

AXA MPS Financial Limited

Directors' Report and Financial Statements

Year ended 31 December 2011

Registered number: 293822

AXA MPS Financial Limited

Directors' report and financial statements

For the year ended 31st December 2011

<i>Contents</i>	<i>Page</i>
Directors and other information	2 - 3
Directors' report	4 - 7
Statement of Directors' responsibilities	8
Reporting actuary report	9
Report of the independent auditor	10 - 11
Statement of accounting policies	12 - 19
Profit and loss account technical account – life assurance business	20
Profit and loss account – non-technical account	21
Balance sheet	22 - 23
Notes to the financial statements	24 - 46

AXA MPS Financial Limited

Directors' report

For the year ended 31st December 2011

Directors	F. de Courtois, Chairman and Non Executive Director, (France) F. Accorinti, Non Executive Director (Italy) J. Burton, CEO and Executive Director (Australia) J. Goold, Independent Non Executive Director (UK) S. Hughes, Independent Non Executive Director L. Mazzolin, Non Executive Director (Italy)
Registered office	33 Sir John Rogerson's Quay Dublin 2 Ireland
Secretary	Tudor Trust Limited 33 Sir John Rogerson's Quay Dublin 2 Ireland
Appointed Actuary	Neil Guinan AXA MPS Financial Limited
Auditor	Mazars Chartered Accountants and Registered Auditors Harcourt Centre, Block 3 Harcourt Road Dublin 2 Ireland
Bankers	Allied Irish Banks plc 7/12 Dame Street Dublin 2 Ireland Banca Monte dei Paschi di Siena Member of MPS Banking Group 23100 Siena Italy
Solicitors	Dillon Eustace 33 Sir John Rogerson's Quay Dublin 2 Ireland
Service Provider	Irish Progressive Services International Limited 100 Lower Mount Street Dublin 2 Ireland

AXA MPS Financial Limited

Directors' report

For the year ended 31st December 2011

Investment Managers

JP Morgan Fleming Asset Management (Europe) S.a.r.l.
Prima Asset Management SGR
Goldman Sachs International Limited
Janus International Limited
Deutsche Bank (London) Limited
Fidelity Investments Luxembourg S.A.
HSBC Asset Management (Europe) S.A.
Mellon Global Investments Limited
ING (L) Fund Shareholder Services
Société Générale Asset Management
Julius Baer Investment Funds
Dexia Asset Management Luxembourg
Dexia Asset Management Belgium
DWS Investments S.A.
Aberdeen Fund Management Luxembourg S.A.
AXA Rosenberg
Vontobel Asset Management
Parvest, BNP Paribas Lux
UBS Global Asset Managers
Schroder Asset Management
Pictet Funds
Invesco Asset Managers
Alliance Bernstein
Carmignac Investment Managers
Franklin Templeton
AXA Investment Managers
Architas Multi Manager Europe
Blackrock Investment Managers
Pictet and Cie (Europe) S.A.
State Street Global Advisors
Unicredito
Union Bancaire Privee
Skandia Investment Group
Metzler Ireland Limited
Threadneedle
MFS International Limited
Brown Advisory Limited
Morgan Stanley
Amundi Asset Management
M&G Investments
Henderson Global Investors

AXA MPS Financial Limited

Directors' report

For the year ended 31st December 2011

The Directors present their annual report and the audited financial statements for AXA MPS Financial Limited ("the Company") for the year ended 31 December 2011. The Directors consider it appropriate that these financial statements are prepared on a going concern basis.

Principal activities, business review and future developments

The principal activity of the Company is, as authorised by the Central Bank of Ireland, to transact cross-border life assurance business in the European Union under the Third Life Directive as introduced into domestic Irish legislation by the European Communities (Life Assurance) Framework Regulations, 1994.

The Company's business to date has mainly been the sale of single premium investment and insurance products in Italy through a broker. From 1 January 2011 we terminated our existing broker contract with Willis Italia and formally entered into a contract with Marsh Italia to act as our intermediary in Italy. The migration to the new broker went well and there was a marked improvement in service levels as a result.

During 2011, investment and insurance product sales amounted to €1,842 million (2010: €1,160 million), an increase of 58% on 2010. The Board acknowledged that one of the main contributors to the overall premium increase was the premium written for index linked business which increased by 54% over 2010. Despite the continued volatilities in global financial markets this total premium increase was a positive story for the company. The mix of premium written shows how conscious policyholders are of the financial market volatility as our non guaranteed unit linked premium decreased by 7% compared to last year with sales of guaranteed products (Accumulator) rising by 55%. This increase was primarily due to the concerted sales efforts in the first 5 months of 2011 by our distributors in promoting Accumulator through a "tranche" approach i.e. a defined sales period. However the Company scaled back the sales of Accumulator in May 2011 due to the significant increase in capital required by the Central Bank of Ireland to maintain this product which significantly reduced the profitability of this product for the company. During the second half of 2011 the Company launched a new protected product called Dynamic Protection Insurance effectively targeting (without guaranteeing) a minimum return of premium at maturity. The underlying funds are managed by AXA Investment Managers.

Total insurance claims and investment redemptions for the period amounted to €1,777 million for the year (2010: €1,562 million) an increase of 14% on 2010. Of the €1,777 million, 45% was expected through the maturity of tracker policies which expire after 6 years and the maturity of the last of our CGF products. The lapse rate of the Company excluding maturities is 11.5% for 2011 compared to 9.1% for 2010. The main driver for this increase was due to higher surrenders of tracker policies which had a lapse rate of 12.5% and was primarily due to older trackers generating a higher return due to the "in the moneyness" of embedded options and also due to reinvestment campaigns during the year. Net new money or technical operating cash flow (TOCF) was a positive €64m compared to a TOCF of negative €401m in 2010.

The Directors have an active role in the development of the Company through the ongoing review and oversight of budgets and performance. At each Board Meeting in 2011 the Directors are given a profit variance analysis to budget to inform them of the evolution of the plan. The 2012 plan will be presented to the Board in April 2012 for Directors approval.

2011 was a challenging year for the company and despite a good result for the year the Company cannot afford to rest on its laurels so constant monitoring on premium sales, lapses, investment returns, net income, solvency positions and return on capital is uppermost in the day to day operations of the company. The Company's success continues to be dependent on understanding and meeting the developing needs of our customers, helping them grow and protecting their wealth. The Company believes it is important to retain a diversified portfolio of clients and to grow the business organically by providing a comprehensive range of long term savings and investment products for each of our customers.

AXA MPS Financial Limited

Directors' report

For the year ended 31st December 2011

Financial Risk Management

The responsibility for the Company's internal control environment, including risk management, rests with the Company's Board of Directors. Management have day-to-day responsibility for monitoring, measuring, controlling and reporting the risks connected with the Company's activities. The Company's risk appetite limits have been set in the fields of Market Risks, Credit Risks (counterparty exposure), Life Risks and Operational Risks via the Risk Appetite Statement, the latest version of which was approved by the AMF Board of Directors on 6 December 2011. In line with Group Risk Appetite Methodology, the AMF Risk Appetite is formulated across four metrics: Capital (Solvency I & Solvency II); Earnings; Liquidity and Value (NBV)

Corporate Governance

As the Company has developed, the Directors have been improving the corporate governance framework, to take account of best practice, increasing regulatory requirements and the requirements of the parent group. The Directors are aware of the critical need for effective corporate governance, risk management and internal controls to guide the Company's business practices and activities, thereby promoting compliance with all laws and regulations and safeguarding the Company's reputation.

During 2011 the CBI issued its Corporate Governance code for which the regulated entities are obliged to follow. The Company has embraced the corporate governance code and had its corporate governance structures in place prior to the deadline for implementation of the CBI Corporate Governance code. The CBI has designated the Company as a minor institution and is therefore not required to comply with the additional requirements for major institutions. As part of the governance code the company is required to provide a statement of compliance as part its 2011 Annual Life Return. The company does not envisage any issues with providing this compliance statement for 2011. The CBI also issued formal notification to financial institutions as to their ranking as a major/non major institution and the Company was deemed to be a non major institution. It should be noted that, with regard to compliance issues, the Company notified the Central Bank of Ireland (CBI) in March 2011 of issues it encountered in connection with its implementation of relevant procedures / arrangements in accordance with the Criminal Justice (Money Laundering and Terrorist Financing) Act, 2010 (the "CJA 2010"). This has resulted in numerous meetings and correspondence with the CBI in 2011. In December 2011 the CBI initiated Administrative Sanctions Procedures against the Company on the basis of suspected contravention of the CJA 2010. The Company consulted its legal advisor and the matter is currently subject to ongoing discussion with the CBI.

With regard to corporate governance a Board Risk Committee was established by the Board in June 2011 and meets on a quarterly basis with the local Chief Risk Officer and Head of Compliance amongst other members of the AMF management team. The AMF Management Risk and Compliance Committee ("MRCC"), of which the CRO is a member, receives regular risk management updates from the CRO at the quarterly MRCC meetings. On a quarterly basis, the latest Risk Dashboard is reported to the Board Risk Committee. Each time the Risk Appetite is exceeded this is reported to the MRCC and Board Risk Committee as and when it is identified and assessed. The Board of Directors (BoD) has delegated the governance of risk issues to the Board Risk Committee. The Board Risk Committee will inform the Board of Directors of any relevant issues relating to Risk Appetite monitoring, and in any case for Material Breaches.

The Company's strategic investment activities are approved and managed in accordance with a set of clearly defined policy statements which have been approved by the Board. A Board Investment Committee comprised of Board Members approves and reviews strategy and policy with respect to the portfolio investments of policyholder and shareholder funds of the Company including any derivatives programs.

During 2011 three of our Board colleagues Andrew Bates, Pat Healy and Brian McConnell resigned their Directorships and we would like to thank them for the contribution they made to the company during

AXA MPS Financial Limited

Directors' report

For the year ended 31st December 2011

their tenure. We welcomed two new non executive Directors, Jonathan Goold and Seamus Hughes to the Board in 2011 both of whom have extensive knowledge of the life insurance industry and we look forward to their active and constructive participation in the continued success of the Company.

Key Performance Indicators

The Company tracks on a quarterly basis certain key performance indicators. These include staff costs and profit before tax. These are shown below in €'000s.

Premium written	€1,842,270	(2010: €1,471,280)
TOCF	€64,996	(2010: (€401,181))
Staff Costs	€ 4,028	(2010: €3,618)
Profit after tax	€ 34,376	(2010: €29,794)

Results for the year and state of affairs at 31 December 2011

The results for the year are set out on pages 19 and 20. The Company's balance sheet is set out on pages 21 and 22.

Dividends

The Directors have not declared a final dividend in respect of the year ended 31 December 2011 (2010: €Nil).

Directors

The following Directors served during the year:

John Burton
Frédéric de Courtois
Fabio Accorinti
Lodovico Mazzolin
Brian McConnell (resigned 16th February 2011)
Andrew Bates (resigned 27th June 2011)
Pat Healy (resigned 28th September 2011)
Jonathan Goold (appointed 1st June 2011)
Seamus Hughes (appointed 7th December 2011)

Except where noted the Directors served for the entire year and the period up to the date of signing the financial statements.

Directors and Secretary and their interests

The Directors and Secretary who held office at 31 December 2011 had no interests in the shares in, or debentures or loan stock of, the Company. The beneficial interests of the Directors and Secretary in the share capital of the ultimate parent Company AXA S.A. and Banca Monte Paschi are as follows:

Name of Director	Company	Shares		Options	
		31/12/11	01/01/11	31/12/11	01/01/11
Frédéric de Courtois	AXA S.A.	9,000	8,539	206,586	182,860
Jonathan Goold	AXA	-	-	-	-
John Burton	AXA Asia Pac.	-	45,301	-	-
John Burton	AXA S.A.	2,174	2,125	4,075	2,325
Lodovico Mazzolin	BMPS	7,413	4,317	-	-
Fabio Accorinti	BMPS	2,567	2,567	-	-
Seamus Hughes	-	-	-	-	-

AXA MPS Financial Limited

Directors' report

For the year ended 31st December 2011

<i>Name of Director</i>	<i>Company</i>	<i>Performance Units</i>		<i>Share Plan Units</i>	
		<i>31/12/11</i>	<i>01/01/11</i>	<i>31/12/11</i>	<i>01/01/11</i>
Frédéric de Courtois	AXA S.A.	27,500	13,200	-	-
John Burton	AXA S.A.	2,500	1,959	-	-

Accounting records

The Directors believe that they have complied with the requirements of Section 202 of the Companies Act, 1990 with regard to books of account by employing a service provider and personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the Company are maintained at the premises of its service provider, Irish Progressive Services International Limited, 100 Lower Mount Street, Dublin 2.

Political Donations

The Company made no political donations during the year (2010: Nil).

Post balance sheet events

There have been no significant events affecting the Company since the year end which require amendment to the financial statements.

Solvency II

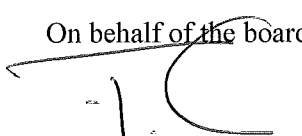
The Company considers that it is appropriately capitalised for its product range and the current regulatory requirements. The introduction of Solvency II will see a fundamental change in the way EU based insurers assess their capital requirements and risk management standards. The Company has participated throughout the design process and also in the QIS5 industry exercise. The Company does not expect additional capital requirements as a result of these legislative changes.


Indications are that the target implementation date of the Solvency II Directive, 1 January 2013, will be postponed. The legislation that will confirm this postponement has itself been delayed, which would suggest a strong likelihood of a postponement. This has not been confirmed as of 27 March 2012, however, informed sources are of the opinion that the implementation is likely to be postponed for one year, to 1 January 2014. We are awaiting instructions from the EU Commission and from AXA Group on this matter. We are now proceeding with the project on the basis that this postponement will occur as predicted.

Auditors

Mazars, Chartered Accountants and Registered Auditors, are appointed as auditors. In accordance with the provisions of Section 160 (2) of the Companies Act, 1963, Mazars have expressed their willingness to continue in office.

On behalf of the board


Frédéric de Courtois
Chairman


John Burton
Director and CEO

23 April 2012

AXA MPS Financial Limited

Statement of Directors' responsibilities in respect of the Directors' report and financial statements

for the year ended 31st December 2011

The Directors are responsible for preparing the financial statements in accordance with applicable Irish law and Generally Accepted Accounting Practice in Ireland including the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.


Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:-

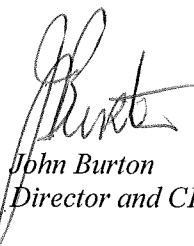
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with the Companies Acts, 1963 to 2009. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board


Frédéric de Courtois
Chairman


John Burton
Director and CEO

23 April 2012

AXA MPS Financial Limited

Report of the reporting actuary

For the year ended 31st December 2011

I certify that at 31 December 2011:

- (i) in my opinion, proper records have been kept by AXA MPS Financial Limited, adequate for the purposes of the valuation of the liabilities of its life assurance business;
- (ii) the computation of the life assurance provision has been made on the basis of recognised actuarial methods and with due regard to the actuarial principles laid down in Council Directive 92/96/EEC; and
- (iii) the life assurance provision is sufficient to enable the Company to meet any liabilities arising out of insurance contracts as far as can reasonably be foreseen.



Neil Guinan

*Fellow Member of the Society of Actuaries in Ireland
Reporting Actuary of AXA MPS Financial Limited*

23 April 2012

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF AXA MPS FINANCIAL LIMITED

We have audited the financial statements of AXA MPS Financial Limited for the year ended 31 December 2011, which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 34. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable Irish law and the Accounting Standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts, 1963 to 2009. We also report to you our opinion as to: whether proper books of account have been kept by the company; whether, at the balance sheet date, there exists a financial situation which may require the convening of an extraordinary general meeting of the company; and whether the information given in the Directors' Report is consistent with the financial statements.

In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF AXA
MPS FINANCIAL LIMITED (CONTINUED)**

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

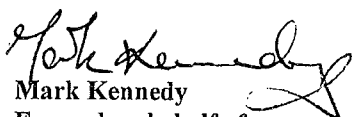
Opinion

In our opinion the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of affairs of the company as at 31 December 2011 and of its profit for the year then ended have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion, the information given in the Directors' Report is consistent with the financial statements.

In our opinion, the balance sheet does not disclose a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.



Mark Kennedy
For and on behalf of
Mazars

Chartered Accountants
and Registered Auditors
Harcourt Centre, Block 3
Harcourt Road
Dublin 2

Date: 23/4/2012

AXA MPS Financial Limited

Statement of accounting policies

for the year ended 31 December 2011

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with the Companies Acts, 1963 to 2009 and the Statement of Recommended Practice (SORP) issued by the association of British Insurers.

The financial statements are prepared in accordance with the historical cost convention modified by the valuation of financial investments which are carried at fair value and the Accounting Standards issued by the Accounting Standards Board as promulgated by the Institute of Chartered Accountants in Ireland.

The preparation of financial statements requires management on an on-going basis to make certain judgements, estimates and assumptions that affect the application of policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Judgements made by management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 26.

Currency

The financial statements are prepared in Euro (€) which is the Company's functional currency.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at foreign exchange rates ruling at the date the fair value was determined.

Insurance and investment contracts - classification

Classification of contracts

Contracts under which the Company accepts insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party or contract.

AXA MPS Financial Limited

Statement of accounting policies for the year ended 31 December 2011

Classification of contracts (continued)

Where a direct contract contains both an investment element and an insurance element (rider benefit) the Company “unbundles” this contract into its constituent parts. The insurance element of the contract is accounted for as an insurance contract and the investment element of the contract is accounted for as an investment contract. In the case of contracts where the rider benefit is not explicit, a prudent present value estimate is made of the death benefit costs and the contract is unbundled accordingly. Where an insurance contract contains an investment element which cannot be measured separately from the insurance element, the Company does not unbundle the contract. Unit reserves are set up to match the underlying fund choices of the policyholders. A reserve is held to cover the excess of the future expected claims on any guaranteed element of the product over the future income from that part of the product charges defined at policy commencement to cover the guarantee benefits. A reserve calculation is performed to identify any additional reserve required to cover future expenses and provision is made for such a reserve where appropriate.

A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. However, an investment contract classified as such on inception, could subsequently be reclassified as an insurance contract, if it meets the insurance definition as described above.

Insurance contracts – recognition and measurement

a) Premiums

Premiums written in respect of insurance contracts are accounted for in the profit and loss account in the same period in which the liabilities arising from these premiums are established.

b) Claims

Claims incurred comprise claims paid in the year and changes in technical provisions, together with any other adjustments to claims from previous years. Claims incurred include maturities, deaths and surrenders. Maturity claims are recognised on a due basis. Deaths and surrenders are accounted for upon notification, and the value of such claims then ceases to be included within technical provisions. Claims incurred include related internal and external claims handling expenses.

c) Long term business provision

The long-term business provision is calculated on an annual basis with regard to the principles laid down in the EU Third Life Directive (92/96EEC). It comprises of a provision for future mortality. Although the Directors consider that the gross long term business and the related reinsurance recovery is fairly stated in line with the information currently available the eventual liability may vary as a result of subsequent information and events.

AXA MPS Financial Limited

Statement of accounting policies for the year ended 31 December 2011

Insurance contracts – recognition and measurement *(continued)*

The provision, estimation technique and assumptions adopted are periodically reviewed with any changes in estimates reflected in the long-term business technical account as they occur, via the Profit and Loss Account.

d) Reinsurance

Only insurance contracts that give rise to a significant cession of insurance risk from the Company are accounted for as reinsurance. The Company only considers those companies with a credit rating of A and higher as reinsurance partners. Amounts recoverable under such contracts are recognised in the same period as the related claim and premiums are recognised in the Profit and Loss Account.

A transfer of insurance risk is only considered to have occurred if there is a reasonable possibility both of a significant range of outcomes and of the reinsurer realising a significant loss. No transfer is considered to have occurred if under all reasonable scenarios the reinsurer will effectively receive no more than a lender's rate of return. In assessing whether a significant transfer has occurred consideration is given to the commercial substance of the contract, the range of outcomes that may reasonably be expected to occur under the contract and the timing of the cash flows anticipated under the contract.

The amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not be able to recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

Investment contracts – recognition and measurement

Unit linked investment contracts have been classified as financial liabilities at fair value through the profit and loss account to eliminate an inconsistency that would otherwise arise between the valuation of assets and liabilities. Unit linked liabilities are valued with reference to the value of the underlying investment fund at the balance sheet date. Non unit linked investment contracts are measured based on the value of the liability to the policyholder at the balance sheet date.

The revenue arising from these contracts (front end fees, surrender penalties and annual management charges) is recognised over the life of the contract and is recorded in the fees and commission income lines. These are deducted from the policyholders' balance. Policyholder contract benefits charged to the Profit and Loss Account include benefit claims incurred during the period in excess of policyholders' balance and interest credited to the policyholders' balance.

a) Premiums / Benefits paid

Premiums written from and benefits paid to holders of investment contracts are accounted for as deposits received (or repaid) and are not included within premiums and claims in the profit and loss account.

b) Liability measurement

Liabilities in relation to unit linked contracts are held at fair value through the profit and loss account. The fair value of a financial instrument is the fund value of the contract, without any reduction.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired.

AXA MPS Financial Limited

Statement of accounting policies for the year ended 31 December 2011

Investment contracts – liability measurement *(continued)*

The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit and loss account. Gains and losses arising from changes in the fair value of financial liabilities designated at fair value through the profit and loss account are included in profit and loss in the period in which they arise.

c) Deferred acquisition costs

Deferred acquisition costs are directly associated with the acquisition of new investment contracts and are deferred to the extent that they are expected to be recoverable out of future revenues to which they relate. Such costs are amortised through the profit and loss account over the period in which the revenues on the related contracts are expected to be earned, at a rate commensurate with those revenues.

Deferred acquisition costs are reviewed by category of business at the end of each financial year. Should the circumstances which justified the deferral of costs no longer apply, these costs to the extent that they are believed irrecoverable are written off.

Deferred income liability

Any upfront margins associated with the acquisition of investment business are deferred. These margins are amortised through the Profit and Loss Account over the life of the contract. If policies exit earlier than the anticipated date, then any remaining margins are recognised in that period in full.

Investment income

The Company has designated all unit linked products and their associated investment contract and insurance contract liabilities at fair value through the profit and loss account. Investment income in the technical account comprises all investment income (including the interest income for financial assets carried at amortised cost, using the effective interest rate method), realised investment gains and losses and movements in unrealised gains and losses supporting the insurance business.

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. Non technical investment income and charges refers to unrealised gains and losses in respect of shareholder assets.

a) Interest income

Interest income is recognised in the Profit and Loss Account as it accrues, using the effective interest rate method.

b) Dividend income

Dividend income is recognised in the Profit and Loss Account on the date the entity's right to receive payments is established.

AXA MPS Financial Limited

Statement of accounting policies *for the year ended 31 December 2011*

Financial assets

The Company classifies its financial assets as designated at fair value through the profit and loss account on initial recognition at cost, being fair value consideration paid. The basis of this designation is that the financial assets and liabilities are managed and evaluated together on a fair value basis. The designation eliminates or significantly reduces a measurement inconsistency that would otherwise arise if these financial liabilities were not measured at fair value since the assets held to back the investment contract liabilities are also measured at fair value.

The fair value of the Company's unit linked investment contract liabilities is based on the fair value of the financial assets held within the appropriate unit-linked funds. These assets are held to cover policyholder liabilities and are typically made up of unit linked investments (managed funds) and index linked bonds.

Financial assets held for trading are financial assets which on initial recognition are designated by the Company as being held at fair value through the profit and loss account. These assets mainly comprise fixed and variable rate Government securities and options attached to index lined bonds which are held for the benefit of policyholders.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being fair value of consideration paid for the acquisition of the investment. After initial measurement, loans and receivables are measured at amortised cost.

Purchases of financial assets are recognised on the trade date, which is when the Company commits to purchase the assets. Financial assets are derecognised when contractual rights to receive cash flows from the investments expire, or where the investments, together with substantially all the risks and rewards of ownership have been transferred.

Financial assets are initially measured at fair value plus in the case of assets not designated at fair value through the profit and loss account, transaction costs that are directly attributable to their acquisition.

Transaction costs in relation to financial assets designated at fair value through profit and loss account are expensed immediately. After initial recognition, the Company measures financial assets at fair value through the profit and loss account and available for sale financial assets at fair value without any deduction for transaction costs it may incur on disposal. The fair values of investments are based on quoted bid prices where available or amounts derived from cash flow models.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Derivative financial instruments

The Company does not use hedge accounting. The only derivatives held where the risk is retained by the Company are options held for short periods of time as a result of policyholder surrenders or structured assets and derivatives held in respect of the dynamic hedging strategy for the Accumulator guarantee business and new tracker bonds issued since 1st November 2010. With regard to the options held for short periods of time resulting from policyholder surrenders of structured assets, the Company does not hold these for speculative purposes and sells the instrument back to the issuing Company at the next available opportunity.

AXA MPS Financial Limited

Statement of accounting policies for the year ended 31 December 2011

Derivative financial instruments *(continued)*

Other derivatives are included in assets on behalf of policyholders where all gains and losses on these derivatives are exactly matched by changes in the related liabilities to policyholders.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to cost, being fair value consideration paid is recognised immediately in profit or loss.

Employee benefits

(a) Defined contribution plans

The pension entitlements of employees are secured by contributions from the Company to a separately administered defined contribution pension fund. Contributions to the fund are charged to the profit and loss account in the same period as the salaries to which they apply. The Company makes a payment equal to between 5% and 15% of the gross income for each eligible employee.

(b) Life assurance

The Company makes a payment towards life assurance and permanent health insurance for all full time staff. Contributions towards these plans are recognised as an expense in the profit and loss account as incurred.

Italian tax provision

Contributions to the Italian revenue, as a result of the Company becoming a withholding agent, are recognised as a deferred asset in the Balance Sheet of the Company. All Italian capital gains tax due on policies maturing after the final payment of the Italian tax liability will be written off against this asset. The recoverable amount of this asset is reviewed at each year end by the Board of Directors.

Impairment of non-financial assets

The carrying amount of the Company's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the carrying value is reduced to the estimated recoverable amount which is a charge to the profit and loss account.

The difference between the carrying value and the current fair value, less any impairment loss on that financial asset is recognised in the profit and loss account.

Calculation of recoverable amount

The recoverable amount of receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short term duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

AXA MPS Financial Limited

Statement of accounting policies *for the year ended 31 December 2011*

Impairment of non-financial assets *(continued)*

The Italian tax asset is held at face value and the recoverability thereof is reviewed at each year end.

An impairment loss is reversed only to the extent that an asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and other short term highly liquid investments with less than 90 days to maturity from the date of acquisition.

Management expenses

Management expenses and administration costs are charged to the profit and loss account on an accruals basis.

Technical provisions

Technical provisions for linked liabilities relate to unit linked contracts. The liability for these contracts is determined as the value of the units allocated at the valuation date and other technical provisions that have been established for additional risk benefits and costs. Other technical provisions include provisions set aside for future expenses associated with unit linked liabilities and claims incurred but not reported.

The life assurance provisions are calculated by a Fellow Member of the Society of Actuaries in Ireland, Mr. Neil Guinan FSAI FIA. The computation was made on the basis of recognised actuarial methods, with due regard to the actuarial principles laid down in the Council Directive 92/96/EEC. The life assurance provision was computed separately for each life assurance contract using modern tables of mortality and expense assumptions which reflect the Company's expected experience.

Taxation

Corporation tax payable is provided on taxable profits at the current attributable rates.

In accordance with Financial Reporting Standards No. 19 "Deferred Tax", except where otherwise required by accounting standards, full provisioning without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date. Deferred tax balances are provided for at the average tax rates that are expected to apply to the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be recognised as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Trade and other receivables

Trade and other receivables are initially booked at fair value of the consideration paid and are stated at amortised cost less provision for impairment. The average payment period of debtors is less than three months. The carrying amount of trade and other receivables are reviewed at each balance sheet date to determine whether there is any indication of impairment.

AXA MPS Financial Limited

Statement of accounting policies *for the year ended 31 December 2011*

Tangible fixed assets

The charge for depreciation is calculated to write down the cost or current value of tangible fixed assets to their estimated residual values by equal annual instalments over their expected useful lives as follows:

Fixtures and Fittings, other equipment	20%
Computer equipment and software	20%

Dividend Distributions

Dividends are recognised in the financial statements when they have been approved by the shareholders and are no longer at the discretion of the Company. Interim dividends declared by the Directors are recognised when paid.

AXA MPS Financial Limited

Profit and loss account

for the year ended 31 December 2011

Technical account – life assurance business

	<i>Notes</i>	2011 €'000	2010 €'000
Earned premium, net of reinsurance			
Gross premiums written	<i>1</i>	214,868	137,456
Outward reinsurance premiums	<i>1</i>	(95)	(92)
		<hr/>	<hr/>
		214,773	137,364
		<hr/>	<hr/>
Investment income	<i>2</i>	221,399	254,728
Unrealised gains on investments	<i>2</i>	28,398	153,059
Fee and commission income	<i>3</i>	139,463	84,811
Change in deferred income liability	<i>23</i>	(24,349)	(2,736)
		<hr/>	<hr/>
Total technical income		579,684	627,226
		<hr/>	<hr/>
Claims incurred	<i>4</i>	(29,877)	(21,998)
Policyholder contract benefits	<i>20</i>	138,018	(272,155)
		<hr/>	<hr/>
Change in technical provisions			
Technical provision for linked liabilities		(137,955)	(125,591)
Other technical provisions		(44,516)	(5,116)
		<hr/>	<hr/>
		(74,330)	(424,860)
		<hr/>	<hr/>
Investment expenses and charges	<i>2</i>	(16,296)	(8,164)
Unrealised losses on investments	<i>2</i>	(390,819)	(110,071)
Operating expenses	<i>5</i>	(76,672)	(52,086)
		<hr/>	<hr/>
Total technical charges		(558,117)	(595,181)
		<hr/>	<hr/>
Balance on the technical account – life assurance business		21,567	32,045
		<hr/>	<hr/>

AXA MPS Financial Limited

Profit and loss account

for the year ended 31 December 2011


	<i>Notes</i>	2011 €'000	2010 €'000
Balance on the technical account - life assurance business		21,567	32,045
Investment income	2	17,458	2,227
Investment expenses and charges	2	(1,956)	(204)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		37,069	34,067
Tax on profit on ordinary activities	9	(4,626)	(4,273)
		<hr/>	<hr/>
Profit on ordinary activities after taxation	24	32,443	29,794
		<hr/> <hr/>	<hr/> <hr/>

The Company had no recognised gains or losses in the financial year or in the preceding financial year other than the profit on ordinary activities as shown above.

All profits were generated by continuing activities.

The accompanying notes form an integral part of these financial statements.

On behalf of the board



Frédéric de Courtois
Chairman



John Burton
Director and CEO

23 April 2012

AXA MPS Financial Limited

Balance Sheet

As at 31 December 2011

Assets	<i>Notes</i>	2011 €'000	2010 €'000
Investments			
Financial assets held for trading	<i>10</i>	279,344	362,808
Financial assets held at fair value	<i>11</i>	6,539,074	6,715,529
Loans and receivables	<i>12</i>	261,198	121,312
		<hr/>	<hr/>
		7,079,616	7,199,649
Other assets			
Tangible fixed assets	<i>13</i>	183	118
Deferred acquisition cost	<i>14</i>	24,446	16,946
Other debtors	<i>15</i>	85,355	77,000
Cash and cash equivalents	<i>16</i>	77,356	165,215
		<hr/>	<hr/>
		187,340	259,279
		<hr/>	<hr/>
Total assets		7,266,956	7,458,928
		<hr/> <hr/>	<hr/> <hr/>

AXA MPS Financial Limited

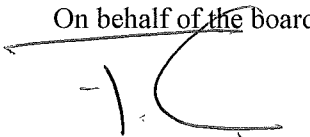
Balance Sheet

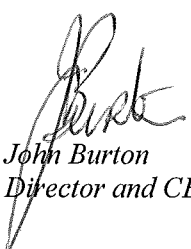
As at 31 December 2011

Liabilities	<i>Notes</i>	2011 €'000	2010 €'000
Capital and reserves			
Share capital	17	635	635
Capital contribution	24	114,000	114,000
Profit and loss account	24	129,217	96,774
Shareholders' funds– equity interests	24	243,852	211,409
Technical provisions			
Technical provisions for linked liabilities	20	588,558	450,603
Other technical provisions	19	87,103	42,586
Financial liabilities – investment contracts	20	6,088,266	6,476,021
Deferred income liability	23	104,707	80,359
		6,868,434	7,049,569
Creditors			
Creditors arising out of direct insurance operations	21	86	90
Other creditors including tax and social welfare	22	154,383	197,860
		154,470	197,950
Total liabilities		7,266,956	7,458,928

The accompanying notes form an integral part of these financial statements.

On behalf of the board


Frédéric de Courtois
Chairman


John Burton
Director and CEO

23 April 2012

AXA MPS Financial Limited

Notes to the financial statements

For the year ended 31st December 2011

1 Segmental analysis

The Company operated in one main business segment during the year, writing life assurance business in the European Union and specifically in Italy. All premiums relate to individual premium business where the policyholder bears the investment risk.

	2011 €'000	2010 €'000
Gross premiums written	214,868	137,456
Outward reinsurance premiums	(95)	(92)
	<hr/>	<hr/>
	214,773	137,364
	<hr/> <hr/>	<hr/> <hr/>

For the year ended 31 December 2011 premium income of €1,627 million (2010: €1,023 million) relates to investment contracts and is not included in total premiums written. Refer to note 21 for more details.

2 Investment income and expenses

	2011 €'000	2010 €'000
Technical account		
Investment income		
Gains on the realisation of investments	212,495	248,377
Income from other investments	8,903	6,351
	<hr/>	<hr/>
	221,399	254,728
	<hr/> <hr/>	<hr/> <hr/>
Unrealised gains on investments	28,398	153,059
	<hr/>	<hr/>
Investment expenses and charges		
Investment expenses	(9,438)	(7,824)
Losses on the realisation of investments	(6,858)	(340)
	<hr/>	<hr/>
Total investment expenses and charges	(16,296)	(8,164)
	<hr/> <hr/>	<hr/> <hr/>
Unrealised losses on investments	(390,819)	(110,071)
	<hr/> <hr/>	<hr/> <hr/>

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

2 Investment gains, losses, expenses and charges *(continued)*

	2011	2010
	€'000	€'000
Non technical account		
Investment income		
Unrealised gains on investments	17,458	2,227
	<hr/>	<hr/>
	17,458	2,227
	<hr/> <hr/>	<hr/> <hr/>
Investment expenses and charges		
Unrealised losses on investments	(1,956)	(204)
	<hr/>	<hr/>
Total investment expenses and charges	(1,956)	(204)
	<hr/> <hr/>	<hr/> <hr/>

Realised and unrealised gains and losses include gains and losses on assets held in unit linked funds which are designated at fair value through profit and loss as well as gains and losses on investments held for the benefit of life assurance policyholders who bear the investment risk.

3 Fee and commission income

	2011	2010
	€'000	€'000
Initial commission and fund fees	139,463	84,811
	<hr/> <hr/>	<hr/> <hr/>

4 Claims incurred

	2011	2010
	€'000	€'000
Claims paid – gross amount	(29,877)	(21,998)
	<hr/> <hr/>	<hr/> <hr/>

From 1 January 2006, following the adoption of FRS 26, claims incurred on investment contracts are no longer accounted for as claims and are instead shown as movements in investment contract liabilities in the balance sheet.

Claims paid during 2011 of €1,747 million (2010: €1,590 million) relate to investment contracts and are therefore not included in claims above. Refer to Note 20 for more details.

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

5 Operating expenses	2011	2010
	€'000	€'000
Technical account – life assurance		
Acquisition costs	66,134	36,632
Administrative expenses	18,038	19,170
Change in deferred acquisition costs	(7,500)	(3,715)
	<hr/>	<hr/>
	76,672	52,087
	<hr/> <hr/>	<hr/> <hr/>
Operating expenses include:		
Policyholder administration	4,492	4,519
Commission	62,065	36,433
General administration and office expenses	16,382	14,320
Professional fees (including auditors remuneration)	1,233	530
Change in deferred acquisition costs (Note 14)	(7,500)	(3,715)
	<hr/>	<hr/>
	76,672	52,087
	<hr/> <hr/>	<hr/> <hr/>

6 Auditors remuneration

The total remuneration paid and payable to the auditors, Mazars, for the audit of the statutory financial statements is shown below together with fees paid in respect of other work.

	2011	2010
	€'000	€'000
Audit of individual account	70	70
Other assurance services	8	-
Taxation advisory services	-	-
Other non audit services	-	-

7 Staff costs and numbers

Staff costs shown here include remuneration paid to Executive Directors (Note 8)

	2011	2010
	€'000	€'000
Wages and salaries	3,449	3,107
Social security costs	365	376
Pension costs	214	135
	<hr/>	<hr/>
	4,028	3,618
	<hr/> <hr/>	<hr/> <hr/>

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

7 Staff costs and numbers *(continued)*

	2011	2010
Average number of employees during the period:		
Administration	21	21
Finance	5	5
Actuarial	6	5
	<u> </u>	<u> </u>

8 Directors' emoluments

The aggregate emoluments of the Directors including pension scheme contributions were as follows:

	2011 €'000	2010 €'000
For services as non Executive Director	59	60
For services as Executive Director	536	615
	<u> </u>	<u> </u>
	595	675
	<u> </u>	<u> </u>

The following are details of remuneration paid to executive Directors

Wages and other benefits	461	532
Social Security costs	52	60
Pension contributions	23	23
	<u> </u>	<u> </u>
	536	615
	<u> </u>	<u> </u>

9 Tax on Profit on ordinary activities before taxation

	2011 €'000	2010 €'000
(A) <i>Analysis of Profit & Loss charge</i>		
Corporation tax	4,626	4,273
	<u> </u>	<u> </u>

Corporation tax

(B) *Reconciliation of current tax at standard rate to the actual tax charge at the effective rate*

Profit on ordinary activities before taxation	37,069	34,068
	<u> </u>	<u> </u>
Current tax at 12.5%	4,634	4,259
<i>Effects of:</i>		
Items not deductible for tax purposes	8	8
Capital allowances for period in excess of depreciation	(8)	6
Tax allowance for foreign dividends	(8)	0
	<u> </u>	<u> </u>
Current tax charge	4,626	4,273
	<u> </u>	<u> </u>

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

10 Financial Assets held for trading

	2011	2010
	€'000	€'000
Cost	479,642	466,309
	<hr/> <hr/>	<hr/> <hr/>
Fair value	279,344	362,808
	<hr/> <hr/>	<hr/> <hr/>
Analysed as follows:		
Index linked bonds	5,850	7,187
Unit trusts	650	2,787
Government securities	96,053	158,077
Corporate securities	18,977	19,567
Index linked options	123,182	160,391
Hedge assets backing Accumulator LOV	34,632	14,799
	<hr/>	<hr/>
	279,344	362,808
	<hr/> <hr/>	<hr/> <hr/>
Movement in financial assets held for trading		
At beginning of year	362,808	306,715
Net additions/(disposals)	13,333	17,578
Net fair value gains/(losses)	(96,797)	38,515
	<hr/>	<hr/>
Balance at end of year	279,344	362,808
	<hr/> <hr/>	<hr/> <hr/>

11 Financial assets held for fair value through Profit and Loss

Cost	6,623,561	6,261,688
	<hr/> <hr/>	<hr/> <hr/>
Fair value	6,539,074	6,715,529
	<hr/> <hr/>	<hr/> <hr/>
Analysed as follows:		
Index linked bonds	4,634,225	4,923,779
Unit trusts	1,904,849	1,791,750
	<hr/>	<hr/>
	6,539,074	6,715,529
	<hr/> <hr/>	<hr/> <hr/>

AXA MPS Financial Limited

Notes to the financial statements *(continued)*
For the year ended 31st December 2011

11 Financial assets held for fair value *(continued)*

	2011	2010
	€'000	€'000
Movement in financial assets held for fair value through Profit and Loss		
At beginning of year	6,715,529	6,954,568
Net additions/(disposals)	361,873	(158,220)
Net fair value gains/(losses)	(538,329)	(80,819)
	<u>6,539,074</u>	<u>6,715,529</u>

12 Loans and receivables

	2011	2010
	€'000	€'000
Fixed deposit accounts	247,267	71,794
Policyholder cash held to cover investment trading	13,931	49,518
	<u>261,198</u>	<u>121,312</u>

13 Tangible fixed assets

	Computer Equipment & Software €'000	Other Equipment €'000	Total €'000
Cost			
Balance at 1 January 2011	1,581	736	2,317
Additions	8	147	155
	<u>1,589</u>	<u>883</u>	<u>2,472</u>
Accumulated depreciation			
Balance at 1 January 2011	1,515	684	2,199
Charge for year	27	64	91
	<u>1,542</u>	<u>748</u>	<u>2,290</u>
Net book value			
At 31 December 2011	<u>47</u>	<u>135</u>	<u>182</u>
At 31 December 2010	<u>66</u>	<u>52</u>	<u>118</u>

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

14 Deferred acquisition costs

	2011 €'000	2010 €'000
Balance at 1 January 2011	16,947	13,231
Release of prior year provision	(1,886)	(2,352)
Increase in provision for current year	9,386	6,067
Charge to the current year P&L (note 5)	7,500	3,715
Balance at 31 December 2011	24,446	16,947

15 Other Debtors

	2011 €'000	2010 €'000
Deferred tax	-	1,933
Italian substitute tax	80,688	73,804
Sundry debtors	4,716	1,398
Accrued interest and rent	-	-
Fund rebates receivable	(50)	(135)
	85,355	77,000

On 1 February 2004 the Company opted into the new Italian tax regime. Under the tax codes (*L'art. 41-bis del Decreto legge 30 settembre 2003, n. 269, convertito dalla legge n. 326 dello stesso anno*) and (*Decreto-legge 12 luglio 2004, n. 168, convertito dalla legge 30 luglio 2004, n. 191 – Disposizioni fiscali urgenti-modifiche alla disciplina fiscale delle riserve matematiche.*) the Company is required to make an advance payment of policyholder taxes to the Italian Revenue Authorities.

The tax asset is recoverable against taxes withheld on policyholder gains and through a group recovery mechanism i.e. offset against other taxes payable. In May 2008, the National Association of Insurance Commissioners (ANIA) issued a circular, Prot.0160, with respect to the recovery mechanism of unused tax assets after 5 years. In this circular it was clarified that companies who had an unused tax asset of 5 plus years could offset that asset against current mathematical reserves thus ensuring that the asset is fully recoverable. In the opinion of the Directors, the realisable value of the Italian tax asset is not less than its book value.

Included in the above is €80.7 million (2010: €73.8 million) which is recoverable after more than 1 year.

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

16 Cash and cash equivalents

	2011	2010
	€'000	€'000
Balance at Bank	77,356	165,215

17 Share capital

	2011	2010
	€'000	€'000
<i>Authorised:</i>		
5,078,953 Ordinary shares of €1 each	5,079	5,079
<i>Allotted, called up and fully paid:</i>		
634,870 Ordinary shares of €1 each	635	635

18 Capital position statement

Capital management policies and objectives

The Board's policy is to maintain a strong capital base to protect the interest of policyholders and to meet the regulatory requirements of the Central Bank of Ireland while still creating shareholder value. The level of capital required by the Company is valued in accordance with the European Communities (Life Assurance) Framework Regulations 1994 (the "Solvency Regulations"). The level of available capital resources should be in excess of the level of the solvency capital at which the Central Bank of Ireland is empowered to take action and any further amount that may be encumbered by local regulatory restrictions. The level of available capital should be at least sufficient to meet a margin of 50% in excess of the solvency margin requirement.

The Company's objectives in managing its capital are;

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- To maintain financial strength to support new business growth;
- To satisfy regulatory requirements whilst taking account of policyholders' expectations;
- To retain financial flexibility by maintaining strong liquidity; and
- To allocate capital efficiently to support growth

Capital is closely monitored by the Company.

Capital composition

The Company capital comprises €0.6 million of paid-up share capital, €114 million of capital contributions and €129.2 million of retained surplus, totaling €243.9 million.

The Company has complied with all externally and internally imposed capital requirements throughout the period.

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

18 Capital position statement *(continued)*

The Company had available capital resources of €127.3 million at 31 December 2011 to cover a solvency margin requirement of €50.7 million. Available capital resources represent the excess of assets valued in accordance with the European Communities (Life Assurance) Framework Regulations 1994 (the “Solvency Regulations”) over liabilities calculated in accordance with the Solvency Regulations.

Shareholder capital is held in the long term business fund and is mostly invested in cash and short term debt securities.

Restrictions on available capital resources

The Company is required to hold sufficient capital to meet minimum solvency requirements as prescribed under the Solvency Regulations, the requirements of which in turn stem from European Directives. Any excess available capital over solvency requirements is available for distribution to the shareholder subject to any other restrictions laid down under normal Company Law requirements.

Reconciliation of total shareholder’s funds per the financial statements to the total available capital resources per the 2011 annual return to be submitted to the Central Bank of Ireland .

	2011	2010
	€’000	€’000
Total shareholder funds	243,852	211,409
Adjustment to regulatory bases:		
Adjustment to asset values	(6,931)	(4,661)
Adjustment to reserves values	(189,898)	(126,728)
Adjustment to retained profit – FRS 26	80,261	63,412
	<hr/>	<hr/>
	(116,568)	(67,977)
	<hr/> <hr/>	<hr/> <hr/>
Total available capital resources	127,284	143,432
	<hr/> <hr/>	<hr/> <hr/>
Minimum solvency level required by Central Bank of Ireland	50,742	32,132
	<hr/> <hr/>	<hr/> <hr/>

AXA MPS Financial Limited

Notes to the financial statements *(continued)*
For the year ended 31st December 2011

19 Other technical provisions

	2011	2010
	€'000	€'000
Life assurance provision		
Gross amount		
Balance at 1 January	42,586	37,470
Movement in provision	44,516	5,116
	<hr/>	<hr/>
Balance at 31 December	87,103	42,586
	<hr/> <hr/>	<hr/> <hr/>

Other technical provisions include provisions set aside for future expenses associated with linked insurance and investment contracts and claims incurred but not reported.

20 Financial Liabilities – Investment Contracts

	2011	2010
	€'000	€'000
Balance at 1 January	6,476,021	6,848,479
Movement in provision	(387,755)	(372,458)
	<hr/>	<hr/>
Unit reserve at 31 December	6,088,266	6,476,021
	<hr/> <hr/>	<hr/> <hr/>
Unit reserve at 1 January	6,476,021	6,848,479
Contributions received from policyholders (note 1)	1,630,011	1,022,907
Fee income	(129,658)	(77,579)
Claims (note 4)	(1,747,397)	(1,590,290)
Policyholder contract benefits	(138,018)	272,155
Bond options	-	349
	<hr/>	<hr/>
Unit reserve at 31 December	6,088,266	6,476,021
	<hr/> <hr/>	<hr/> <hr/>

The unit reserves for financial liabilities represent linked reserves held in respect of investment contracts.

Technical Provisions – Linked Liabilities

	2011	2010
	€'000	€'000
Balance at 1 January	450,603	325,012
Movement in provision	137,955	125,591
	<hr/>	<hr/>
Unit reserve at 31 December	588,558	450,603
	<hr/> <hr/>	<hr/> <hr/>

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

20 Financial Liabilities – Investment Contracts *(continued)*

The technical provisions unit reserves represent linked reserves held in respect of insurance contracts.

Unit reserves represent linked liabilities for insurance and investment contracts and are matched by the following financial assets where the investment risk is borne by the policyholder:

	2011	2010
	€'000	€'000
Financial assets held for trading (note 10)	123,819	161,325
Financial assets at fair value through Profit and Loss (note 11)	6,539,074	6,715,529
Policyholder cash held to cover investment trading (note 12)	13,931	49,518
Loans and receivable (unallocated cash)	-	251
	<hr/>	<hr/>
	6,676,824	6,926,623
	<hr/> <hr/>	<hr/> <hr/>

As investment contracts are predominately whole of life and can be surrendered immediately on demand, it is not possible to detail expected settlement dates of the contracts. The amount that the Company would be contractually required to pay upon surrender would be based upon the fair value of the fund assets at that time. There is no difference between the carrying amount and the surrender amount. No part of the change in investment contract liabilities during the year is attributable to changes in the credit risk of the liabilities.

21 Creditors arising out of direct insurance operations

	2011	2010
	€'000	€'000
Amounts falling due within one year:		
Amounts due in respect of reinsurance outwards	86	90
	<hr/>	<hr/>
	86	90
	<hr/> <hr/>	<hr/> <hr/>

22 Other creditors including tax and social welfare

	2011	2010
	€'000	€'000
Amounts falling due within one year:		
Employment costs	987	893
Corporation tax	293	426
Italian tax payable	20,501	18,803
Other creditors (commission payables and accruals)	25,971	12,272
Investment redemptions payable	97,230	155,905
Bank overdraft	9,400	8,695
	<hr/>	<hr/>
	154,383	196,994
	<hr/> <hr/>	<hr/> <hr/>

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

22 Other creditors including tax and social welfare *(continued)*

Deferred tax liabilities:	2011	2010
	€'000	€'000
Deferred Tax	-	866
	<hr/>	<hr/>

23 Deferred income liability

	2011	2010
	€'000	€'000
At 1 January	80,359	77,623
	<hr/>	<hr/>
Release of prior year provision	(26,787)	(22,250)
Increase in provision for current year	51,135	24,986
	<hr/>	<hr/>
Charge to the current year P&L	24,349	2,736
	<hr/>	<hr/>
At 31 December	104,707	80,359
	<hr/>	<hr/>

24 Statement of movement on shareholder's funds

	Share capital €'000	Capital contribution €'000	Profit and loss €'000	Total €'000
2011				
Balance at 1 January	635	114,000	96,774	211,409
Recognised income and expense for the year	-	-	32,443	32,443
Dividend paid	-	-	-	-
Capital contribution	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	635	114,000	129,217	243,852
	<hr/>	<hr/>	<hr/>	<hr/>
2010				
Balance at 1 January	635	114,000	66,979	181,613
Recognised income and expense for the year	-	-	29,795	29,795
Dividend paid	-	-	-	-
Capital contribution	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	635	114,000	96,774	211,409
	<hr/>	<hr/>	<hr/>	<hr/>

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

24 Statement of movement on shareholders funds-capital contribution *(continued)*

In 1999, the then shareholders of the Company, Montepaschi Vita S.p.A. and Banca Monte dei Paschi di Siena S.p.A., companies incorporated in Italy, made an irrevocable contribution of €4,444,083 to the capital of the Company. On 30 December 2004 the Company received additional capital contributions from Montepaschi Vita S.p.A. and Banca Monte dei Paschi di Siena S.p.A. of €30,000,000 and €20,000,000 respectively. In 2008 further capital contributions were made by the shareholder, AXA MPS Assicurazioni Vita, of €29,555,919 and €30,000,000 on 17th June 2008 and 30th December 2008. These capital contributions are non-refundable and non interest bearing. These contributions, after all accumulated losses have been taken into account are available to be distributed to the shareholder.

25 Risk management policies

The Company's approach to financial risk and capital management is detailed as follows:

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company may be exposed are:

- Amounts due from policyholders
- Amounts due from corporate bond issuer
- Amounts due from reinsurers in respect of insurance claims paid
- Amounts due from counterparties to derivative transactions

The Company reduces the risk of policyholder payment defaults by selling its products through the banking network of the joint venture Company, Banca de Monte dei Paschi. All policyholder premiums are debited directly from the bank account at the inception of the policy.

Reinsurance is used to manage insurance risk on additional rider benefits. If a reinsurer fails to pay a claim the Company is liable for payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength and their reputation in the market place prior to any contract being signed. The Company only considers those companies with a rating of A and higher as reinsurance partners. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Corporate bond holdings have a minimum rating of BBB and the investment in these bonds is strictly monitored by the Company in conjunction with AXA Investment Managers and AXA Group Risk Management.

Transactions involving derivative financial instruments are with counterparties with high credit ratings. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations. All derivative contracts are backed by collateral agreements which mitigate the credit risk for the Company.

For unit linked contracts the Company matches all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no credit risk for the Company on these contracts.

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

25 Risk management policies *(continued)*

Analysis of counterparty risk on assets and exposures

Counterparty risk assumed by shareholder:	2011	2010
	€'000	€'000
Holding of MPS structured products	6,009	7,966
German Government bond (shareholder investment)	3,679	59
Italian Government bond (shareholder investment)	85,099	158,017
Austrian Government Bond (shareholder investment)	1,063	-
French Government Bonds (shareholder investment)	6,212	-
Corporate bonds	16,797	19,568
Equities	2,180	-
Unit trusts	980	1,713
Italian Government bonds backing index-linked bonds	1,860,054	868,350
Options backing index-linked bonds	53,878	14,815
Swaps backing index-linked bonds	(303,558)	(160,632)
Other	469,484	344,729

2,201,877	1,254,585
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2011	2010
€'000	€'000

Other assets where counterparty risk is assumed by the policyholder:

Investments in unit trusts	2,029,123	1,938,192
Investments in Index linked bonds	3,035,926	4,266,152
	5,065,049	6,204,344

Investments in index linked bonds and corporate bonds are subject to a minimum credit rating of BBB. Investments in unit trusts include portfolio bonds where the minimum rating is BB and above.

Exposure to market risk

Market risk can be described as the risk of changes in the fair value of a financial instrument due to changes in interest rates, equity prices, creditworthiness, foreign exchange rates or other factors. The Company seeks to mitigate this risk by a number of factors as described below. The Company's policies to address these risks were unchanged from the previous year.

The Company's exposure to changes in interest rates is limited to changes in the value of the shareholder's investments.

Interest rate hedging

Interest rate risk can be described as the risk that a security's value will change due to a change in interest rates. All interest exposure on policyholder investments is borne by policyholders and as such the Company does not have any interest rate exposure in relation to these investments.

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

25 Risk management policies *(continued)*

Interest rate hedging (continued)

The Company does hold assets which are exposed to interest rate movements and this are dealt with under the heading “Exposure to interest rate risk” on page 38.

Foreign currency risk

Foreign currency risk can be described as the risk that the Company may be affected due to an adverse movement in foreign exchange rates. The Company does hold assets which are subject to exposure on currency movements. These refer to the future contracts entered into as part of our hedging program for Accumulator products and which are linked to foreign indices such as TOPIX (JPY), FTSE (GBP), SMI (CHF) and S&P 500 (USD). For unit linked contracts the Company matches all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no foreign currency risk for the Company on these contracts.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in obtaining funds to meet its commitments including commitments associated with financial instruments. In managing the Company’s assets and liabilities, the Company seeks to ensure that cash is at all times available to settle liabilities as they fall due. The Company’s treasury position is reviewed on a daily basis and cash balances are maintained to meet due liabilities.

For investment contract redemptions, cash paid out is funded by the redemption of the linked assets supporting the contract liability. The Company may be exposed to certain transactions affecting unit linked transactions such as unit private switching and the purchase of index linked investment bonds. The unit private switching involves the selling and buying of assets on the same day. If a mismatch occurs the Company may be liable to fund the purchase of the new assets while waiting for the sell transaction to complete. This risk is considered to be minimal and is monitored by management. Index linked products are subject to a minimum buy amount with the issuer.

If sales value does not match the minimum sell quantity, the Company is required to take a shareholding in the offering. The risk is minimised by entering into a sell back contract at the original price.

Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices, whether those changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The prices of the index linked assets sold back to the issuing companies are negotiable and can potentially result in price risk. These are the only assets with exposure to price risk. The prices of other assets held by the Company are subject to interest rate movements and equity market movements.

Operational Risk

Operational risk is the risk of a loss arising from failed or inadequate internal processes or systems, human error or other external factors. The Company manage these risks by identifying and testing key control procedures, and obtaining and reviewing key management information and trend analyses on operational occurrences. Controls include segregation of duties, access controls, authorisation and reconciliation procedures, staff education and internal audit. Material operational issues and failures are brought to the attention of the Board.

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

Insurance risk

Insurance risk refers to the fluctuation in the timing, frequency and severity of insured events relative to the expectations of the Company at the time of underwriting. Insurance risk can also refer to fluctuations in the timing and amount of claim settlements.

Given the limited nature of the insurance risk, underwriting procedures are limited to seeking declarations of good health from policyholders. This declaration is not sought for some policies with minimal insurance risk. The Company's reinsurance policy is to reinsure additional rider benefits such as critical illness cover and permanent and total disability. In 2010 the Company decided not to reinsure any new business.

Exposure to interest rate risk

The following table provides a duration profile for holdings of interest sensitive investment assets.

At 31 December 2011	6 months or less €'000	6-12 months €'000	1-5 years €'000	over 5 years €'000	Total €'000
Government bonds	17,309	42,085	22,006	14,654	96,053
Corporate bonds	-	-	14,597	2,200	16,797
Deposits with credit institutions	77,356	-	-	-	77,356
	<u>94,665</u>	<u>42,085</u>	<u>36,603</u>	<u>16,854</u>	<u>190,206</u>
	<u><u>94,665</u></u>	<u><u>42,085</u></u>	<u><u>36,603</u></u>	<u><u>16,854</u></u>	<u><u>190,206</u></u>
At 31 December 2010	6 months or less €'000	6-12 months €'000	1-5 years €'000	over 5 years €'000	Total €'000
Government bonds	29,561	63,675	64,360	480	158,076
Corporate bonds	3,336	-	14,515	1,717	19,568
Deposits with credit institutions	165,215	-	-	-	165,217
	<u>198,112</u>	<u>63,675</u>	<u>78,875</u>	<u>2,197</u>	<u>342,861</u>
	<u><u>198,112</u></u>	<u><u>63,675</u></u>	<u><u>78,875</u></u>	<u><u>2,197</u></u>	<u><u>342,861</u></u>

The effective interest rates at 31 December 2011 were as follows:

	6 months or less	6-12 months	1-5 years	over 5 years
Government bonds	3.82%	3.52%	4.98%	3.63%
Corporate bonds	-	-	3.35%	5.39%
Deposits with credit institutions	0.90%	-	-	-

Note that the profile of interest rates shown above for Government Bonds, reflects the significant holding of Italian Government Bonds.

The following sensitivity analysis shows the cash flow impact of a reduction by 1% upon cash flows from interest rate sensitive assets held at 31 December 2011. These cash flows contribute directly to the profit before tax result. The principle components are as follows:

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

25 Risk management policies *(continued)*

Exposure to interest rate risk (continued)

Floating Rate Bonds: The cash flows arising will diminish by the sums shown in the table as the coupon payable is highly likely to reflect movements in interest rates.

Fixed Coupon Bonds: There will be no cash flow implications (the coupon is fixed) unless the bonds are disposed of.

Deposits with Credit Institutions: A reduction in interest rates will reduce the interest receivable on deposit accounts. The estimated impact is shown in the table below.

1% reduction in interest rates

2011	6 months or less €'000	6-12 months €'000	1-5 years €'000	over 5 years €'000	Total €'000
Government bonds	-	(248)	(125)	-	(373)
Corporate Bonds	-	-	-	-	-
Deposits with credit institutions	(376)	-	-	-	(376)
	<u>(376)</u>	<u>(248)</u>	<u>(125)</u>	<u>-</u>	<u>(749)</u>

1% reduction in interest rates

2010	6 months or less €'000	6-12 months €'000	1-5 years €'000	over 5 years €'000	Total €'000
Government bonds	(295)	(635)	(495)	-	(1,426)
Corporate bonds	-	-	-	-	-
Deposits with credit institutions	(519)	-	-	-	(519)
	<u>(814)</u>	<u>(635)</u>	<u>(495)</u>	<u>-</u>	<u>(1,945)</u>

Derivatives

The Company does not use hedge accounting. The only derivatives held where the risk is retained by the Company are options held for short periods of time as a result of policyholder surrenders of structured assets and those derivatives held in respect of the Accumulator product. In respect of the structured assets the Company does not hold these for speculative purposes and sells the assets back to the issuing Company within a short period of time. A key feature of the Accumulator product underwritten by the Company is a minimum guaranteed return to the shareholder. The Company mitigates the cost of these financial guarantees by operating a sophisticated hedging program whereby changes in the discounted value of the policyholders' option are offset by changes in the value of the hedge assets held. The amount of hedge assets held is adjusted regularly in line with changes in business volumes and with market movements. This process is known as dynamic hedging strategy.

The Company's dynamic hedging strategy as approved by the Board seeks to ensure that a position on equity futures offsets a change in the "marked to market" value of the minimum guarantee benefits, as

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

25 Risk management policies *(continued)*

Derivatives (continued)

the equity markets fluctuate. As the markets increase or decrease the change in the value of the guarantees is offset by a change in the value of the portfolio of hedge instruments. At policy inception the Company will set up the initial futures position as a hedge for the guarantee liability. As time passes, the number of contracts needed to hedge the exposure changes as the markets move and as premiums are received.

The Company receives hedging advisory services from AXA Hedging Services Limited (AHS), a subsidiary of AXA Bank Europe, which is itself a subsidiary of AXA S.A. AHS uses sophisticated valuation systems to model the assets and liabilities and to calculate the number of futures contracts and interest rate swaps required to hedge the Company's exposure. This is a dynamic model and allows for policyholder behaviour in different scenarios.

The value of the guaranteed benefits is determined on a daily basis and the futures position is marked to market. The futures position is monitored and adjusted to maintain a delta-neutral position on a weekly basis (delta refers to the sensitivity of the derivative value to the change in the price of the underlying asset). The Company also employs hedging techniques in order to neutralise the option value's sensitivity against movements in the yield curve (rho). This is done through the use of over the counter (OTC) swaps.

The Company's derivative portfolio at 31 December 2011 is shown below:

	Notional amount €000	Fair Value asset €000	Fair value liability €000	Fair value net €000
Interest rate swaps	4,861,714	88,639	(62,376)	26,263
Exchange traded futures	131,204	1,063	(2,227)	(1,164)
	<u>4,992,918</u>	<u>89,702</u>	<u>(64,603)</u>	<u>25,099</u>

The Company's derivative portfolio at 31 December 2010 was as shown below:

	Notional amount €000	Fair Value asset €000	Fair value liability €000	Fair value net €000
Interest rate swaps	2,283,369	43,472	(32,804)	10,668
Exchange traded futures	77,791	21	(681)	(660)
	<u>2,361,160</u>	<u>43,493</u>	<u>(33,485)</u>	<u>10,008</u>

The table overleaf provides an analysis of derivative instruments into their relevant maturity groups based on the remaining period at the 31 December 2011.

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

25 Risk management policies *(continued)*

Derivatives (continued)

	<1 year €'000	1-5 years €'000	>5 years €'000	Total €'000
Interest rate swaps	1,652,314	2,300,655	908,745	4,861,714
Exchange traded futures	131,204	-	-	131,204
	<u>1,783,518</u>	<u>2,300,655</u>	<u>908,745</u>	<u>4,992,918</u>

The following table provides an analysis of derivative instruments into their relevant maturity groups based on the remaining period at 31 December 2010:

	<1 year €'000	1-5 years €'000	>5 years €'000	Total €'000
Interest rate swaps	74,453	1,491,463	717,453	2,283,369
Exchange traded futures	77,791	-	-	77,791
	<u>152,244</u>	<u>1,491,463</u>	<u>717,453</u>	<u>2,361,160</u>

Exposure to equity market movements:

Any movement in the Company's assets due to equity market movements, to the extent that they are held on behalf of the policyholder, is exactly offset by a corresponding movement in liabilities. The Company's exposure to market movements is limited to the investment of shareholder assets in equities. Shareholder assets invested in funds exposed to equity market movements represents 1.5% (2010: 1.5%) of total shareholder funds. These assets comprise of loyalty units held for the benefit of policyholders whose policies allow for a loyalty bonus top up of 1.2% (2010: 1.2%) upon reaching a specified anniversary date. The Company also holds a small number of tracker options which are typically comprised of a basket of various equity stocks and direct equity holdings. The value of these options was 0.3% (2010: 0.3%) of total shareholder's assets at 31 December 2011.

Fair Value Hierarchy

The table overleaf shows an analysis of the financial instruments recorded at fair value in accordance with fair value hierarchy. The fair value hierarchy reflects the significance of the inputs used in making the measurements and are classified as Level 1, Level 2 and Level 3.

The prices for the debt securities and fixed income securities are quoted on active markets and therefore the prices for these assets are obtained independently from the market. Therefore, these are classed as Level 1 assets.

Level 2 refers to asset inputs other than quoted prices included within Level 1 that are observable for the assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices) "Investments in index linked bonds" includes €123 million of equity options for investment and insurance policies purchased via 'over-the-counter' contracts and €3 billion of structured bonds issued by Banca Monte dei Paschi di Siena. There is not an active market in these assets which would allow an independent verification of the price. The counterparty produces prices for these assets, which are checked through the Company's own independent checking of the option price and bond price. The Company treats these assets as Level 2 assets. Level 3 refers to assets whose fair value cannot be determined using observable measures, such as market prices or models. The Company holds no such assets.

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

25 Risk management policies *(continued)*

Fair Value Hierarchy (continued)

	2011	Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000
Holding of MPS structured products	6,009	-	6,009	-
German Government bond	3,679	3,679	-	-
Italian Government bond	85,099	85,099	-	-
Austrian Government bond	1,063	1,063	-	-
French Government Bonds	6,212	6,212	-	-
Corporate bonds	16,797	16,797	-	-
Equities	2,180	2,180	-	-
Unit trusts	1,083	-	1,083	-
Italian Government bonds backing IL Bonds	1,860,045	1,860,045	-	-
Options backing index-linked bonds	53,878	-	53,878	-
Swaps backing index-linked bonds	(303,558)	-	(303,558)	-
Investments in unit trusts	2,029,123	-	2,029,123	-
Investments in index linked bonds	3,035,926	-	3,035,926	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	6,797,575	1,975,084	4,822,491	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	2010	Level 1	Level 2	Level 3
	€'000	€'000	€'000	€'000
Holding of MPS structured products	7,966	-	7,966	-
German Government bond	59	59	-	-
Italian Government bond	158,017	158,017	-	-
Corporate bonds	19,568	19,568	-	-
Unit trusts	1,713	-	1,713	-
Italian Government bonds	868,350	868,350	-	-
Options backing index-linked bonds	14,815	-	14,815	-
Swaps backing index-linked bonds	(160,312)	-	(160,312)	-
Investments in unit trusts	1,938,192	-	1,938,192	-
Investments in index linked bonds	4,266,152	-	4,266,152	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	7,114,200	1,045,994	6,068,206	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

26 Accounting estimates and judgements

The Company's critical accounting policies and estimates and the application of these policies and estimates are considered by management each reporting period.

Insurance

The Company makes estimates of the expected number of deaths for each of the years that it is exposed to risk. These estimates are based on standard industry and national mortality tables, adjusted to reflect the Company's own experience. Appropriate allowance is made for expected improvements in mortality, due to improvements in medical care and social conditions. However, there is considerable uncertainty regarding the impact of epidemics and changes in lifestyle such as smoking, eating and exercise habits, which could result in a deterioration in mortality.

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

26 Accounting estimates and judgements *(continued)*

Insurance (continued)

For contracts without fixed terms, the Company has assumed that it will be able to increase premiums in future years in line with emerging mortality experience.

Investment contracts

Investment contracts are accounted for as financial instruments under FRS 25 and FRS 26. These are primarily unit linked contracts whose value is contractually linked to the fair value of the financial assets held by the Company. Initial fees earned and incremental costs (mainly commission) paid on sale of an investment contract are deferred and recognised over the expected life of the contract. The expected life of the contract is estimated based on current experience and the term of the contracts and is reviewed at least annually. Changes to the life expectancy could affect the income and costs recognised and the value of the related asset and liability included in the financial statements. However, given that any changes to the life expectancy will affect both costs and fees, the net impact is unlikely to be significant.

Financial instruments

The Company carries certain financial assets and liabilities at fair value, including derivatives and assets and liabilities of the life assurance operations. Assets and liabilities are priced using a quoted market price where available or by using valuation models. Valuation models use data such as interest rate yield curves, equity prices, options volatilities and currency rates. Most of these parameters are directly observable from the market. Changes in the fair value of financial assets will largely be offset by corresponding changes in the fair value of liabilities and therefore the net impact on equity is unlikely to be significant.

Other technical provisions

In the calculation of other technical provisions it has been necessary to make certain assumptions regarding future experience. The main assumptions relate to expense levels and sales assumptions.

27 Ultimate parent undertaking

The Company is a 100% subsidiary of AXA MPS Vita which in turn is 50% owned by Banca Monte dei Paschi di Siena S.p.A. and 50% owned by AXA S.A. AXA S.A. has a controlling interest in AXA MPS Vita and is therefore the ultimate parent of AXA MPS Financial Limited. The parent undertaking of the largest group of undertakings for which group financial statements are drawn up is AXA S.A which is incorporated in France and this Company is considered by the Directors to be the ultimate parent undertaking.

The financial statements of AXA S.A. are available from the Company Secretary, 25 Avenue Matignon, 75008, Paris, France.

The financial statements of AXA MPS Financial Limited are available from the Company Secretary at 33 Sir John Rogersons Quay, Dublin 2.

28 Related party transactions

The Company is availing of the exemption under Financial Reporting Standard No. 8 "Related Party Disclosures" not to disclose details of transactions with group companies as the Company is ultimately a wholly owned subsidiary of AXA S.A.

During the year Mr A.Bates resigned as a Company Director. He is a partner in the law firm Dillon Eustace which the company engages as its legal advisor. Legal fees paid in 2011 amounted to €114,887 (2010: €116,410).

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

29 Pension commitments

The Company operates a voluntary defined contribution scheme for its employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. Pension costs represent contributions payable by the Company to the fund and amounted to €151,751 (plus €22,500 in respect of an Executive Director) in the year ended 31 December 2011 (2010: €126,588).

30 Other financial commitments

On the 26th February 2006 the Company entered into a long term lease of 9 years and 9 months for its office premises at Georges Quay. On 17th September 2010 the Company agreed to a Deed of Variation of the original lease which had the effect of reducing our lease payments. The Company also has a lease agreement in respect of an executive vehicle. At the balance sheet date the Company's commitment in respect of these leases were as follows:

	2012	2013	2014	2015	2016 & beyond
Office Lease	€372,302	€372,302	€372,302	€372,302	€372,302
Executive vehicle	€11,424	-	-	-	-

31 Employee Share Ownership

AXA S.A. offers its employees an opportunity to become shareholders through a special share capital programme known as "Shareplan". Two investment options are available to employees in AXA SA namely "The Traditional plan" and "The Leveraged plan".

The Traditional plan allows employees to subscribe through a personal investment to AXA shares with a discount. The shares are held within the Group Company Savings Plan and are restricted from sale during a period of 5 years (except specific early cases allowed by applicable laws). Employees are subject to the share price movement up or down, as compared to the subscription price.

The Leveraged plan allows employees to subscribe, on the basis of 10 times their personal investment, to AXA shares with a discount. The shares are held within the Group Company Savings Plan and are restricted from sale during a period of 5 years (except specific early cases allowed by applicable laws). Employees personal investment is guaranteed by a third party, Natxis bank, and employees also benefit from a portion of the share appreciation, as compared to the non discounted reference price.

The employee subscription for the Shareplan in 2011 was as follows:

Traditional Plan	€24,437	(2010: €14,500)
Leveraged Plan	€13,206	(2010: €18,300)

AXA S.A. also grant Performance Units which partially replaced stock options awarded to employees. Performance Units aim at rewarding and retaining the best talents by associating them to the intrinsic performance of the AXA group and of their operational business unit as well as to the performance of the AXA share price in the medium term (2-4 years). Performance Units operate as follows:

AXA MPS Financial Limited

Notes to the financial statements *(continued)*

For the year ended 31st December 2011

31 Employee Share Ownership *(continued)*

Each beneficiary receives an initial grant of Performance Units. This number will be used to calculate the actual number of units that will definitely be acquired at the end of a 2 year acquisition period, under the condition that the employee is still employed by the AXA Group at that date.

Each year during the acquisition period, half of the Performance Units initially granted are subject to collective performance conditions measuring both the performance of the AXA Group and the beneficiary's operational business unit performance, based on pre determined targets.

For beneficiaries in operational business units, their operational business unit performance carries a weighting of 2/3 while the AXA Group performance carries a weighting of 1/3. In 2011 and 2010, the performance indicators determined by the AXA Group Management Board have been as follows:

- for the operational business unit's performance: underlying earnings, P&C revenues and new business value in Life & Savings.
- for the AXA Group performance: underlying earnings per share, P&C revenues and new business value in Life and Savings.

The cost to the Company in 2011 in respect of performance units was €26,547 (2010: €27,753)

32 Subsequent events

There have been no significant events affecting the Company since the year end which require amendment to or disclosure in these financial statements.

33 Cash flow statement

The Company has availed of the exemption in Financial Reporting Standard No 1 (Revised), which permits qualifying subsidiaries of a group which itself publishes financial statements, not to produce a cash flow statement.

34 Approval of financial statements

The Directors approved the financial statements on 23 April 2012.