

AXA MPS Financial DAC
(formerly AXA MPS Financial Limited)

Directors' report and
financial statements

Year ended 31 December 2015

Registered number: 293822

AXA MPS Financial DAC

Directors' report and financial statements

For the year ended 31 December 2015

<i>Contents</i>	<i>Page</i>
Directors and other information	2 - 3
Directors' report	4 - 7
Directors responsibilities statement	8
Report of the Independent auditors	9 - 10
Statement of profit or loss	11
Statement of other comprehensive income	12
Statement of financial positon	13 - 14
Statement of changes in equity	15
Statement of cash flows	16
Notes to the financial statements	17 - 51

AXA MPS Financial DAC

Directors and other information

For the year ended 31 December 2015

Directors	B. Derouvroy Bernard, Chairman and Non Executive Director (France) F. de Courtois, Non Executive Director, (France) F. Accorinti, Non Executive Director (Italy) N. Guinan, CEO and Executive Director B. Guiot, Non Executive Director (France) J. Goold, Independent Non Executive Director (UK) S. Hughes, Independent Non Executive Director S. Vannier, Non Executive Director (France) M. Pescarini, Non Executive Director (Italy) V. Fallucca, 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	James Archer AXA MPS Financial DAC
Auditors	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 Block C Irish Life Centre Lower Abbey Street Dublin 1 Ireland

AXA MPS Financial DAC

Directors and other information

For the year ended 31 December 2015

Investment managers

J.P. Morgan Asset Management
Anima Asset Management Ltd
Fidelity Investments Luxembourg S.A.
BNY Mellon Asset Management
ING Investment Management
Julius Baer Investment Funds
Candriam
Aberdeen Global Services S.A.
Ubam
AXA Rosenberg
BNP Paribas Investment Partners
UBS Fund Services Luxembourg S.A.
Schroder Investment Management Luxembourg S.A.
Invesco Asset Managers
Alliance Bernstein Investor Services
Carmignac Investment Managers
Franklin Templeton Investments
AXA Investment Managers
Architas Multi Manager Europe
Blackrock Investment Managers
State Street Global Advisors
Old Mutual Global Investor Services
Metzler Ireland Limited
Threadneedle Luxembourg
MFS International Limited
fBrown Advisory Limited
Morgan Stanley
Amundi Asset Management
M&G Investments
Henderson Fund Management
Natixis Global Asset Management
HSBC Global Asset Management
Goldman Sachs Asset Management
Legg Mason
Jupiter Fund Management
BlueBay Asset Management
Investec Asset Management
Pictet Asset Management

AXA MPS Financial DAC

Directors' report

For the year ended 31 December 2015

The Directors present their annual report and the audited financial statements for AXA MPS Financial DAC ("the Company") (formerly AXA MPS Financial Limited) for the year ended 31 December 2015. The Directors consider it appropriate that these financial statements are prepared on a going concern basis.

Principal activities, business review and future developments

The Company is authorised in Ireland to transact life assurance business in the European Union ("EU") under the Solvency II Directive (2009/138/EC) as introduced into domestic Irish legislation by the EU (Insurance and Reinsurance) Regulations 2015, effective 1 January 2016 (previously authorised under the European Union 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 distribution network of banking intermediaries.

During 2015, investment and insurance product sales amounted to €3,891 million (2014: €3,390 million), an increase of 14.8% on 2014. This level of sales was the highest recorded by the Company since inception. Gross Written Premium reported for insurance products in the statement of profit or loss amounts to €1,678 million (2014: €2,262 million).

Total insurance claims and investment redemptions for the period amounted to €3,993 million for the year (2014: €3,856 million) an increase of 3.5% on 2014.

Total policyholder assets under management amount to €9,150 million (2014: €9,115 million) which is an increase of €35 million from the previous year. Investment performance was the main contributor to the increase in policyholder assets as net technical operating cash flow for 2015 was a negative €102 million (2014: negative €466 million) an improvement of €364 million from 2014.

The Company generated a profit after tax of €126.9million (2014: €123.7 million) and net assets at the 31 December 2015 amounted to €231.4 million (2014: €382.7 million).

The regulatory solvency position of the Company at 31 December 2015 is satisfactory with total available assets of €160.7 million (2014: €330.2 million) and the excess of available assets over the required minimum solvency margin is €144.8 million (2014: €308.8 million).

During 2015 the Company saw a change in its product sales mix resulting in less dependency on its tranche based protected unit linked products towards more traditional open ended unit linked business. Traditional unit linked sales accounted for 59% of sales in 2015 compared to 33% in 2014. This diversification in sales mix is part of a longer term strategy towards a more traditional unit linked business model. In addition the Company launched a new contractual option feature, iProtect, for existing and new Valore Selezione policyholders with the aim of providing an investment protection option. This contractual option will provide for protection up to 85% of the account value at the time that the protection is activated. The Directors are satisfied that the Company is well placed to continue product innovation and providing savings and investment life products relevant to a diverse customer market into the future.

The Directors, play an active role in the development of the Company through the ongoing review and oversight of budgets and performance. It is the Company's objective to achieve a satisfactory level of profitability for its shareholder whilst taking into account statutory, financial, fiscal and regulatory requirements and to meet policyholder's reasonable expectations. At each Board meeting the Directors are provided with financial key performance indicators and a margin variance analysis against budget to inform them of the main profit drivers. The Company continues to meet policyholder needs by way of

AXA MPS Financial DAC

Directors' report *(continued)*

For the year ended 31 December 2015

Principal activities, business review and future developments *(continued)*

delivering a range of products to meet their requirements and this is reflected in the premium sales for 2015.

In 2015 the Company undertook to present its financial affairs under EU IFRS as a result of the cessation of local UK/Irish GAAP. A note reflecting the changes at the transition date of 1 January 2014 is provided in the accompanying notes to the financial statements.

Corporate governance

As the Company has developed, the Directors have been developing the corporate governance framework in line with best practice, the guidance provided by the group parent and the corporate governance code issued by the Central Bank of Ireland. The Company has been rated a Medium High entity according to the Central Bank of Ireland PRISM rating guide and the Company believes it is in compliance with the standards expected of a company with this rating. 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.

The Company have established a Board Audit Committee, a Board Investment Committee and a Board Risk Committee all of which met at least 4 times during 2015. The charter for these committees is reviewed annually and the committees report back to the Board on all issues noted to and raised by them.

Key performance indicators

The Company tracks on a quarterly basis certain Key Performance Indicators (KPIs). These are shown below in €'000s.

Premium written	€3,890,968	(2014: €3,389,528)
TOCF*	(€102,756)	(2014: (€466,358))
Staff Costs	€5,017	(2014: €5,031)
Profit after tax	€126,867	(2014: €123,720)

*Technical Operating Cash Flow

Results for the year and state of affairs at 31 December 2015

The results for the year are set out on pages 11 and 12. The Company's statement of financial position is set out on pages 13 and 14.

Dividends

The Directors are not proposing a final dividend for the year ended 31 December 2015. The Directors approved the payment of interim dividends in May and November 2015 of €275 million (2014: €108.5 million).

AXA MPS Financial DAC

Directors' report *(continued)*

For the year ended 31 December 2015

Directors

The following Directors served during the year:

Béatrice Derouvroy Bernard – Chairman and Non Executive Director

Frédéric de Courtois - Non Executive Director

Fabio Accorinti - Non Executive Director

Jonathan Goold - Independent Non Executive Director

Seamus Hughes - Independent Non Executive Director

Neil Guinan - CEO and Executive Director

Bruno Guiot – Non Executive Director

Sophie Vannier – Non Executive Director

Maurizio Pescarini – Non Executive Director

Valerio Fallucca – Non Executive Director

All of the directors served for the entire year and the period up to the date of signing the financial statements.

Directors' and secretary's and their interests

The Directors and secretary who held office at 31 December 2015 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. are as follows:

<i>Name of Director</i>	<i>Company</i>	<i>Shares</i>		<i>Options</i>	
		<i>31/12/15</i>	<i>01/01/15</i>	<i>31/12/15</i>	<i>01/01/15</i>
Frédéric de Courtois	AXA S.A.	41,501	23,520	156,795	242,829
Neil Guinan	AXA S.A.	3,580	-	1,041	1,041
Bruno Guiot	AXA S.A.	2,825	-	-	1,036
Sophie Vannier	AXA S.A.	7,782	6,940	6,018	18,699
Béatrice Derouvroy Bernard	AXA S.A.	88,328	81,239	78,098	150,574

<i>Name of Director</i>	<i>Company</i>	<i>Performance Units</i>		<i>Share Plan Units</i>	
		<i>31/12/15</i>	<i>01/01/15</i>	<i>31/12/15</i>	<i>01/01/15</i>
Frédéric de Courtois	AXA S.A.	-	14,000	-	-
Neil Guinan	AXA S.A.	-	5,665	-	2,653
Bruno Guiot	AXA S.A.	-	1,325	-	-
Fabio Accorinti	AXA S.A.	-	4,965	-	-
Beatrice Derouvroy Bernard	AXA S.A.	-	15,200	-	-

Accounting records

The Directors believe that they have complied with the requirements of Section 281 to Section 285 of the Companies Act, 2014 with regard to keeping accounting records by employing a service provider and personnel within the Company with appropriate expertise and by providing adequate resources to the financial function and maintenance of computerised accounting systems. The accounting records of the Company are maintained at the premises of its service provider, Irish Progressive Services International Ltd, Block C, Irish Life Centre, Lower Abbey Street, Dublin 1, Ireland.

AXA MPS Financial DAC

Directors' report (*continued*)
For the year ended 31 December 2015

Political donations

The Company made no political donations during the year (2014: Nil).

Companies Act, 2014

The Companies Act, 2014 create two forms of private company limited by shares. The first form is a simplified model of the existing private company limited by shares (referred to as "LTD" for the purposes of this note). The second form provided for in the act is called a Designated Activity Company ("DAC")

The Act prohibits insurance undertakings from converting to a "LTD". AXA MPS Financial Limited is required to covert to DAC under the new regulations changing its name to AXA MPS Financial DAC over the course of the eighteen month transition period.

The Act does not affect the continued application of the Central Bank of Ireland's Corporate Governance codes.

Events after the reporting period

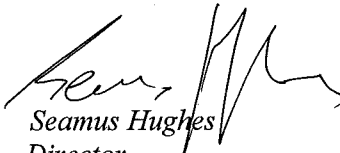
From 1 April 2016, as a result of the requirements of the Companies Act 2014, the Company has changed its name from AXA MPS Financial Limited to AXA MPS Financial DAC. There have been no significant events affecting the Company since the year end which require amendment to the financial statements.

Auditors

Mazars, Chartered Accountants and Registered Auditors, will offer themselves for reappointment in accordance with the provisions of Section 383 (2) of the Companies Act, 2014.

On behalf of the board


Neil Guinan
Director


Seamus Hughes
Director

27 April 2016

AXA MPS Financial DAC

Directors responsibilities statement

For the year ended 31 December 2015

The Directors are responsible for preparing the annual report in accordance with applicable Irish law.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and as adopted by the EU. Under company law, the Directors' must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and of its profit and loss for that financial year and otherwise comply with the Companies Act 2014. 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 the financial statements have been prepared in accordance with applicable accounting standards, identify those standards and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

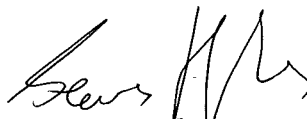
The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company, enable at any time the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy, enable them to ensure that the financial statements comply with the Companies Act 2014 and enable the financial statements to be audited. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the board


Neil Guinan
Director


Seamus Hughes
Director

27 April 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AXA MPS FINANCIAL DAC

We have audited the financial statements of AXA MPS Financial DAC for the year ended 31 December 2015 which comprise the statement of profit or loss, the statement of other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes 1 to 34. The relevant financial reporting framework that has been applied in their preparation is the Companies Act, 2014 and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with section 391 of the Companies Act, 2014. 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

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act, 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report for the year ended 31 December 2015 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2015 and of its profit for the year then ended; and
- have been properly prepared in accordance with IFRS as adopted by the European Union and, in particular, the requirements of the Companies Act, 2014.

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

Matters on which we are required to report by the Companies Act, 2014

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of our obligation under the Companies Act, 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of the Act are not made.



Rob Hamill
For and on behalf of Mazars
Chartered Accountants
& Registered Auditors
Harcourt Centre, Block 3
Harcourt Road
Dublin 2

DATE 29/04/2016

AXA MPS Financial DAC

Statement of profit or loss for the year ended 31 December 2015

		2015	2014
	Notes	€'000	€'000
Gross written premium	2	1,678,202	2,262,030
Outward reinsurance premium	2	(51)	(55)
Net premium written and earned		1,678,151	2,261,975
Investment return	3	235,857	948,779
Change in deferred income	14	75,032	40,637
Fee and commission income	4	318,621	388,479
Other income		629,510	1,377,895
Claims paid - insurance contracts	5	(3,359,937)	(3,514,318)
Change in technical provisions for insurance liabilities		1,423,355	1,250,662
Change in investment liabilities	5	(83,322)	(1,087,018)
Net policy holder claims and benefits incurred		(2,019,904)	(3,350,674)
Investment expenses		(3,805)	(15,301)
Fee and commission expenses	6	(120,048)	(103,308)
Change in deferred acquisition costs	15	(3,415)	(13,340)
Administration expenses	7	(15,462)	(15,839)
Operating expenses		(142,730)	(147,788)
Profit before tax		145,027	141,408
Taxation	11	(18,160)	(17,688)
Profit for the year		126,867	123,720

All profits were generated by continuing activities.

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

AXA MPS Financial DAC

Statement of other comprehensive income for the year ended 31 December 2015

	Notes	<u>2015</u> €'000	<u>2014</u> €'000
Profit for the year		126,867	123,720
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax)			
Net (losses)/gains on available-for-sale financial assets		(3,650)	13,482
Income tax effect	11	<u>456</u>	<u>(1,685)</u>
Other comprehensive (loss)/income (net of tax)		<u>(3,194)</u>	<u>11,797</u>
Total comprehensive income for the year (net of tax)		<u><u>123,673</u></u>	<u><u>135,517</u></u>

All profits were generated by continuing activities.

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

AXA MPS Financial DAC

Statement of financial position

As at 31 December 2015

		<u>2015</u>	<u>2014</u>
	Notes	€'000	€'000
Assets			
Tangible assets	16	258	316
Shareholder financial assets	12	266,784	329,592
<i>Policyholder financial assets</i>			
Investments for the benefit of life assurance	13	9,150,345	9,115,035
Other financial investments	13	35,212	40,981
		<u>9,185,557</u>	<u>9,156,016</u>
Cash and cash equivalents	18	133,487	314,922
Deferred acquisition costs	15	201,797	205,212
Other debtors	17	62,326	67,381
Total assets		<u><u>9,850,209</u></u>	<u><u>10,073,439</u></u>

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

On behalf of the board


 Neil Guinan
 Director


 Seamus Hughes
 Director

27 April 2016

AXA MPS Financial DAC

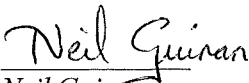
Statement of financial position

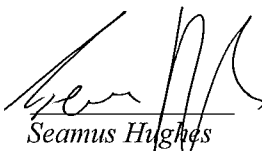
As at 31 December 2015

	Notes	2015 €'000	2014 €'000
Equity and liabilities			
Equity attributable to the equity holders of the company			
Ordinary share capital	19	635	635
Capital contribution	19	-	194,000
Available for sale reserve		17,659	20,853
Retained earnings		213,084	167,217
Total equity		231,378	382,705
Liabilities			
Insurance technical provisions	21	4,775,521	6,323,987
Investment contract technical provisions	22	4,392,324	2,809,722
Deferred income	14	298,637	373,669
<i>Creditors arising out of direct insurance operations:</i>			
Claims payable / prepaid premiums	23	76,718	89,219
Provision for Italian tax		41,177	41,015
Deferred tax liability	11	2,523	2,979
Other creditors	24	31,931	50,143
Total liabilities		9,618,831	9,690,734
Total equity and liabilities		9,850,209	10,073,439

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

On behalf of the board


 Neil Guinan
 Director


 Seamus Hughes
 Director

27 April 2016

AXA MPS Financial DAC

Statement of changes in equity For the year ended 31 December 2015

	Issued capital	Capital contribution	Retained earnings	Available for sale reserve	Total equity
	€'000	€'000	€'000	€'000	€'000
At 1 January 2015	635	194,000	167,217	20,853	382,705
Profit for the year	-	-	126,867	-	126,867
Other comprehensive income	-	-	-	(3,194)	(3,194)
Total recognised gains / (losses) for the financial year	-	-	126,867	(3,194)	123,673
Transfer of reserves		(194,000)	194,000		
Dividends paid	-		(275,000)	-	(275,000)
As at 31 December 2015	635	0	213,084	17,659	231,378
At 1 January 2014	635	194,000	151,997	9,056	355,688
Profit for the year	-	-	123,720	-	123,720
Other comprehensive income	-	-	-	11,797	11,797
Total recognised gains / (losses) for the financial year	-	-	123,720	11,797	135,517
Dividends paid	-	-	(108,500)	-	(108,500)
As at 31 December 2014	635	194,000	167,217	20,853	382,705

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

AXA MPS Financial DAC

Statement of cashflows

For the year ended 31 December 2015

	<u>2015</u>	<u>2014</u>
	€'000	€'000
Profit before taxation	145,027	141,408
Net change in fair value of investments	(41,205)	(439,920)
Net change in contract liabilities	35,233	405,676
Fund expenses borne by policyholders	(1,099)	(1,131)
Net change in deferred acquisition costs	3,414	13,340
Net change in provision for deferred income	(75,033)	(40,637)
Depreciation	173	155
Purchase of tangible assets	(114)	(34)
Net interest income	709	2,853
	<u>67,105</u>	<u>81,710</u>
Increase / decrease in trade and other receivables	(38,024)	13,653
Increase / decrease in trade and other payables	(782)	(6,231)
	<u>(38,806)</u>	<u>7,422</u>
Net interest paid	(709)	(2,853)
Net tax (received)/paid	(5,428)	16,426
	<u>(6,137)</u>	<u>13,573</u>
Net cashflow from operating activities	<u>22,162</u>	<u>102,705</u>
Proceeds from investments available for sale	65,790	(19,632)
Net cashflows from investments designated at fair value through profit and loss	5,613	4,391
Net cashflow/(outflow) from investing activities	<u>71,403</u>	<u>(15,241)</u>
Dividends paid	(275,000)	(108,500)
Net cashflow used in financing activities	<u>(275,000)</u>	<u>(108,500)</u>
Net decrease in cash and cash equivalents	(181,435)	(21,036)
Cash and cash equivalents at 1 January	314,922	335,958
Cash and cash equivalents at 31 December	<u><u>133,487</u></u>	<u><u>314,922</u></u>

AXA MPS Financial DAC

Notes to the financial statements

For the year ended 31 December 2015

1 Accounting policies

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 International Financial Reporting Standards (IFRS) as adopted by the EU as issued by the International Accounting Standards Board. They have been prepared under the historical cost convention, as modified by the valuation of financial assets and financial liabilities at fair value.

For all periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with local generally accepted accounting principles (Local GAAP). These financial statements for the year ended are the first the Company has prepared in accordance with IFRS. Refer to note 33 for information on how the company adopted IFRS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. See note 26, accounting estimates and judgement in the notes to the financial statements.

Adoption of new and revised Standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. Those that may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 9: financial instruments (effective periods beginning on or after 1 January 2018)

IFRS 7: Amendment: Financial Instruments: Disclosures — Amendments requiring disclosures about the initial application of IFRS 9 (effective periods beginning on or after 1 January 2015)

IFRS 15: Revenue from contracts with customers (effective periods beginning on or after 1 January 2017)

None of these are expected to have a significant effect on the financial statements of the Company, except for IFRS 9 Financial Instruments.

IFRS 9, published in July 2014, will replace existing guidance in IAS 39. It includes revised guidance on the classification and measurement of financial instruments, whereby the standard now contains two primary measurement categories for financial assets: amortised cost and fair value. IFRS 9 also includes a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company does not currently plan to early adopt the new standard and is assessing the impact of the new standard on the Company.

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

1 Accounting policies (*continued*)

Currency

The financial statements are prepared in Euro (€) which is the functional currency of the Company. All amounts in the financial statements have been rounded to the nearest thousand euro, unless otherwise stated.

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 statement of financial position 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

Product classification

Contracts under which the Company accepts significant 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 contracts may also transfer some financial risk.

Investment contracts are those contracts that transfer a significant 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.

Contracts for which the Company is deemed to have a significant insurance risk are classified as insurance contracts by the Company. Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

A contract that qualifies as insurance remains an insurance contract until all risks 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 provided above.

Insurance contracts – recognition and measurement

a) Premiums

Premiums earned in respect of insurance contracts are accounted for in the Statement of profit or loss in the same period in which the policyholder liabilities arising from those premiums are established.

b) Claims and benefits incurred

Claims and benefits 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 are accounted for upon notification. Surrenders are accounted for when paid or payable. Claims incurred include related internal and external claims handling expenses.

c) Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees and charges are recognised as revenue over the period in which the related services are performed.

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

1 Accounting policies (*continued*)

Insurance contracts – recognition and measurement (*continued*)

d) Insurance contract liabilities

The long-term business provision is calculated on an annual basis with regard to the principles laid down in the EU Third Life Directive (92/96/EEC). It comprises provision for future mortality. Although the Directors consider that the gross long term business provision 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. The provision, estimation technique and assumptions are periodically reviewed with any changes in estimates reflected in the statement of profit or loss.

e) Liability adequacy test

Insurance liabilities are calculated at fair value with the Level 3 hierarchy measure (discounted cash flow). In addition a Liability Adequacy Test is also performed to ensure that future insurance liabilities are adequately covered by future cash flows.

Amounts collected on investment contracts, which involve the transfer of financial risk such as long term savings contracts, are accounted for using deposit accounting, under which the amounts collected are credited directly to the Statement of Financial Position as an adjustment to the liability to the policyholder.

f) Reinsurance

Only contracts that give rise to a significant cession of insurance risk from the Company are accounted for as reinsurance. The Company only considers those entities with a credit rating of BBB 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 statement of profit or loss.

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 statement of financial position 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 reliable 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 Statement of profit or loss 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 net asset value of the unitised investment funds at the statement of financial position date.

The revenue arising from these contracts (initial management charges, 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' funds. Policyholder contract benefits charged to the statement of profit or loss include benefit claims incurred during the period in excess of policyholders' funds and interest credited to the policyholders' balance.

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

1 Accounting policies (*continued*)

Investment contracts – recognition and measurement (*continued*)

a) Premiums / benefits paid

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

b) Liability measurement

Liabilities related to unit linked contracts are held at fair value through the statement of profit or loss. 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. 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 statement of profit or loss. Gains and losses arising from changes in the fair value of financial liabilities designated at fair value through the statement of profit or loss are included in the statement of profit or loss in the period in which they arise.

c) Deferred acquisition costs

The costs directly associated with the acquisition of new investment contracts 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 statement of profit or loss over the period in which the reserves 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, costs to the extent that they are believed irrecoverable are written off.

Investment income

The Company has designated all unit linked products and their associated investment and insurance contract liabilities at fair value through the Statement of profit or loss. Investment income in the technical account comprises all investment income (including 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 Statement of profit or 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 statement of financial position date and their purchase price, if occurred during the year, or their fair value at the last statement of financial position date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

a) Interest income

Interest income is recognised in the Statement of profit or loss as it accrues using the effective interest method.

b) Dividend income

Dividend income is recognised in the Statement of profit or loss on the date the Company's right to receive payments is established.

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

1 Accounting policies (*continued*)

Financial assets

Financial assets are classified into four categories, depending on the purpose for which the assets were acquired. These are as follows:

Financial assets at fair value through profit or loss ("FVTPL") are financial assets which the Company designates as financial assets at fair value through the Statement of profit or loss and financial assets held for trading purposes. Derivatives are classified as held for trading and are designated as being at fair value through profit or loss. Initially, gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the Statement of profit or loss in the period in which they arise.

Held to maturity ("HTM") instruments are non-derivative financial assets with fixed or determinable payments and fixed maturities where the Company has positive intention and ability to hold to maturity. The Company did not have any held to maturity financial assets at year-end.

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 the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, loans and receivables are carried at amortised cost, using the effective interest method. Gains and losses are recognised in the Statement of profit or loss when the investments are derecognised or impaired, as well as through the amortisation process. Loans and receivables with short term duration are not discounted.

Available for sale financial assets are non-derivative financial assets that are either designated in this category or are not classified in any of the other categories. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in the statement of other comprehensive income, except for impairment losses, foreign exchange gains or losses and foreign exchange movement relating to items held at amortised cost. When available for sale assets are sold or impaired, the cumulative gains or losses previously recognised in the statement of other comprehensive income are recognised in profit for the year.

Regular purchases and sales of financial assets are generally recognised on the settlement date, which is when the Company delivers or receives the assets. Assets related to unit linked products are purchased and sold on the trade date, which is the date when the Company commits to purchase or sell the assets.

Fair value of financial assets

The fair value of:

- i) equities and debt securities that are actively traded in organised financial markets are determined by reference to quoted market prices for assets and liabilities at close of business on the statement of financial position date without any deduction of transaction costs. These assets are reported as Level 1 assets in Note 25;
- ii) equities and debt securities that are not traded in an active market are determined using appropriate valuation techniques, including comparison to similar instruments for which market observable prices exist. These assets are reported as Level 2 assets in Note 25;
- iii) units in collective investment schemes are determined by reference to prices published by those schemes. These assets are reported as Level 2 assets in Note 25;
- iv) derivative instruments, including interest rate swaps, are determined by reference to prices published by pricing agents for those derivative instruments. The valuation models which underpin the prices published by the pricing agents have been tested using best estimates of the most appropriate model assumptions. These assets are reported as Level 2 assets in Note 25; and
- v) other financial assets relate to cash in unitised funds and are reported as Level 1 assets in Note 25.

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

1 Accounting policies (*continued*)

Derivative financial instruments

The Company does not use hedge accounting. The derivatives held where the risk is retained by the Company are options held for short periods of time as a result of policyholders' surrenders or held to maturity where investment risk is marginal and is in line with the Company's risk appetite statement. The Company also holds derivatives in respect of the dynamic hedging strategy for the Accumulator guarantee business and new tracker bonds issued since 1 November 2010.

With regard to the options held for short periods of time resulting from policyholders' 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 but may exercise its right to retain the asset until maturity where the risk of holding is minimal and is in line with the risk appetite statement of the Company. Other derivatives held are included in assets held 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 gains or losses on re-measurement to cost, being fair value consideration paid is recognised immediately in the statement of profit or loss.

Employee benefits

(a) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of profit or loss as incurred. The Company makes a payment equal to between 5% and 15% of the gross income for each eligible employee's pension fund, the assets of which are vested in independent trustees for the benefit of employees and their dependants.

(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 statement of profit or loss.

Italian tax provision

Payments to the Italian Revenue as a result of the Company becoming a withholding tax agent are recognised as an asset. Italian taxes withheld on payments to policyholders are offset against this asset.

Impairment of non-financial assets

The carrying amount of the Company's assets is reviewed at each statement of financial position 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 by means of a charge to the Statement of profit or loss.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss.

The amount of the cumulative loss that is recognised in the statement of profit or loss is the difference between the acquisition cost and the current recoverable amount, less any impairment loss on that financial asset previously recognised in the statement of profit or loss.

Calculation of recoverable amount

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 DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

1 Accounting policies (*continued*)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and deposits of less than three months duration. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cashflows.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided in full, using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are not discounted.

Trade and other receivables

Trade and other receivables are initially booked at fair value and are stated at amortised cost less provision for impairment. The carrying amounts of trade and other receivables are reviewed at each statement of financial position date to determine whether there is any indication of impairment. Receivables with short term duration are not discounted.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is charged to the statement of profit or loss at the following annual rates, in order to write off the cost of tangible assets over their estimated useful lives by equal annual instalments:

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 DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

2 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.

	2015 €'000	2014 €'000
Insurance premium revenue	1,678,202	2,262,030
Outward reinsurance premium	(51)	(55)
	<u>1,678,151</u>	<u>2,261,975</u>

Total gross written premium, is as follows:

	2015 €'000	2014 €'000
Statement of profit or loss	1,678,151	2,261,975
Financial liabilities - investment contracts	2,212,817	1,127,553
	<u>3,890,968</u>	<u>3,389,528</u>

3 Investment return

	2015 €'000	2014 €'000
Income from available for sale assets	7,420	9,746
Interest income from cash	309	697
Realised gains on policyholder assets	617,846	668,022
Unrealised (losses)/gains on policyholder assets	(389,451)	270,526
Other shareholder income	15	66
Third party fees	(282)	(278)
	<u>235,857</u>	<u>948,779</u>

4 Fee and commission income

	2015 €'000	2014 €'000
Management fees	202,568	215,484
Coupon income	100,088	165,327
Rebate income	15,965	7,668
	<u>318,621</u>	<u>388,479</u>

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

5 Insurance claims and benefits incurred

	2015 €'000	2014 €'000
Insurance claims and benefits incurred	(3,359,937)	(3,514,318)
Change in investment liabilities	(83,322)	(1,087,018)
	<u>(3,443,259)</u>	<u>(4,601,336)</u>

6 Fee and commission expenses

	2015 €'000	2014 €'000
Commission expense – new	(105,070)	(92,634)
Commission expense – ongoing	(14,978)	(10,674)
	<u>(120,048)</u>	<u>(103,308)</u>

7 Administration expenses

	2015 €'000	2014 €'000
General administration and office expenses	13,124	14,088
Professional fees (including auditors remuneration) (note 8)	2,166	1,596
Depreciation	172	155
	<u>15,462</u>	<u>15,839</u>

8 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. Fees are exclusive of VAT.

	2015 €'000	2014 €'000
Audit of statutory accounts	70	70
Other assurance services	8	8
Taxation advisory services	-	-
Other non audit services	25	21
	<u>103</u>	<u>99</u>

AXA MPS Financial DAC

Notes to the financial statements *(continued)*

For the year ended 31 December 2015

9 Staff costs and numbers

Staff costs shown here include remuneration paid to executive directors (Note 10):

	2015	2014
	€'000	€'000
Wages and salaries	4,231	4,280
Social security costs	452	456
Pension costs	334	295
	5,017	5,031

	2015	2014
	No.	No.
Average number of employees during the period:		
Administration	47	44
Finance	6	6
Actuarial	7	7
	60	57

10 Directors' emoluments

	2015	2014
	€'000	€'000
For services as non executive director	70	73
For services as executive director	380	656
	450	729

The following are details of remuneration paid to executive directors:

Wages and salaries	316	565
Social security costs	34	61
Pension costs	30	30
	380	656

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

11 Income tax

The major components of income tax expense for the years ended 31 December 2015 and 2014 are:

	2015 €'000	2014 €'000
Corporation tax	18,160	17,688
<i>Reconciliation of current tax at standard rate to actual tax charge at the effective rate</i>		
Profit on ordinary activities before taxation	<u>145,027</u>	<u>141,408</u>
Current tax at 12.5%	18,128	17,676
<i>Effects of:</i>		
Prior year over provision	(1)	(1)
Items not deductible for tax purposes	39	4
Capital allowances for the period in excess of depreciation	(18)	1
Income tax withheld	12	8
Income tax reported in the statement of profit or loss	<u>18,160</u>	<u>17,688</u>
Deferred tax related to items recognised in the statement of other comprehensive income during the year:		
Net (losses)/gains on available-for-sale financial assets	(3,650)	13,482
Deferred tax recognised in other comprehensive income	<u>(456)</u>	<u>1,685</u>
Deferred tax liability	€'000	2014 €'000
Balance at 1 January	2,979	1,294
Movement during the financial year recognised in other comprehensive income	<u>(456)</u>	<u>1,685</u>
Balance at 31 December	<u>2,523</u>	<u>2,979</u>

AXA MPS Financial DAC

Notes to the financial statements *(continued)*

For the year ended 31 December 2015

12 Shareholder financial assets

	2015 €'000	2014 €'000
Financial assets designated as fair value through other comprehensive income	266,784	329,592
<i>Analysed as follows:</i>		
Index linked bonds	814	953
Government securities	201,048	258,365
Corporate securities	64,922	70,274
	266,784	329,592

13 Policyholder financial assets

	2015 €'000	2014 €'000
Financial assets designated as fair value through statement of profit or loss	9,185,557	9,156,016
<i>Analysed as follows:</i>		
Index linked bonds	5,051,815	4,017,424
Unit trusts	4,098,530	5,097,611
Hedge assets backing Accumulator LOV	35,212	40,981
	9,185,557	9,156,016

14 Deferred income

	2015 €'000	2014 €'000
Balance at 1 January	373,669	414,306
Capitalisation during the year	138,305	178,550
Amortisation during the year	(213,337)	(219,187)
Charge to the statement of profit or loss	(75,032)	(40,637)
Balance at 31 December	298,637	373,669

AXA MPS Financial DAC

Notes to the financial statements (*continued*)
For the year ended 31 December 2015

15 Deferred acquisition costs

	2015 €'000	2014 €'000
Balance at 1 January	205,212	218,552
Capitalisation during the year	104,972	100,962
Amortisation during the year	(108,387)	(114,302)
Charge to the statement of profit or loss	(3,415)	(13,340)
Balance at 31 December	201,797	205,212

16 Tangible assets

	Computer equipment & software €'000	Other equipment €'000	Total €'000
Cost			
Balance at 1 January 2015	1,862	1,206	3,068
Additions	28	86	114
Balance at 31 December 2015	1,890	1,292	3,182
Accumulated depreciation			
Balance at 1 January 2015	1,716	1,036	2,752
Charge for year	62	110	172
Balance at 31 December 2015	1,778	1,146	2,924
Net book value			
At 31 December 2015	112	146	258
At 31 December 2014	146	170	316

AXA MPS Financial DAC

Notes to the financial statements (*continued*)
For the year ended 31 December 2015

17 Other debtors

	2015 €'000	2014 €'000
Debtors	20,928	11,661
Current Tax	3,558	-
Prepayment of Italian tax	37,826	55,422
Accrued interest and rent	14	298
	<u>62,326</u>	<u>67,381</u>

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 policyholders taxes to the Italian Revenue Authorities.

This tax asset is recoverable against taxes withheld on policyholders' gains and through a group recovery mechanism i.e. offset against other taxes payable, and through an additional recovery mechanism that allows companies who had an unused tax asset of 5 plus years to offset that asset against current mathematical reserves thus ensuring that the asset is fully recoverable. The Company's parent company has also provided assurance that if the Company has a residual tax asset after exhausting the recovery mechanisms described it will pay the Company a cash consideration for that balance.

The primary recovery mechanism of the Company is through deduction of exit taxes. The annual recoverable amount through the exit tax mechanism is difficult to estimate as exit tax is only calculated on policies that are in profit and is also dependent on the volume of surrenders. In 2015 the amount of tax recovered through exit taxes on policyholders surrenders amounted to €77.2 million (2014: €67.9 million).

In the opinion of the Directors, the realisable value of the Italian tax asset is not less than its book value.

18 Cash and cash equivalents

	2015 €'000	2014 €'000
Balance at bank	<u>133,487</u>	<u>314,922</u>

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

19 Share capital

	2015 €'000	2014 €'000
<i>Authorised</i>		
5,078,953 Ordinary shares at €1 each	<u>5,079</u>	<u>5,079</u>
<i>Allotted, called up and fully paid:</i>		
634,870 Ordinary shares at €1 each	<u>635</u>	<u>635</u>

Capital Contribution Reserve

It was resolved at a Board Meeting of April 24 2015 to designate the Capital Contribution Reserve as a distributable reserve from which distributions could be made to the shareholder in line with applicable Company Law. A subsequent dividend was declared by the Board and the reserve was fully distributed.

20 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.

The capital position is closely monitored by the Company.

Capital composition

The Company's capital comprises €0.6 million (2014: €0.6 million) of paid-up share capital, €0 (2014: €194 million) capital contributions, €213.1 million (2014: €191.3 million) of retained surplus, and €17.7m (2014: nil) of available for sale reserve totaling €231.4 million (2014: €385.9 million). Note that as a result of the transition from Irish GAAP to IFRS, the retained surplus is now split into 'retained surplus' and 'available for sale reserve'.

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

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

20 Capital position statement (*continued*)

The Company had available capital resources of €160.7 million at 31 December 2015 (2014: €330.2 million) to cover a solvency margin requirement of €15.9 million (2014: €21.5 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.

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 shareholders’ funds per the financial statements to the total available capital resources per the 2015 annual return to be submitted to the Central Bank of Ireland.

	2015 €’000	2014 €’000
Total shareholder funds	231,378	382,705
Adjustment to regulatory bases:		
Adjustment to asset values	(942)	(2,384)
Adjustment to reserve values	(166,621)	(214,142)
Adjustment to retained profit	96,903	164,072
	<u>(70,660)</u>	<u>(52,454)</u>
Total available capital resources	<u>160,718</u>	<u>330,251</u>
Minimum solvency level required	<u>15,863</u>	<u>21,453</u>

AXA MPS Financial DAC

Notes to the financial statements *(continued)*

For the year ended 31 December 2015

21 Insurance liabilities

	2015 €'000	2014 €'000
At start of year	6,323,987	6,870,412
Premiums received	1,678,151	2,262,013
Claims paid	(3,359,937)	(3,514,318)
Investment gains/(losses)	156,652	732,302
Coupon income received	100,053	165,317
Insurance margins, fund income & expenses	(123,385)	(191,739)
At end of year	<u>4,775,521</u>	<u>6,323,987</u>

22 Investment contract liabilities

	2015 €'000	2014 €'000
At start of year	2,809,722	1,858,754
Premiums received	2,212,728	1,127,317
Claims paid	(634,007)	(341,831)
Investment gains/(losses)	70,518	198,203
Management charges	(56,776)	(28,869)
Upfront margin, fund income & expenses	(9,861)	(3,852)
At end of year	<u>4,392,324</u>	<u>2,809,722</u>

23 Creditors arising out of direct insurance operations

	2015 €'000	2014 €'000
Amounts falling due within one year:		
Claims payable / prepaid premiums	<u>76,718</u>	<u>89,219</u>

24 Other creditors including tax and social welfare

	2015 €'000	2014 €'000
Amounts falling due within one year:		
Creditors (excluding tax)	30,597	47,015
Amounts due to group companies (note 28)	1,334	1,475
Current tax	-	1,653
	<u>31,931</u>	<u>50,143</u>

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

25 Risk management policies

The Company is exposed to a range of risks through its financial assets and its financial liabilities and also in relation to the accounting estimates and judgements it needs to make in the preparation of its financial statements and its regulatory returns.

These risks are described below together with the risk management approaches adopted by the Company. Ultimate responsibility for the Company's risk management rests with the Directors and the Board is supported by the operation of a number of committees that meet on a regular basis to review and monitor the Company's risk exposures. A number of policy statements have been prepared and approved by the Directors which set out parameters and limitations to manage and limit financial risks.

The Company has not substantially changed the approaches adopted to manage its financial risks from the previous accounting period.

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 and sovereign debt issuer;
- amounts due from reinsurers in respect of insurance claims paid, and
- 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 di Siena. 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 reputation in the market place prior to any contract being signed. The Company only considers those companies with a rating of BBB 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 an initial investment minimum rating of BBB, but the Company can hold residual amounts at a lower level subject to risk management guidelines. All 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. The Company bears the credit risk on the underlying Italian BTP assets for the index linked products TB90 to TB102.

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

25 Risk management policies (*continued*)

Analysis of counterparty risk on assets and exposures

	2015 €'000	2014 €'000
<i>Counterparty risk assumed by shareholders</i>		
Holding of unit linked MPS structured products	3	6
German government bond (shareholder investment)	3,423	3,619
Italian government bond (shareholder investment)	8,450	16,273
Austrian government bond (shareholder investment)	1,192	1,224
French government bonds (shareholder investment)	28,328	74,224
Irish government bonds (shareholder investment)	91,909	95,898
Spanish government bonds (shareholder investment)	63,789	65,971
EIB bonds (shareholder investment)	1,111	1,146
Corporate bonds	63,833	70,274
Units in managed funds	818	954
Italian government bonds backing index-linked bonds	483,192	958,766
Swaps backing index-linked bonds	(69,420)	(153,853)
Options backing index-linked bonds	29,921	56,606
Covered call option asset	(64,600)	127,927
Covered call option liability	64,600	(127,927)
	706,549	1,191,108
Other assets where counterparty risk is assumed by the policyholder:		
Investments in unit trusts	8,347,762	7,964,271
Investments in index linked MPS bonds	103,282	288,737
	8,451,044	8,253,008

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.

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.

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

25 Risk management policies (continued)

Interest rate risk

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 rate 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.

The Company does hold assets which are exposed to interest rate movements and these are dealt with under the heading "Exposure to interest rate risk" on page 37.

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 assets refer to the future contracts entered into as part of the Company 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 the 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 manages 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 DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

25 Risk management policies (*continued*)

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 in relation to rider benefits. The Company has put in place a Board-approved reinsurance strategy which continually monitors the level of mortality risk on the statement of financial position. Indicators are set in terms of sum at risk at individual policyholder and at portfolio level.

Exposure to interest rate risk

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

At 31 December 2015	6 months or less €'000	6 - 12 months €'000	1 - 5 years €'000	Over 5 years €'000	Total €'000
Government bonds	15,130	8,304	162,250	15,364	201,048
Corporate bonds	842	2,418	57,566	4,096	64,922
Deposits with credit institutions	133,487	-	-	-	133,487
	149,459	10,722	219,816	19,460	399,457
At 31 December 2014	6 months or less €'000	6 - 12 months €'000	1 - 5 years €'000	Over 5 years €'000	Total €'000
Government bonds	20,069	33,070	145,857	59,369	258,365
Corporate bonds	5,273	2,589	54,981	7,431	70,274
Deposits with credit institutions	314,922	-	-	-	314,922
	340,264	35,659	200,838	66,800	643,561

AXA MPS Financial DAC

Notes to the financial statements *(continued)*

For the year ended 31 December 2015

25 Risk management policies *(continued)*

The effective interest rates at 31 December 2015 were as follows:

	6 months or less	6 - 12 months	1 - 5 years	Over 5 years
Government bonds	(0.16%)	(0.06%)	0.09%	0.86%
Corporate bonds	0.23%	0.08%	0.60%	1.26%
Deposits with credit institutions	0.08%	-	-	-

The effective interest rates at 31 December 2014 were as follows:

	6 months or less	6 - 12 months	1 - 5 years	Over 5 years
Government bonds	(0.01%)	(0.03%)	0.38%	0.66%
Corporate bonds	0.22%	0.25%	0.56%	0.85%
Deposits with credit institutions	0.55%	-	-	-

The sensitivity analysis highlights the cash flow impact of a reduction by 1% on interest rate sensitive assets held at 31 December 2015 and 2014. These cash flows contribute directly to the profit before tax result. The principle components are as follows:

- 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

At 31 December 2015

	6 months or less €'000	6 - 12 months €'000	1 - 5 years €'000	Over 5 years €'000	Total €'000
Government bonds	-	-	-	-	-
Corporate bonds	(19)	(18)	(28)	-	(65)
Deposits with credit institutions	-	-	-	-	-
	(19)	(18)	(28)	-	(65)

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

25 Risk management policies (*continued*)

1% reduction in interest rates

At 31 December 2014

	6 months or less €'000	6 - 12 months €'000	1 - 5 years €'000	Over 5 years €'000	Total €'000
Government bonds	-	-	-	-	-
Corporate bonds	(21)	(21)	(72)	-	(114)
Deposits with credit institutions	-	-	-	-	-
	(21)	(21)	(72)	-	(114)

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 or options held to maturity where investment risk is marginal and is in line with the Company's risk appetite statement.

In March 2013, the Company opted to hedge non linked over the counter ("OTC") equity options through a covered call structure whereby the Company received upfront the present value of the future option coupons and transferred the right to receive the future coupon flows from the options with the new counterparty. Both the option held and the covered call liability are fully collateralised. The covered call asset and liability are reported net in the statement of financial position as both the asset and liability are mutually dependent and will be realised and settled simultaneously.

The Company also holds derivatives in respect of the Accumulator product. A key feature of the Accumulator product underwritten by the Company is that there is a minimum guaranteed return to the policyholder. The Company mitigates the cost of these financial guarantees by operating a dynamic hedging program whereby changes in the discounted value of the policyholders' option are offset by changes in the value of the hedge assets. The amount of hedge assets held is adjusted regularly in line with changes in asset volumes, the product is closed to new business, and with market movements. This process is known as dynamic hedging strategy. The Company's dynamic hedging strategy is approved by the Board and seeks to ensure that a position on fixed income and equity futures offset a change in the "marked to market" value of the minimum guarantee benefits, as equity and fixed income 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.

The Company receives hedging advisory services from AXA Life Invest ("ALI"), a subsidiary of AXA S.A. ALI uses sophisticated valuation techniques to model the assets and liabilities and to calculate the number of fixed income and equity 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.

All of the Company's derivative positions are collateralised. The Company has acquired the services of AXA Investment Managers Paris ("AXA IMP"), through an Investment Management Agreement ("IMA"), to manage all of the collateral requirements of the Company. The IMA allows AXA IMP to act on behalf of the Company in relation to derivative transactions, collateralisation of same and to ensure that the Company meets its obligations as required under the European Market Infrastructure Regulation.

AXA MPS Financial DAC

Notes to the financial statements *(continued)*

For the year ended 31 December 2015

25 Risk management policies *(continued)*

The Company's derivative portfolio at 31 December 2015 is shown below.

	Notional amount	Fair value asset €'000	Fair value liability €'000	Fair value net €'000
Interest rate swaps	2,575,937	73,632	(38,421)	35,211
Covered call option asset	255,250	64,600	-	64,600
Covered call option liability	(255,250)	-	(64,600)	(64,600)
Exchange traded futures	65,582	113	(495)	(382)
	2,641,519	138,345	(103,516)	34,829

The Company's derivative portfolio at 31 December 2014 is shown below:

	Notional amount	Fair value asset €'000	Fair value liability €'000	Fair value net €'000
Interest rate swaps	2,659,967	97,068	(56,087)	40,981
Covered call option asset	534,150	127,927	-	127,927
Covered call option liability	(534,150)	-	(127,927)	(127,927)
Exchange traded futures	67,994	20	(1,369)	(1,349)
	2,727,961	225,015	(185,383)	39,632

The table below provides an analysis of the notional amount of derivative instruments held into their relevant maturity groups based on the remaining period.

At 31 December 2015	< 1 year	1 - 5 years	> 5years	Total
Interest rate swaps	143,948	1,906,629	525,360	2,575,937
Covered call option asset	-	255,250	-	255,250
Covered call option liability	-	(255,250)	-	(255,250)
Exchange traded futures	65,582	-	-	65,582
	209,530	1,906,629	525,360	2,641,519

AXA MPS Financial DAC

Notes to the financial statements *(continued)*

For the year ended 31 December 2015

25 Risk management policies *(continued)*

At 31 December 2014	< 1 year	1 - 5 years	> 5years	Total
Interest rate swaps	185,898	1,761,458	712,611	2,659,967
Covered call option asset	-	534,150	-	534,150
Covered call option liability	-	(534,150)	-	(534,150)
Exchange traded futures	67,994	-	-	67,994
	253,892	1,761,458	712,611	2,727,961

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 movement in corresponding liabilities. The Company's exposure to market movements is limited to the investment of shareholder's assets in equities and equity related options. Shareholder assets invested in unit funds exposed to equity market movements represents 0.35% (2014: 0.18%) of total shareholder equity. These assets comprise primarily of loyalty units held of €452k (2014: €697k) which are held for the benefit of policyholders whose policies allow for a loyalty bonus top up upon reaching a specified anniversary date. The Company also holds tracker options linked to the performance of equity indices or specified equity performances. The value of these options was negligible at less than €1k of total shareholder's assets at 31 December 2015 (2014 : €1k).

Fair value hierarchy

The table below 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 determining the valuation 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. 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 €0.1 million (2014: €8.5m) of equity options for investment and insurance policies purchased via 'over-the-counter' contracts and €103.2 million (2014: €280.2 million) 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.

There were no transfers between levels 1 and level 2 during the year ended 31 December 2015 (31 December 2014: None)

AXA MPS Financial DAC

Notes to the financial statements *(continued)*

For the year ended 31 December 2015

25 Risk management policies *(continued)*

Fair Value Hierarchy (continued)

At 31 December 2015	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Holding of MPS structured products	-	3	-	3
German government bond	3,423	-	-	3,423
Italian government bond	8,450	-	-	8,450
Austrian government bond	1,192	-	-	1,192
French government bonds	28,328	-	-	28,328
Irish government bonds	91,909	-	-	91,909
Spanish government bonds	63,789	-	-	63,789
EIB bonds	1,111	-	-	1,111
Corporate bonds	63,833	-	-	63,833
Unit trusts	-	818	-	818
Italian government bonds backing IL bonds	483,192	-	-	483,192
Options backing index-linked bonds	-	29,921	-	29,921
Covered call option asset	-	64,600	-	64,600
Covered call option liability	-	(64,600)	-	(64,600)
Swaps backing index-linked bonds	-	(69,420)	-	(69,420)
Investments in unit trusts	-	8,347,762	-	8,347,762
Investments in index linked bonds (MPS)	-	103,282	-	103,282
	745,227	8,412,366	-	9,157,593

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

25 Risk management policies (*continued*)

Fair Value Hierarchy (*continued*)

At 31 December 2014	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Holding of MPS structured products	-	6	-	6
German government bond	3,619	-	-	3,619
Italian government bond	16,273	-	-	16,273
Austrian government bond	1,224	-	-	1,224
French government bonds	74,224	-	-	74,224
Irish government bonds	95,898	-	-	95,898
Spanish government bonds	65,971	-	-	65,971
EIB bonds	1,146	-	-	1,146
Corporate bonds	70,274	-	-	70,274
Unit trusts	-	954	-	954
Italian government bonds backing IL bonds	958,766	-	-	958,766
Options backing index-linked bonds	-	56,606	-	56,606
Covered call option asset	-	127,927	-	127,927
Covered call option liability	-	(127,927)	-	(127,927)
Swaps backing index-linked bonds	-	(153,853)	-	(153,853)
Investments in unit trusts	-	7,964,271	-	7,964,271
Investments in index linked bonds (MPS)	-	288,737	-	288,737
	1,287,395	8,156,721	-	9,444,116

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. 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.

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

26 Accounting estimates and judgements (*continued*)

Investment contracts

Investment contracts are accounted for as financial instruments under IAS 39. 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, 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 the Company. 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 at 25 Avenue Matignon, 75008, Paris, France.

The financial statements of the Company are available from the company secretary at 33 Sir John Rogerson's Quay, Dublin 2.

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

28 Related party transactions

The Company received a number of services from related parties. The related party activities which the Company now has are as follows:

- The Company has an agreement with AXA Investment Managers Paris for the provision of derivative management Services
- The Company has an agreement with AXA Life Invest Services Limited for the provision of dynamic hedging strategies.
- The Company has an agreement with AXA Investment Managers London for the provision of investment management advice.
- The Company has an agreement with AXA MPS Assicurazioni Vita for the provision of risk management Services.
- The Company has an agreement with AXA Regional Services for the provision of unit linked advice.
- The Company has an agreement with BMPS Capital Services for the provision of structured product services.

Transactions with directors:

Note 10 reflects the remuneration paid by the Company to relevant Board members.

Transactions with related parties:

Name of the Company	Relationship	Payable at 1 January 2015 €'000	Expense payable by AXA- MPS €'000	Income receivable by AXA- MPS €'000	Payments /(receipts) €'000	Payable at 31 December 2015 €'000
AXA IM Paris	Group	(291)	(1,199)	-	883	(607)
AXA Life Invest	Group	(80)	(431)	-	455	(56)
AXA IM London	Group	(491)	(1,844)	-	1,999	(336)
AXA MPS Assicurazioni Vita	Group	-	-	100	(100)	-
AXA Regional Services	Group	-	-	43	(43)	-
BMPS Capital Services	JV Partner	(613)	(2,071)	-	2,349	(335)
		(1,475)	(5,545)	143	5,543	(1,334)

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 €335,822 (including €29,775 in respect of executive Directors) in the year ended 31 December 2015 (2014: €295,372 (including €29,631 in respect of executive Directors)).

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

30 Other financial commitments

On 26 February 2006, the Company entered into a long term operating lease of 9 years and 9 months for its office premises at One Georges Quay Plaza, Dublin 2. On 17 September 2010, the Company agreed to a deed of variation of the original lease which had the effect of reducing the Company's lease payments and extending the lease agreement to 19 November 2016.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2015 €'000	2014 €'000
Within one year	273	327
After one year but not more than five years	-	273
More than five years	-	-
	<u>273</u>	<u>600</u>

The cost to the Company in 2015 in respect of this operating lease was €327,040 (2014: €327,040).

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 S.A. 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 from purchase (except specific early cases allowed by applicable laws). Employees are subject to 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, Natixis 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 2015 was as follows:

Traditional plan	€Nil	(2014: €Nil)
Leveraged plan	€22,264	(2014: €13,497)

AXA S.A. also grant performance share units which partially replaced stock options awarded to employees. Performance Share 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 to 4 years).

AXA MPS Financial DAC

Notes to the financial statements *(continued)*

For the year ended 31 December 2015

31 Employee share ownership *(continued)*

Performance units operate as follows:

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 2015 and 2014, 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; and
- 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 2015 in respect of performance units was €51,667 (2014: €38,051)

32 Events after the reporting date

From 1 April 2016, as a result of the requirements of the Companies Act 2014, the Company has changed its name from AXA MPS Financial Limited to AXA MPS Financial DAC. There have been no significant events affecting the Company since the year end which require amendment to the financial statements.

33 Explanation of transition to IFRS as adopted by the EU

This is the Company's first set of financial statements based on IFRS. The accounting policies mentioned in note 1 have been applied in the preparation of the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in preparation of the opening statement of financial position at 1 January 2014 (the transition date).

In preparing the IFRS opening statement of financial position, the Company has adjusted the amounts reported previously in the financial statements which were prepared in accordance with its old basis of accounting (Irish GAAP). An explanation of how the transition from Irish GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and in the notes accompanying these:

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

33 Explanation of transition to IFRS as adopted by the EU (*continued*)

Reconciliation of Equity reported under Irish GAAP to Equity reported under IFRS:

	Notes	1 January 2014			31 December 2014		
		Irish GAAP	Effect of Transition to IFRS	IFRS	Irish GAAP	Effect of Transition to IFRS	IFRS
		€'000	€'000	€'000	€'000	€'000	€'000
Assets							
Tangible assets		437	-	437	316	-	316
Shareholder financial assets		291,031	-	291,031	329,592	-	329,592
Other financial investments		37,561	-	37,561	40,981	-	40,981
Investments for the benefit of life assurance		8,692,873	-	8,692,873	9,115,035	-	9,115,035
Cash and cash equivalents		335,958	-	335,958	314,922	-	314,922
Deferred acquisition costs	<i>a</i>	18,849	199,703	218,552	29,903	175,309	205,212
Debtors		3,097	6,855	9,952	4,294	7,367	11,661
Italian tax asset		82,380	-	82,380	55,397	25	55,422
Accrued interest and rent		469	-	469	298	-	298
Total Assets		9,462,655	206,558	9,669,213	9,890,738	182,701	10,073,439
Equity							
Ordinary share capital		635	-	635	635	-	635
Capital contributions		194,000	-	194,000	194,000	-	194,000
Available for sale reserves	<i>c</i>	-	9,056	9,056	-	20,853	20,853
Retained earnings	<i>d</i>	156,052	(1,239)	154,813	191,321	(24,104)	167,217
Equity attributable to owners of the parents		350,687	7,817	358,504	385,956	(3,251)	382,705
Liabilities							
Insurance technical provisions		6,870,412	-	6,870,412	6,324,461	(474)	6,323,987
Investment contract technical provisions	<i>e</i>	1,871,267	(12,513)	1,858,754	2,818,392	(8,670)	2,809,722
Deferred front end fees	<i>f</i>	203,789	210,517	414,306	185,736	187,933	373,669
Claims payable / prepaid premiums		61,493	-	61,493	89,219	-	89,219
Provision for Italian tax		39,113	-	39,113	40,989	26	41,015
Deferred tax liability	<i>b</i>	-	1,294	1,294	-	2,979	2,979
Other creditors		65,894	(557)	65,337	45,985	4,158	50,143
Total Liabilities		9,111,968	198,741	9,310,709	9,504,782	185,952	9,690,734
Total equity and liabilities		9,462,655	206,558	9,669,213	9,890,738	182,701	10,073,439

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

33 Explanation of transition to IFRS as adopted by the EU (*continued*)

Reconciliation of Statement of Profit or Loss and Statement of Other Comprehensive Income under Irish GAAP to IFRS:

		1 January 2015		
		Irish GAAP	Effect of Transition to IFRS	IFRS
	Notes	€'000	€'000	€'000
Gross written premium	<i>h</i>	4,269	2,257,761	2,262,030
Outward reinsurance premium		(55)	-	(55)
Net premium written and earned		4,214	2,257,761	2,261,975
Investment return		962,262	(13,483)	948,779
Change in deferred income	<i>g</i>	18,053	22,584	40,637
Fee and commission income		388,479	-	388,479
Other income		1,368,794	9,101	1,377,895
Claims paid - insurance contracts	<i>h</i>	(254,629)	(3,259,689)	(3,514,318)
Change in technical provisions for insurance liabilities	<i>h</i>	256,385	994,277	1,250,662
Change in investment liabilities	<i>f</i>	(1,087,048)	30	(1,087,018)
Net Policy holder claims and benefits incurred		(1,085,292)	(2,265,382)	(3,350,674)
Investment expenses		(14,416)	(885)	(15,301)
Fee and commission expenses		(103,308)	-	(103,308)
Change in deferred acquisition costs	<i>a</i>	11,054	(24,394)	(13,340)
Administration expenses		(16,725)	886	(15,839)
Operating expenses		(123,395)	(24,393)	(147,788)
Profit before tax		164,321	(22,913)	141,408
Taxation		(20,552)	2,864	(17,688)
Profit for the year		143,769	(20,049)	123,720
Other comprehensive income to be reclassified to profit/(loss) in subsequent periods (net of tax)				
Net gains/(losses) on available-for-sale financial assets	<i>c</i>	-	13,482	13,482
Income tax effect	<i>g</i>	-	(1,685)	(1,685)
Other comprehensive income/(loss) (net of tax)		-	11,797	11,797
Total comprehensive income for the year (net of tax)		143,769	(8,252)	135,517

AXA MPS Financial DAC

Notes to the financial statements (*continued*)

For the year ended 31 December 2015

33 Explanation of transition to IFRS as adopted by the EU (*continued*)

a) Deferred acquisition costs

This difference arises as a result of the treatment of acquisition costs for unbundled insurance products. Under Irish GAAP, FRS 26 adopted the principles of IAS 39 which for some products of the Company permitted the netting of upfront charges and related costs to determine a net margin at inception where no future charges were available to recover initial costs. Under IFRS 4, acquisition costs are deferred and amortised over the life of the product until expiration.

b) Deferred tax liability

This is the accumulated difference in tax charge calculated on the transition from Irish GAAP to IFRS. This deferred tax will be released as taxable events arise.

c) Available for sale financial assets

This adjustment arises from the adoption of the AFS OCI methodology (IAS 39). In IFRS, the profit and loss impact of movements in the prices of shareholder assets is presented through the creation of the AFS OCI reserve, with any purchase premium / discount being amortised over the duration of the asset. For Irish GAAP, these assets were reported as fair value through the statement of profit or loss.

d) Retained earnings

The retained profit differs significantly due to differing accounting treatments including those mentioned in notes 33 (a), (c), etc.

e) Technical provisions

This relates to the release of the local GAAP cash reserves in respect of insurance contracts. Under IFRS a liability adequacy test is performed periodically to ensure that future revenues are sufficient to meet any contract liabilities that may arise thus reducing the need for additional prudent reserves.

f) Deferred front end fees

This adjustment relates to the release of the local GAAP cash reserves in respect of investment contracts. Under IFRS a liability adequacy test is performed to ensure that future revenues are sufficient to meet any contract liabilities that may arise thus reducing the need for additional prudent reserves. Under IFRS these are not required.

This adjustment arises as a result of the differing treatment of upfront premium under Irish GAAP and IFRS. Under Irish GAAP, deferred income liabilities are based on the net upfront premium (as there is no capitalisation of the upfront commission, see note a). The IFRS treatment is to capitalise all of the upfront fee and amortise this in line with the release of the corresponding deferred acquisition cost.

g) Deferred tax

This is principally the deferred tax liability associated with the AFS OCI reserve. IFRS methodology requires that the reserve be shown separately from the associated tax impact.

AXA MPS Financial DAC

Notes to the financial statements *(continued)*

For the year ended 31 December 2015

33 Explanation of transition to IFRS as adopted by the EU *(continued)*

h) Insurance contracts

Local GAAP permitted the unbundling methodology for determining the insurance component of contracts. Under IFRS 4 the Company has elected to assess contracts as wholly insurance or investment and the entire contract value is accounted for accordingly.

i) Statement of cashflows

The transition from Irish GAAP to IFRS has not had a material impact on the statement of cashflows.

34 Approval of financial statements

The directors approved the financial statements on 27 April 2016.