Monitoring interest rate risk

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

- The **Interest rate risk (IRR) Gap Indicators** that provide an assessment of the sensitivity to the interest rate risk which emanates from the difference in interest rate revision between assets and liabilities.
- The **Solvency Indicator** (option adjusted) is calculated and reported by ABE's ALM department to the ALCO. It represents the sensitivity of ABE's market value in case of a positive parallel shift on the interest rate yield curve with 100²⁰ and 200 basis points. This indicator equals to the difference between the market value calculated on the basis of the shifted curve and the market value calculated on the basis of the initial (end-of-month) curve.

¹⁹ Short term interest rate positions are managed by ABE's Treasury department in application and execution of ALCO decisions; See section 4, market risk banking book.

²⁰ The Solvency indicator 200 bp is included in the ALCO, not the 100 bp.

ABE also monitors and complies with a sensitivity indicators (on value and earnings) defined by its regulator²¹.

Quantitative information on this risk can be found in section 4.7 of ABE's IFRS Consolidated Financial Statements 2010.

4.2.3 Capital requirement assessment

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

As of the 31/12/2011, on a consolidated basis & without taking diversification benefits into account, ABE's economic capital for interest rate risk represented 26,50% of ABE's economic capital.

In 2011, ABE's Risk Appetite Steering Committee also considered and measured basis risk for all mortgage loans coming to re-pricing in a one year horizon. Through an internal model, ABE maintained an economic capital representing 8.85%²² of its total economic capital to hedge against this risk.

²¹ See CBFA Circulars #2006-17 and #2007-3.

²² Basis risk is part of the interest rate risk. The above interest rate risk at 26,50% excludes basis risk and residual risk. Risk calculated on a consolidated basis and without taking diversification benefits into account.

5 Operational Risk

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

In Basel II 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 Legal Risk²³: 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 it should be noted that the potential damages to AXA's reputation²⁴ are considered (although not fully measured) when assessing the impacts of operational risks; major damages will be followed up by the Group.

²³ Compliance risk – which is defined in the AXA Group Compliance Standard as the risk of legal or regulatory sanctions, material financial loss or loss of reputation that a company may suffer as a result of not complying with laws, regulations and administrative provisions applicable to its activities – is also included in ABE definition of operational risk.

²⁴ 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).

5.1 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, self assessments, measurements and analysis & mitigation.

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).

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

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

The representatives of each business line meet in the ORM Steering Group (which is composed of at least one representative of each business line). The ORM Steering Group is a consultative committee whose objective is to share information, diffuse the guidelines and the methodology, discuss on any relevant technical topic and ensure the coherence on the way operational risks are managed into each business line.

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

5.2 Capital requirement assessment

ABE uses the Basel II Basic Indicator Approach (BIA) defined in the CBFA's Circular 2007-1 to calculate its minimum regulatory capital requirements for operational risk:

- Regulatory Capital Requirements under Basel II Pillar I for Operational Risk are equal to 15% X the mathematical average of the sum of all positive operational results over the last 3 annual results.

Calculations are made through the accounting department and reported to AXA Bank Europe regulator under the Guidelines of common reporting (COREP).

Minimum Regulatory Capital Requirement	31/12/2011 (Consolidated) (‘000 €)
Operational Risk	54 911
Total:	54 911

ABE measures its economic capital using a methodology similar to the Basel II Standardized Approach under Pillar 1.

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

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

The required capital is calculated for each business line by multiplying the RI by a factor (beta) assigned to that business line. Taken from its applicable regulation, a 12% beta is assigned to all business lines except for ABE’s Trading Room activities that receive an 18% beta.

Figures produced by the above methods are compared, within ABE’s Risk Appetite Committee with figures produced by ABE’s ORM Cycle. Economic capital levels for operational risks are submitted for validation to ABE’s Management Board and for endorsement to ABE’s Board of Directors.

On 31/12/2011, on a consolidated basis & without taking diversification benefits into account, ABE’s economic capital for operational risk represented 8.09% of ABE’s economic capital.

Recent developments

ABE has developed a new method in order to move closer towards more advanced methods to calculate its economic capital requirement (which is already the Group standard).

This method was validated by Ernst & Young in December 2011 and is used since 1 January 2012 in all branches of ABE.

6 *Liquidity Risk*

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

- **Short Term Liquidity Risk** defined as the risk that 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 the structural, long term balance sheet can not be financed at reasonable cost and in a timely manner. In this view of liquidity risk, the total on and off balance sheet positions are considered from a structural asset and liability management perspective.
- **Contingent Liquidity Risk** related to the organization and planning for liquidity management in times of stress.
- **Country Risk** defined as the risk that a country prevents or the risk that hinders the free flows of money, as this could impact both short term and/or long term liquidity.

6.1 Risk management governance

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

The governance of 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 optimize its liquidity position. Consequently, it applies and implements liquidity risk management strategies. It reviews liquidity risk reports and monitors compliance with agreed limits by following relevant liquidity indicators.
- 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:
- Short term (non structural) liquidity (including intra-day) is managed by ABE's Treasury & Portfolio Management departments in application and execution of ALCO decisions.
- 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, analyzed, reported and managed.
- Financial Control Bank, acting as a product control unit, is responsible to generate and reconcile ABE's balance sheet. As such, it provides its figures and various relevant reports to ABE's ALM and ABE's Risk Management departments.

6.2 *Monitoring liquidity risk*

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

- **Dynamic indicators** (consolidated and by main branches) which provide a one year (and more) perspective on ABE's liquidity risk. These indicators report on the evolution of expected assets compared to expected liabilities sources. Projections and assumptions from strategic business plans are included to provide senior management with a more realistic "dynamic" view of the ABE's expected liquidity situation. ABE's dynamic indicators include liquidity stress tests which are internally used as liquidity risk appetite limits.
- **Overnight positions** through which ABE's Risk Management department aggregates (on a daily basis) the bank's end of day final cash flows positions and verifies whether the bank's closing liquidity positions are in compliance with ALCO agreed liquidity risk appetite limits.
- **NBB Prudential Ratio** which provides an instant assessment of ABE's available liquidity (required liquidity against available liquidity in Euros over different time horizons). The assumptions for this ratio can be found in the CBFA Circular 2010-21.

More qualitative and quantitative information concerning ABE's liquidity can be found in section 4.8 of ABE's 2011 IFRS consolidated Financial Statements.

6.3 *Capital requirement assessment*

In 2011, ABE decided to maintain an economic capital representing 1,76%²⁵ of its total economic capital to hedge the bank against its structural liquidity risk.

²⁵ On a consolidated basis and without taking diversification benefits into account.

7 Other Risks

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

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

7.1 Business

ABE describes this risk as the risk arising from deteriorating margins on commercial products (retail credits & savings) due to competitive environment.

This risk is first mitigated through a surveying of ABE's competitive environment performed by its Product Management department and its relevant retail networks. Recommendations made by ABE's Product Management department are discussed in ABE's ALCO, Retail Credit Committee or Savings and Investment Committee.

ABE also mitigates this risk by quantifying an economic capital through an internal model. It calculates the impacts of changes to the commercial margins on the new production of retail loans and on its total retail deposit portfolio.

In 2011, ABE maintained an economic capital of 2.02% of total economic capital to hedge against this risk.

7.2 Pension

ABE defines its pension obligation risk as the risk of facing additional contributions to pension schemes. ABE is exposed to some pension obligation risk through defined benefits pension plans maintained in Belgium for some of its staff.

The risk on such plans are assessed with the assistance of an AXA consulting firm (EMFEA) and managed by ABE's HR department with the assistance of AXA Belgium's HR.

Expected pension risk losses are first mitigated through the IAS 19 accounting approach. ABE then maintains economic capital (measured by ABE's Risk Management department through an internal model) to hedge itself against unexpected pension obligation risk losses.

In 2011, ABE maintained an economic capital of 0.21% of its total economic capital, to hedge against this risk.

Further quantitative information concerning ABE's pension liabilities can be found in ABE's IFRS Consolidated Financial Statements 2011 in its section 32.

7.3 Strategic

ABE considers “strategic” the risk that its main objectives and risk tolerance targets (in terms of capital, earnings, liquidity and value) are not attained. This risk mainly materializes when “strategic” decisions are required from ABE’s Board of Directors and Management Board to:

- a. Adapt to the external business environment;
- b. Improve the internal organization; or
- c. Seize new strategic opportunities.

Decisions are strategic when they relate to ABE’s:

- a. Overall strategy;
- b. Functional strategic objectives (Example: risk appetite & tolerance targets, capital management objectives);
- c. Launch of (material) new (or significantly modified) products or business activities;
- d. Launch of major projects.

ABE’s strategic risks are mitigated by documented key processes which enable ABE’s Board of Directors and Management Board to take appropriate decisions based on timely and adequate information.

These key processes have been identified as ABE’s Full Strategic Reviews, Annual Strategic Planning Process, Risk Appetite Process, Internal Capital Adequacy Assessment Process, Product Approval Processes as well as Project Portfolio Follow-up Process. All of these processes empower ABE’s Boards to set the bank’s corporate strategies, priorities and objectives. They also allow these Boards to review strategic performance, allocate resources and align internal limits with priorities.

Strategic risks are also monitored on a continuous basis during the year. The above processes are cascaded through business units and support departments, ensuring that all functional business plans are aligned with the bank’s objectives. Business units & local branches must also monitor developments and business trends in their markets. They must report developments that could generate strategic risks for the bank. Ongoing regulatory surveying complete these monitoring to ensure that changes to the legal frameworks do not generate undue strategic risks.

7.4 Reputation

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.

Responsibility for the management of ABE's reputation belongs to ABE's Board of Directors and Management Board. Among others, these boards are assisted in this task by ABE's Communication department, Compliance department and Risk Management department as well as by AXA Group.

AXA Group maintains standard media relation guidelines, social media guidelines as well as standards on financial communication which are in force within ABE. The measures found within these guidelines and standard help protect ABE's reputation towards the general public and investors. AXA Group also provides support by being responsible for the defense of the AXA brand.

Other specific measures are also in place to mitigate ABE's reputation risk towards its customers and distribution networks, staff and regulators.

7.5 Remuneration policy

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 includes the risk that key functions may not be adequately rewarded to attract or retain skilled individuals.

ABE's Compensation Policy and its implementation, as well as the amounts proposed for individual remunerations are set annually by ABE's Board of Directors based on recommendations received by ABE's Remuneration Committee and by AXA Group.

ABE's Remuneration Committee is composed of non-executive administrators, specific experts, members of the Human Resources department and officials from concerned ABE subsidiaries and branches.

ABE's Compensation Policy explains how performances for variable and non variable remunerations are measured. It also sets remuneration policies for control functions and trading room functions. More information on this topic may be found in section 1.4.3 and 1.4.4 of the Management Report found within ABE's IFRS Consolidated Financial Statements 2011.

7.6 Country

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

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

Appendix I – AXA Bank Europe’s non retail credit exposures by type:

- Credit quality steps²⁶ of non retail credit exposures on the 31/12/2011

AXA Bank Europe's (Non Retail) Credit Exposures As of 31/12/2011						
Exposure Type	Credit Quality Steps					
	1	2	3	4	5	6
Central Governements & Central Banks	7.407.931.636	435.938.651	11.963.330	9.584.262		
Regional Governements & Local Authorities						
Administrative Bodies & Non commercial undertakings						
Multilateral Development Banks						
International Organisations						
Institutions	549.426.289	2.991.816.334	365.448.863	6.365.702		9.280.130
Corporates	26.381.432	3.106.569.169	10.631.549		1.822.465	
Past due items						
Regulatory High Risk Categories						
Covered Bonds	59.853.097	5.225.469				
Other items (OPC)		1.785.300				
Total:	8.043.592.454	6.541.334.923	388.043.741	15.949.964	1.822.465	9.280.130

- Credit quality steps of non retail credit exposures on the 31/12/2010

AXA Bank Europe's (Non Retail) Credit Exposures As of 31/12/2010						
Exposure Type	Credit Quality Steps					
	1	2	3	4	5	6
Central Governements & Central Banks	2.883.521.417	57.786.775	209.876.342			
Regional Governements & Local Authorities						
Administrative Bodies & Non commercial undertakings						
Multilateral Development Banks						
International Organisations						
Institutions	1.281.218.865	829.462.083	20.156.428	7.271.363		
Corporates	102.881.641	1.295.114.193	4.040.613			
Past due items						
Regulatory High Risk Categories						
Covered Bonds	25.879.540					
Other items (OPC)		16.473.547				
Total:	4.293.501.463	2.198.836.599	234.073.383	7.271.363	-	-

The above tables exclude securitization exposures since those have 12 quality steps. There were no unrated exposures as of 31/12/2010 and as of 31/12/2011.

²⁶ Credit quality steps are defined in CBFA circular PPB-2007-2-CPB.

- ABE's gross, net and risk weighted non retail credit exposures as of the 31/12/2011

AXA Bank Europe's (Non Retail) Credit Exposures As of 31/12/2011			
Exposure Type	Gross	Net	RWA
Central Governments & Central Banks	7.865.417.878	7.865.417.878	102.753.657
Regional Governments & Local Authorities			
Administrative Bodies & Non commercial undertakings			
Multilateral Development Banks			
International Organisations			
Institutions	3.922.337.317	1.006.631.958	442.379.769
Corporates	3.154.215.074	211.848.085	105.010.714
Past due items			
Regulatory High Risk Categories			
Covered Bonds	65.078.566	65.078.566	7.030.404
Other items (OPC)	1.785.300	1.785.300	1.785.300
Total:	15.837.190.682	9.979.118.333	1.107.264.162

- ABE's gross, net and risk weighted non retail credit exposures as of the 31/12/2010

AXA Bank Europe's (Non Retail) Credit Exposures As of 31/12/2010			
Exposure Type	Gross	Net	RWA
Central Governments & Central Banks	3.151.184.534	3.151.184.534	116.495.526
Regional Governments & Local Authorities			
Administrative Bodies & Non commercial undertakings			
Multilateral Development Banks			
International Organisations			
Institutions	2.138.108.739	874.608.622	267.279.376
Corporates	1.402.036.447	456.430.339	205.028.285
Past due items			
Regulatory High Risk Categories			
Covered Bonds	25.879.540	25.879.540	2.587.954
Other items (OPC)	16.473.547	16.473.547	9.507.167
Total:	6.733.682.807	4.524.576.582	600.898.308

Appendix II – AXA Bank Europe’s securitization exposures:

- Credit quality steps of securitization exposures on the 31/12/2011

ABE's exposure to Securitizations as of 31/12/2011							
credit quality steps							
Exposure type	1	2	3	4	5	6	
	562.134.237	118.196.250	45.582.237	47.666.831	19.554.849	9.468.233	
Securitizations	7	8	9	10	11	12	NR
	14.052.699	-	1.972.023	3.483.877	-	5.838.101	407.208

- Credit quality steps of securitization exposures on the 31/12/2010

ABE's exposures to securitizations as o 31/12/2010						
Credit quality steps						
Exposure type	1	2	3	4	5	6
	735.172.825	226.506.021	67.706.433	17.649.451	19.427.976	14.616.625
Securitizations	7	8	9	10	11	12
	42.639.402	-		4.297.848	-	20.345.850

- ABE's gross, net and risk weighted securitization exposures as of the 31/12/2011

ABE's exposures to securitizations as o 31/12/2011			
Exp. Type	Gross	Net	RWA
Securitizations	827.949.337	827.949.337	448.304.318

- ABE's gross, net and risk weighted securitization exposures as of the 31/12/2010

ABE's exposures to securitizations as o 31/12/2010			
Exp. Type	Gross	Net	RWA
Securitizations	1.148.362.431	1.148.362.431	461.261.271

Appendix III – AXA Bank Europe's counterparty credit exposures:

- On the 31/12/2011

AXA Bank Europe's Credit Exposures As of 31/12/2011					
Transaction types	Marked to Market	Add-on	Gross Credit Exposure	Notional Value of Contracts	Regulatory Capital
Interest-related transactions					
IRS	- 366.994.661	33.858.211	4.508.515.388	75.818.824.197	174.919.305
OIS	- 19.795.016	1.973.344	23.125.440	17.120.663.393	778.864
Asset Swaps	- 75.105.655	2.990.000	2.990.000	664.000.000	100.340
Swaptions	24.061	25.671.484	342.267.983	6.348.913.348	11.661.482
Caps/Floors	28.843.973	36.020.870	64.864.843	2.936.793.054	2.549.144
Forward on bonds	-	999.002	4.527.789	99.900.165	181.112
Performance swaps IR	- 214.288	674.565	5.705.778	134.913.000	228.231
Sub-total	- 433.241.585	102.187.475	4.951.997.221	103.124.007.156	190.418.478
Forex-related transactions					
FX Forwards	5.973.424	2.781.122	14.833.992	278.112.181	593.360
FX Swaps	2.998.087	34.845.202	102.042.844	3.484.520.153	3.581.691
OTC FX Options	-	-	-	-	-
Sub-total	8.971.511	37.626.323	116.876.836	3.762.632.334	4.175.050
SFTs					
Repo	-	-	3.143.896.980	18.252.914.730	15.261.786
Tripartite Repo	-	-	-	-	-
Sub-total	-	-	3.143.896.980	18.252.914.730	15.261.786
Equity-related transaction					
Equity Swaps	63.339	190.858.635	970.921.648	3.786.481.023	38.991.227
Performance swaps EQ	- 1.148.947	18.270.080	20.317.837	208.376.000	519.603
OTC Equity Options	-	896.672	1.500.129	29.889.067	60.005
Yiel Maintenance Swap	- 6.609.950	7.500.000	7.500.000	1.500.000.000	120.000
Sub-total	- 7.695.558	217.525.387	1.000.239.614	5.524.746.090	39.690.834
Total counterparty risk	- 431.965.632	357.339.186	9.213.010.652	130.664.300.310	249.546.148
Minus netting					
Minus collateral					
Total net counterparty risk			3.354.938.303		22.526.579

- On the 31/12/2010

AXA Bank Europe's Credit Exposures As of 31/12/2010					
Transaction types	Marked to Market	Add-on	Gross Credit Exposure	Notional Value of Contracts	Regulatory Capital
Interest-related transactions					
IRS	- 324.079.712	159.666.967	2.186.681.452	59.299.380.031	66.961.237
OIS	- 426.205	3.195.444	4.909.077	9.658.825.479	84.919
Asset Swaps	- 31.238.439	3.007.500	3.977.845	606.500.000	110.743
Swaptions	239.362	24.491.947	186.100.771	6.166.778.647	5.533.823
Caps/Floors	40.599.843	36.424.627	77.024.471	3.017.544.589	2.094.952
Sub-total	- 314.905.150	226.786.485	2.458.693.616	78.749.028.746	74.785.673
Forex-related transactions					
FX Forwards	1.374.980	2.489.605	6.214.669	247.667.482	245.719
FX Swaps	- 20.191.954	25.398.724	45.595.380	2.539.872.446	1.175.073
OTC FX Options	3.689.187	-	3.690.474	132.100.032	59.105
Sub-total	- 15.127.787	27.888.329	55.500.523	2.919.639.961	1.479.896
SFTs					
Repo	- 1.810.992.330		1.807.359.141	12.340.667.650	7.179.219
Tripartite Repo	700.000.000		- 700.481.644	900.000.000	
Sub-total	- 1.110.992.330	-	1.106.877.497	13.240.667.650	7.179.219
Equity-related transaction					
Equity Swaps	- 2.130.496	177.196.618	32.993.228	3.495.242.556	1.255.973
OTC Equity Options	2.399	147.692	166.951	4.923.057	6.678
Sub-total	- 2.128.097	177.344.310	33.160.179	3.500.165.613	1.262.651
Total counterparty risk	- 1.443.153.364	432.019.124	3.654.231.814	98.409.501.969	84.707.440
Minus netting					
Minus collateral					
Total net counterparty risk			338.248.104		9.004.722

Appendix IV - AXA Bank Europe's non retail credit exposures

- ABE's gross, net and risk weighted non retail credit exposures for the period starting 1/1/2011 and ending 31/12/2011

ABEcredit exposures as of 31/12/2011					
	On-balance	Off-balance	Derivatives	Repo-like	Total
Gross total	9.263.609.692	122.922.672	6.069.113.672	381.544.646	15.837.190.682
Net total	9.263.609.692	122.922.672	211.041.323	381.544.646	9.979.118.333
RWA Net	781.670.912	44.011.012	90.809.914	190.772.323	1.107.264.162

- ABE's gross, net and risk weighted non retail exposures for the period starting 1/1/2010 and ending 31/12/2010

ABEcredit exposures as of 31/12/2010					
	On-balance	Off-balance	Derivatives	Repo-like	Total
Gross total	4.786.073.560	59.270.872	2.182.522.618	267.166.650	7.295.033.700
Net total					
RWA Net	952.491.144	12.078.941	1.087.234.639	136.468.663	2.188.273.387

- Impairments realized as of the 31/12/2011 and as of the 31/12/2010

ABE's impairments by geographic region and country in €million			
Region	Country	31/12/2010	31/12/2011
North America	United States	0,03	0,00
Western Europe	Ireland	3,70	4,55
	United Kingdom	0,00	1,91
	Portugal		0,19
Total		3,73	6,65

Appendix V - Risks resulting from other AXA Bank Europe 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 honor 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 3.3.1 of this report.

ABE SCF (Société de crédit foncier)

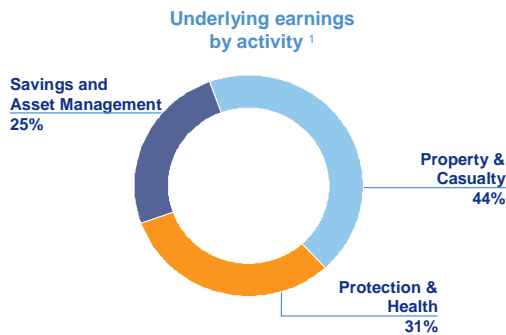
ABE SCF is a banking entity, subsidiary of ABE, created for the purpose of issuing covered bonds / obligations foncières for the benefit of its parent company ABE. It assists ABE in managing its liquidity positions. ABE SCF is a French regulated bank.

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.

Appendix VI- AXA's Financial strenghts

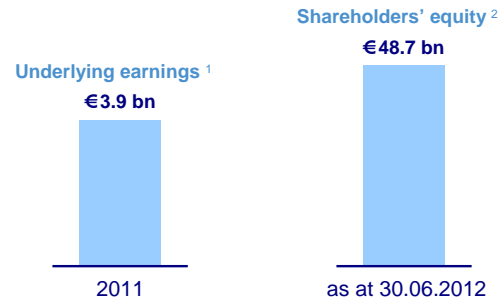
- **A resilient and stable business model based on the diversification** of businesses, products, geographies, distribution channels and assets.
- **Financial solidity** with solid earnings, strong credit ratings, a robust balance sheet and a high Solvency I ratio.
- **A leading insurance brand – 101 million clients** worldwide.

A balanced mix of businesses



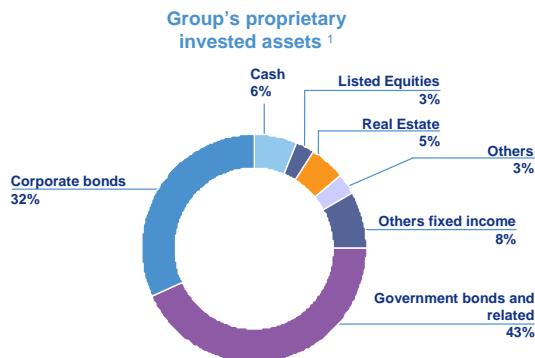
1. 2012 half-year pre-tax underlying earnings excluding holdings companies.

A robust performance



1. Underlying earnings is a non-GAAP measure designed to measure the run-rate operating performance of the Group's businesses, excluding capital gains / losses, impacts of currency exchange movements, impacts of extraordinary transactions and certain other items.
2. In an insurance company, shareholders' equity plays two roles: first, it assures creditors and insurance customers that the company will be in a position to meet its commitments, and second, it helps to finance part of its investments (acquisitions, for example).

A well-diversified investment portfolio



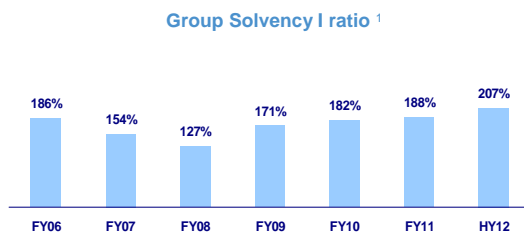
1. allocation as at 30.06.2012.

Limited holdings of peripheral Eurozone sovereign debt

Country	% of the Group's proprietary invested assets ¹
Italy	2.8%
Spain	1.4%
Ireland	0.2%
Portugal	0.1%
Greece	n/a

1. gross exposure as at 30.06.2012.

A historically high level of regulatory solvency



1. An insurance company's solvency is its ability to meet its commitments. Solvency of insurance companies is subject to extensive regulatory supervision. Under the Solvency I regime, a 100% solvency ratio is considered as the regulatory minimum.

Solid financial strength ratings

Ratings reflect the ability of an insurer to fulfill its commitments towards its clients. With ratings within the AA range¹, AXA remains amongst the best rated global financial institutions.

Agency	Rating	Update
Standard & Poor's	AA- "very strong"	25/05/2012
Moody's	Aa3 "very strong"	16/02/2012
Fitch Ratings	AA- "very strong"	03/11/2011

1. AXA's financial strength ratings are applicable for main operating subsidiaries. Ratings are subject to change. Please see www.axa.com for updated rating information.