AXA Portfolio Services Limited

Pillar 3 Disclosures

Scope

This disclosure relates solely to the business of AXA Portfolio Services Limited, and does not relate to any other AXA regulated entity.

AXA WEALTH
redefining / standards

Introduction

This document is a summary of the Pillar 3 disclosure requirements that are required to be disclosed under the Capital Requirements Directive (CRD) as laid out in Chapter 11 of BIPRU. The CRD consists of three pillars:

- **Pillar 1** specifies the minimum capital levels that the business is required to carry to cover the risks to the business.
- **Pillar 2** sets out the supervisory review process to be used by both the business and the FSA to determine whether additional capital should be maintained against any risks not adequately covered under Pillar 1.
- **Pillar 3** specifies the disclosure requirements which a business is required to make of its capital, risk exposures and risk assessment process.

Disclosures have been made in this document in compliance with BIPRU 11.

Business Structure

AXA Portfolio Services Limited (“APS”) is authorised and regulated by the Financial Services Authority (“FSA”). APS is categorised as a BIPRU €125k limited licence firm by the FSA and consequently calculates its Pillar 1 capital requirement as the higher of its fixed overhead requirement (“FOR”) and the sum of credit and market risk capital requirements.

APS is part of the AXA UK group of companies however APS is not a member of a group for the purposes of the CRD and is therefore not required to prepare consolidated reporting for prudential purposes.

The principal activities of APS are the management of ISA schemes, provider of pension schemes, the provision of third party administration to internal fund managers and the provider of a Wrap platform, which allows financial advisors to manage their clients’ assets through a single trading platform.

Capital Resources

At the unconsolidated level the capital resources of the business only comprise Tier 1 capital with no deductions.

The business has calculated its capital needs in accordance with the relevant FSA regulations for the base capital requirement, the credit risk requirement, market risk requirement and the fixed overhead capital requirement. Our Pillar 1 requirement is the higher of our fixed overhead requirement and the total of our credit risk and market risk requirements. Currently, the Pillar 1 requirement is equal to the overhead requirement, which is one quarter of our previous year’s audited adjusted annual expenditure, since the credit risk and market risk requirements are currently smaller in comparison. The figures below are as at 31.12.10

	£m
Total Tier 1 Capital	53.4
Tier 2 Capital	Nil

In addition to Pillar 1 Capital we are required to hold additional capital in respect of Pillar 2. This is calculated following a detailed risk assessment process which is supported by the Risk Management Framework outlined below.

Risk Management Framework

The Company is part of the AXA UK Group which has established a group-wide risk management framework and associated set of policies. These are designed to ensure that risks are adequately controlled and monitored through Risk Committees advising the Group Chief Executive and individual business unit Chief Executives. Dedicated Operational and Financial Risk Management functions support the individual business units by incorporating a full understanding and control of operational and financial risks into management decision making and procedures.

Group-wide policies are in place in relation to specific risk areas. Where UK-wide policies are not appropriate, due to the diverse nature of the risk individual business units are exposed to, policies have been established at a local business unit level. For example, there are separate policies in respect of insurance risk and non-investment related credit risk within the various business units of the AXA UK Group.

Risk identification, assessment and management

The company has adopted a comprehensive risk assessment methodology in accordance with Group Company requirements to identify, evaluate and manage the risks to which the company is exposed.

Risks are assessed within each company at a business unit level with reference to a set of predetermined risk categories and the company's knowledge of its key activities and transactions, past experience (e.g. internal and external loss events) and future direction (e.g. company strategy and regulatory/legislative changes).

The extent to which a business unit is exposed to a particular risk is assessed on the basis of frequency of occurrence and severity of impact when considering the internal control environment surrounding the risk and an extreme scenario of no or failing controls. This allows the business unit to identify both the inherent risk exposure and the controlled risk exposure.

The risk owners are responsible for ensuring that effective and appropriate controls are implemented and maintained to mitigate the risks identified.

The dedicated risk management teams challenge the results of the risk identification and assessment process performed within each business unit and the Internal Audit function is also invited to comment on the business units risk assessments and Group methodology on a periodic basis.

The individual business unit risk profiles are consolidated to provide a complete view of risks across the group in particular to:

- Identify and report on the top risks across the group at a point in time
- Compare and aggregate risk profiles across the group in order to identify trends and themes

Regular reports on the risk profiles are provided to governance bodies including Risk Committees and Boards.

Key Risks

The key risk areas identified, assessed and managed are as follows:-

Operational Risk
Operational risk is the risk of loss due to failed or inadequate people, processes or systems. The failure or inadequacy may result from both internal and external causes.

The key operational risks considered using the risk assessment methodology include:

- Failure to adhere to policy terms and conditions
- Breaches in regulation and legislation
- System failures and business disruption
- Failure of change programmes
- Customer intake and documentation failures
- Customer service errors
- Payment errors
- Outsourcing / third party supplier failures

All operational risks are managed within management's tolerance for risk. The material operational risk currently relates to "outsourcing / third party supplier failures" which is managed via contractual arrangements, liability cover and vendor management.

Market risk

Market risk can be defined as the risk that movements in market factors namely equity, bond, property and commodity prices, interest rates and foreign exchange rates impact the value of, or income from, shareholder and policyholder funds.

We considered the impact of market movements to APS' income and balance sheet. As much of APS's income is derived from management charges on client's funds, the APS business model is sensitive to movements in financial markets. As most of these funds will be invested in equities or equity related products, equity risk is by far the most significant market risk that APS is exposed to. Impacts of equity market movements on APS's capital position have been considered via the use of scenario analysis.

Non-key risks

Whilst operational and market risks are key to the Company's business, there are also other non-key risks that the Company may be exposed to. The Company is exposed to these risks through the inherent uncertainty in undertaking business affecting its financial assets and liabilities. The most important components are credit, liquidity and cash flow risks.

Liquidity and cash flow risk

Liquidity or cash flow risk is defined as the risk that the Company, irrespective of solvency and profitability, may not have sufficient available cash (or near cash assets or funding facilities) to enable the Company to meet policyholder, Government, regulatory or operational obligations as they fall due.

This risk could arise as a result of illiquid asset holdings, inappropriate asset / liability matching, or inaccurate assessments of potential operating liquidity requirements resulting in insufficient short-term (including intra-day) and longer term liquidity.

This is addressed by maintaining suitable levels of APS's working capital from AXA UK Group.

Credit risk

Credit risk can be defined as the risk of capital or income loss resulting from counterparty default or issuer credit downgrades. Credit risk can arise from investment related assets or from non-investment related assets. A UK group-wide policy exists for the control of investment related credit risk whilst a business unit level policy exists for non-investment related items.

The only current credit risks are those for the debtors on the APS balance sheet and APS's bank accounts. These risks are monitored and mitigated as appropriate, and are not considered to be material.

Other risks

The other risks outlined under GENPRU 1.2.30, as well as other risks identified internally, are not currently significant to APS's business. These include:

- Group Risk
- Insurance Risk
- Concentration Risk
- Currency Risk
- Securitisation Risk (not currently applicable)
- Business Risk
- Interest Rate Risk
- Pension Obligation Risk

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