

# AXA MPS Financial DAC

Directors' report and  
financial statements

Year ended 31 December 2018

*Registered number: 293822*

# AXA MPS Financial DAC

## Directors' report and financial statements

*For the year ended 31 December 2018*

<i>Contents</i>	<i>Page(s)</i>
Directors and other information	2 - 3
Directors' report	4 - 7
Directors' responsibilities statement	8
Independent auditors' report to the members of AXA MPS Financial DAC	9 - 14
Statement of profit or loss	15
Statement of other comprehensive income	16
Statement of financial position	17 - 18
Statement of changes in equity	19
Statement of cash flows	20
Notes to the financial statements	21 - 48

# AXA MPS Financial DAC

## Directors and other information

*For the year ended 31 December 2018*

<b>Directors</b>	R. Moquet, Chairman and Non-Executive Director (France) N. Guinan, CEO and Executive Director J. Goold, Independent Non-Executive Director (UK) S. Hughes, Independent Non-Executive Director M. Spagnuolo, Non-Executive Director (Italy) F. Vitto, Non-Executive Director (Italy)
<b>Registered office</b>	33 Sir John Rogerson's Quay Dublin 2 Ireland
<b>Secretary</b>	Tudor Trust Limited 33 Sir John Rogerson's Quay Dublin 2 Ireland
<b>Independent Auditors</b>	PricewaterhouseCoopers Chartered Accountants and Registered Auditors One Spencer Dock North Wall Quay Dublin 1 Ireland
<b>Bankers</b>	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
<b>Solicitors</b>	Dillon Eustace 33 Sir John Rogerson's Quay Dublin 2 Ireland
<b>Service provider</b>	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 2018*

### **Investment managers**

Aberdeen Global Services SA  
AllianceBernstein  
Amundi Asset Management  
Anima Asset Management Ltd  
AXA Funds Management SA  
AXA Investment Managers Paris SA  
AXA Rosenberg Management Ireland  
Barings International Fund Managers Ireland Ltd  
BlackRock Asset Management  
BlueBay Funds Management  
BNP Paribas Asset Management Luxembourg SA  
BNY Mellon Global Management Ltd  
Candriam Luxembourg  
Deutsche Asset Management SA  
FIL Investment Management Luxembourg SA  
Franklin Templeton International Services Sarl  
GAM Luxembourg SA  
Goldman Sachs Asset Management Global Services Ltd  
Hermes Investment Management Ltd  
HSBC Investment Funds Luxembourg SA  
INVESCO Management SA  
JPMorgan Asset Management  
Jupiter Unit Trust Managers Ltd  
Legg Mason Investments Europe Ltd  
La Banque Postale Asset Management  
M&G Luxembourg SA  
Man Asset Management Ireland Ltd  
MFS Investment Management Co LUX Sarl  
Morgan Stanley Investment Management ACD Ltd  
Natixis Investment Managers SA  
Neuberger Berman Europe Ltd  
NN Investment Partners Luxembourg SA  
Ostrum Asset Management SA/France  
Pictet Asset Management Europe SA  
PIMCO Global Advisors Ireland Ltd  
Robeco Luxembourg SA  
Schroder Investment Management Europe SA  
State Street Global Advisors Ltd  
Threadneedle Management Luxembourg SA  
TT International Investment Management LLP  
UBP Asset Management Europe SA  
UBS Fund Management Luxembourg SA  
Vanguard Group Ireland Ltd  
Vontobel Asset Management SA/Luxembourg

# AXA MPS Financial DAC

## Directors' report

*For the year ended 31 December 2018*

The Directors present their annual report and the audited financial statements for AXA MPS Financial DAC ("the Company") for the year ended 31 December 2018. 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 European Union (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 2018, investment and insurance product sales amounted to €1,353 million (2017: €1,642 million), a decrease of 17.6% on 2017. Gross Written Premium reported for insurance products in the statement of profit or loss amounts to €709 million (2017: €760 million).

Total insurance claims and investment redemptions for the period amounted to €1,328 million for the year (2017: €1,548 million) a decrease of 14.2% on 2017.

Total policyholder assets under management amount to €7,730 million (2017: €8,255 million) which is a decrease of €525 million from the previous year. Investment performance has been the main contributor to this decrease in policyholder assets. Net technical operating cash flow for 2018 is positive €25 million (2017: positive €94 million).

The Company generated a profit after tax of €50.3 million (2017: €56.7 million) and net assets at 31 December 2018 amounted to €150 million (2017: €158 million).

Note 25 to the financial statements on page 37 confirms that the Company had a satisfactory surplus over regulatory Solvency II capital requirements at the year end.

During 2018 the Company continued to face a difficult external environment from the continuing low interest rate environment and increased competition from non-insurance mutual fund providers. Reacting to the current market environment the Company launched new products in 2017 which continued to sell well in 2018. These products were styled to offer clients a protected unit link product and secondly to create long-term Individual Savings Plans (PIR, in Italian) which will benefit the client through tax incentives when investing in small and medium-sized Italian firms. These products represent 43% of Gross Written Premium for 2018. Valore Selezione Plus also continues to sell well representing 25% of Gross Written Premium for 2018. 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 policyholders' 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 delivering a range of products to meet their requirements and this is reflected in the sales mix for 2018.

# AXA MPS Financial DAC

## Directors' report (*continued*)

*For the year ended 31 December 2018*

### 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 has a well-established Board Audit Committee, a Board Investment Committee, a Board Risk Committee all of which met at least 4 times during 2017. In 2016 a Board Remuneration Committee was also established. 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	€1,353,030	(2017: €1,641,625)
TOCF*	€25,413	(2017: €93,646)
Profit after tax	€50,270	(2017: €56,684)

\*Technical Operating Cash Flow

### Results for the year and state of affairs at 31 December 2018

The results for the year are set out on page 15. The Company's statement of financial position is set out on pages 17 and 18.

### Dividends

The Directors approved the payment of a dividend in 2018 of €55 million (2017: €80 million).

### Directors

The following Directors served during the year:

Béatrice Derouvroy Bernard - Chairman and Non-Executive Director (resigned 08/06/2018)  
Roland Moquet, Chairman and Non-Executive Director (appointed 25/06/2018)  
Neil Guinan - CEO and Executive Director  
Fabio Accorinti - Non- Executive Director (resigned 25/06/2018)  
Mathieu Andre - Non- Executive Director (resigned 15/03/2019)  
Paolo Delprato - Non- Executive Director (resigned 03/10/2018)  
Jonathan Goold - Independent Non-Executive Director  
Seamus Hughes - Independent Non-Executive Director  
M. Spagnuolo - Non-Executive Director  
F. Vitto Non-Executive Director

# AXA MPS Financial DAC

## Directors' report (*continued*) *For the year ended 31 December 2018*

### **Directors' and secretary's and interests**

The Directors and secretary who held office at 31 December 2018 had no interests in the shares in, or debentures or loan stock of, the Company or any other Group company which require disclosure under Section 260 of the Companies Act, 2014.

### **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.

### **Political donations**

The Company made no political donations during the year (2017: Nil).

### **Directors' compliance statement**

The directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations.

The directors confirm that they have:

- drawn up a compliance policy statement setting out the Company's policies respecting compliance by the Company with its relevant obligations;
- put in place appropriate arrangements or structures that are designed to secure material compliance with the Company's relevant obligations;
- conducted a review, during the financial year ended 31 December 2018, of the arrangements and structures, referred to above.

### **Disclosure of information to auditors**

The directors in office at the date of this report have each confirmed that:

- as far as he/she is aware, there is no relevant audit information of which the Company's statutory auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's statutory auditors are aware of that information.

### **Events after the reporting period**

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

# AXA MPS Financial DAC

## Directors' report (*continued*)


*For the year ended 31 December 2018*

### **Independent Auditors**

PricewaterhouseCoopers, 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

*18 April 2019*



# AXA MPS Financial DAC

## Directors' responsibilities statement

*For the year ended 31 December 2018*

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

18 April 2019



## ***Independent auditors' report to the members of AXA MPS Financial DAC***

### **Report on the audit of the financial statements**

---

#### **Opinion**

In our opinion AXA MPS Financial DAC's financial statements:

- give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the directors' report and financial statements, which comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss for the year then ended;
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

---

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law.

Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Independence***

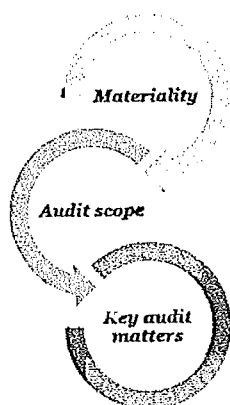
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the company.

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018.

## Our audit approach

### Overview



#### Materiality

- EUR3.5 million (2016: EUR5.0 million) – Based on 5% of average profit before tax (for the last 3 years)

#### Audit scope

- We performed a full scope audit of the company's financial statements, based on materiality levels

#### Key audit matters

- Valuation of deferred acquisition costs
- Valuation of deferred income
- Existence and valuation of investments

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

#### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of deferred acquisition costs</b></p> <p><i>Refer to note 1 and note 17 to the financial statements</i></p> <p>Certain costs incurred in the writing or renewing of insurance and investment contracts are deferred to the extent that these costs are recoverable out of future profits.</p> <p>Deferred acquisition 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. This involves management assumptions including mortality, lapses, investment return and future expenses.</p> <p>We focused on this area because of the complexity of</p>	<p>With the assistance of our actuarial specialists, we:</p> <ul style="list-style-type: none"> <li>• considered management's basis and assumptions for deferring acquisition costs, focusing on the assumptions used in determining the amortisation amounts; and</li> <li>• assessed the recoverability of deferred acquisition costs by comparing the amount deferred to future cash flow projections.</li> </ul> <p>We also:</p> <ul style="list-style-type: none"> <li>• tested the design and operating effectiveness of</li> </ul>



the calculations and the judgement involved.	<p>selected processes and controls over the determination of deferred acquisition costs; and</p> <ul style="list-style-type: none"> <li>considered management's basis and assumptions for deferring acquisition costs, focusing on the assumptions used in determining the amortisation amounts; and</li> <li>tested the key inputs into the calculations to the company's underlying records.</li> </ul> <p>No matters were noted as a result of performing these procedures.</p>
<p><b>Valuation of deferred income</b>  <i>Refer to note 1 and note 22 to the financial statements</i></p> <p>Initial and other front-end fees received for the rendering of future investment management services relating to investment contracts are deferred and recognised as revenue when the related services are rendered.</p> <p>Deferred income is amortised to the statement of profit or loss over the expected lives of the policies over the period using the same amortisation profile as for deferred acquisition costs.</p> <p>We focused on this area because of the complexity of the calculations and the judgement involved.</p>	<p>With the assistance of our actuarial specialists, we considered management's basis and assumptions for deferring income which follows the same profile as for deferred acquisition costs.</p> <p>We also:</p> <ul style="list-style-type: none"> <li>tested the design and operating effectiveness of selected processes and controls over the determination of deferred income; and</li> <li>tested the key inputs into the calculations to the company's underlying records.</li> </ul> <p>No matters were noted as a result of performing these procedures.</p>
<p><b>Existence and valuation of financial assets</b>  <i>Refer to note 1, note 14, note 15 and note 26 to the financial statements</i></p> <p>The financial assets held at fair value through profit or loss included in the statement of financial position of the company are held in the company's name and are valued at fair value in line with IFRS.</p> <p>These assets comprise primarily government bonds and unit trusts.</p> <p>We focused on this area because it represents the principal element of the financial statements.</p>	<p>We tested the design and operating effectiveness of selected processes and controls relating to financial assets custody and valuation.</p> <p>We obtained independent confirmation from the custodians of nominal assets holdings at 31 December 2018, agreeing the amounts held to the accounting records.</p> <p>We tested the valuation of the investment portfolio by agreeing the valuation of investments to independent sources.</p> <p>No matters were noted as a result of performing these procedures.</p>

#### *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.



### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall materiality</b>	EUR3.6 million (EUR5.0 million).
<b>How we determined it</b>	We determined our materiality for the audit of the financial statements using quantitative and qualitative factors. Based on these factors we have selected 5% of the average profit before tax for the last 3 years as an appropriate benchmark for measuring materiality.
<b>Rationale for benchmark applied</b>	We have selected this benchmark as, in our view, profit before tax is most appropriate benchmark given the circumstances and the nature of the company's business. We use an average of profit before tax for the last 3 years given the year-on-year volatility inherent in insurance company profitability.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above 5% of overall materiality or EUR180,000 (2016: EUR250,00), as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

In accordance with guidance on the audit of insurers issued by the Financial Reporting Council which is generally accepted in Ireland, we have applied a higher materiality threshold of EUR77.3 million (2016: EUR82.7 million) solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

### Reporting on other information

The other information comprises all of the information in the directors' report and financial statements other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.



With respect to the report of the directors, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below.

- In our opinion, based on the work undertaken in the course of the audit, the information given in the report of the directors for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the report of the directors.

---

## **Responsibilities for the financial statements and the audit**

### *Responsibilities of the directors for the financial statements*

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Irish Auditing and Accounting Supervisory Authority website at: [https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description\\_of\\_auditors\\_responsibilities\\_for\\_audit.pdf](https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

---

## **Other required reporting**

### **Companies Act 2014 opinions on other matters**

- 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.



---

**Companies Act 2014 exception reporting*****Directors' remuneration and transactions***

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

---

**Appointment**

We were appointed by the directors on 2 November 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2016 to 31 December 2018.

A handwritten signature in black ink, appearing to be 'Paraic Joyce', enclosed within a large, hand-drawn oval.

**Paraic Joyce**  
**for and on behalf of PricewaterhouseCoopers**  
**Chartered Accountants and Statutory Audit Firm**  
**Dublin**

**18 April 2019**

# AXA MPS Financial DAC

## Statement of profit or loss for the year ended 31 December 2018

	Note	2018 €'000	2017 €'000
Gross written premium	2	709,267	760,117
Outward reinsurance premium	2	(29)	(36)
<b>Net premium written and earned</b>		<b>709,238</b>	<b>760,081</b>
Investment return	3	(454,467)	278,806
Change in deferred income	22	35,834	41,784
Fee and commission income	4	140,443	139,196
<b>Total (expense) / income</b>		<b>(278,190)</b>	<b>459,786</b>
Claims paid - insurance contracts	5	(658,895)	(827,464)
Change in technical provisions for insurance liabilities	6	166,733	(49,186)
Change in investment liabilities	5	212,885	(180,670)
<b>Net policy holder claims and benefits incurred</b>		<b>(279,277)</b>	<b>(1,057,320)</b>
Investment expenses		(3,323)	(3,725)
Fee and commission expenses	7	(69,120)	(72,801)
Change in deferred acquisition costs	17	(5,381)	(2,940)
Administration expenses	8	(16,503)	(18,302)
<b>Operating expenses</b>		<b>(94,327)</b>	<b>(97,768)</b>
<b>Profit before tax</b>		<b>57,444</b>	<b>64,779</b>
Taxation	12	(7,174)	(8,095)
<b>Profit for the year</b>		<b>50,270</b>	<b>56,684</b>

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 2018

	Note	<u>2018</u> €'000	<u>2017</u> €'000
<b>Profit for the year</b>		<b>50,270</b>	<b>56,684</b>
<b>Other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of tax)</b>			
Net losses on available-for-sale financial assets		(4,409)	(4,844)
Income tax effect	12	<u>551</u>	<u>605</u>
<b>Other comprehensive loss (net of tax)</b>		<b><u>(3,858)</u></b>	<b><u>(4,239)</u></b>
<b>Total comprehensive income for the year (net of tax)</b>		<b><u>46,412</u></b>	<b><u>52,445</u></b>

All profits were generated by continuing activities.

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

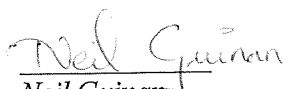
# AXA MPS Financial DAC

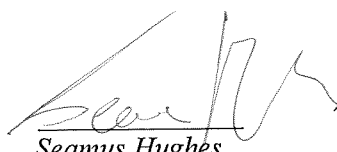
## Statement of financial position As at 31 December 2018

		<u>2018</u>	<u>2017</u>
	Note	€'000	€'000
<b>Assets</b>			
Tangible assets	13	13	29
Shareholder financial assets	14	90,917	120,679
<i>Policyholder financial assets</i>			
Investments for the benefit of life assurance policyholders	15	7,730,480	8,254,992
Other financial investments	15	11,773	18,316
		<u>7,742,253</u>	<u>8,273,308</u>
Cash and cash equivalents	16	75,185	86,722
Deferred acquisition costs	17	150,866	156,247
Other Debtors	18	59,664	76,101
<b>Total assets</b>		<u><b>8,118,898</b></u>	<u><b>8,713,086</b></u>

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

On behalf of the board

  
Neil Guinan  
Director

  
Seamus Hughes  
Director

18 April 2019

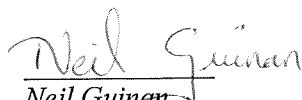
# AXA MPS Financial DAC

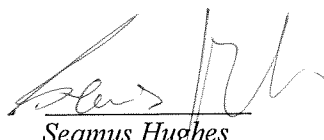
## Statement of financial position As at 31 December 2018

		<b>2018</b>	<b>2017</b>
	<b>Note</b>	<b>€'000</b>	<b>€'000</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to the equity holders of the company</b>			
Ordinary share capital	19	635	635
Available for sale reserve		4,770	8,628
Retained earnings		144,438	149,168
<b>Total equity</b>		<b>149,843</b>	<b>158,431</b>
<b>Liabilities</b>			
Insurance technical provisions	20	3,291,248	3,486,174
Investment contract technical provisions	21	4,455,962	4,781,987
Deferred income	22	118,893	154,727
<i>Creditors arising out of direct insurance operations:</i>			
Claims payable / prepaid premiums	23	64,359	62,914
Provision for Italian tax		12,767	37,146
Deferred tax liability	12	681	1,231
Other creditors	24	25,145	30,476
<b>Total liabilities</b>		<b>7,969,055</b>	<b>8,554,655</b>
<b>Total equity and liabilities</b>		<b>8,118,898</b>	<b>8,713,086</b>

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

On behalf of the board

  
Neil Guinan  
Director

  
Seamus Hughes  
Director

18 April 2019

# AXA MPS Financial DAC

## Statement of changes in equity For the year ended 31 December 2018

	Issued capital €'000	Retained earnings €'000	Available for sale reserve €'000	Total equity €'000
<b>At 1 January 2018</b>	<b>635</b>	<b>149,168</b>	<b>8,628</b>	<b>158,431</b>
Profit for the year	-	50,270	-	50,270
Other comprehensive loss	-	-	(3,858)	(3,858)
<b>Total recognised gains / (losses) for the financial year</b>	<b>-</b>	<b>50,270</b>	<b>(3,858)</b>	<b>46,412</b>
Dividends paid	-	(55,000)	-	(55,000)
<b>As at 31 December 2018</b>	<b>635</b>	<b>144,438</b>	<b>4,770</b>	<b>149,843</b>
<b>At 1 January 2017</b>	<b>635</b>	<b>172,484</b>	<b>12,867</b>	<b>185,986</b>
Profit for the year	-	56,684	-	56,684
Other comprehensive loss	-	-	(4,239)	(4,239)
<b>Total recognised gains / (losses) for the financial year</b>	<b>-</b>	<b>56,684</b>	<b>(4,239)</b>	<b>52,445</b>
Dividends paid	-	(80,000)	-	(80,000)
<b>As at 31 December 2017</b>	<b>635</b>	<b>149,168</b>	<b>8,628</b>	<b>158,431</b>

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

# AXA MPS Financial DAC

## Statement of cash flows

For the year ended 31 December 2018

	<u>2018</u>	<u>2017</u>
	€'000	€'000
<b>Profit before taxation</b>	<b>57,444</b>	<b>64,779</b>
Net change in fair value of investments	530,269	(276,224)
Net change in contract liabilities	(530,467)	274,969
Fund expenses borne by policyholders	(284)	(108)
Net change in deferred acquisition costs	5,381	2,940
Net change in provision for deferred income	(35,834)	(41,784)
Depreciation	16	21
	<u>26,525</u>	<u>24,593</u>
(Increase) / decrease in trade and other receivables	(11,339)	66,656
Increase / (decrease) in trade and other payables	10,529	(159,072)
	<u>(810)</u>	<u>(92,416)</u>
Net tax paid	<u>(18,956)</u>	<u>(10,069)</u>
<b>Net cash inflow / (outflow) from operating activities</b>	<b><u>6,759</u></b>	<b><u>(77,892)</u></b>
Proceeds from investments available for sale	29,237	32,352
Net cash flow from investments designated at fair value through profit and loss	7,467	6,733
<b>Net cash flow inflow from investing activities</b>	<b><u>36,704</u></b>	<b><u>39,085</u></b>
Dividend paid	<u>(55,000)</u>	<u>(80,000)</u>
<b>Net cash flow outflow used in financing activities</b>	<b><u>(55,000)</u></b>	<b><u>(80,000)</u></b>
<b>Net decrease in cash and cash equivalents</b>	<b>(11,537)</b>	<b>(118,807)</b>
Cash and cash equivalents at 1 January	<u>86,722</u>	<u>205,529</u>
<b>Cash and cash equivalents at 31 December</b>	<b><u><u>75,185</u></u></b>	<b><u><u>86,722</u></u></b>

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

*For the year ended 31 December 2018*

### **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.

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 27, accounting estimates and judgement in the notes to the financial statements.

#### **Adoption of new and revised standards**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. The impact of the IFRSs to be adopted in future financial years is considered on an ongoing basis. The adoption of IFRS 15 had no impact on the Company, as the way that the Company's revenue from contracts with customers was recognised under the previous accounting standard, IAS 18, satisfies the requirements of IFRS 15 with no changes required to existing accounting policies. The adoption of IFRS 9 may impact both the measurement and disclosure of financial instruments and fee income respectively and will be considered in advance of the mandatory IFRS effective dates. The Company actively reviews the adoption of IFRSs.

In accordance with IFRS 4, 'Insurance Contracts', the Company has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest and this is the approach of the Company. The Company has applied the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. The assessment as to whether the Company qualifies for the temporary exemption was completed based on the financial statements as at 31 December 2017. At that time the carrying amounts of the Company's liabilities arising from insurance contracts within the scope of IFRS 4 or IAS 39 represented more than 90% of the total carrying amount of the liabilities at that date. In addition, insurance liabilities valued in accordance with IFRS 4 represented more than 20% of the total carrying amount of the liabilities at that date. As required by the temporary exemption from IFRS 9, the Company has assessed whether the financial assets should be included in the following classes:

- (i) Solely payments of principal and interest ("SPPI"); assets of which cash flows represent solely payments of principal and interest on an outstanding principal amount, excluding any financial assets that meet the definition of held for trading in IFRS 9, or that are managed and whose performance is evaluated on a fair value basis; and
- (ii) Other at fair value; all financial assets other than those specified in SPPI, which include financial assets:

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 1 Accounting policies (*continued*)

#### Adoption of new and revised standards (*continued*)

- (a) with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding;
- (b) that meet the definition of held for trading in IFRS 9; or
- (c) that are managed and whose performance is evaluated on a fair value basis.

The Company has classified the following financial assets as “Other at fair value” at 31 December 2018

- Financial investments €7,730m

The following financial assets have been classified as SPPI at 31 December 2018

- Financial investments €89.8m

IFRS 16 replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company does not currently plan to early adopt the new standard and having assessed the standard does not believe it will have a material impact on the Company.

IFRS 17, published in May 2017. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

IFRS 17, is effective for annual reporting periods beginning on or after 1 January 2022, 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.

#### 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.

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 1 Accounting policies (*continued*)

#### 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.

### 1 Accounting policies (*continued*)

#### Insurance and investment contracts – classification (*continued*)

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.

##### *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.



# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 1 Accounting policies (*continued*)

#### Insurance contracts – recognition and measurement (*continued*)

##### *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.

##### *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.

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 1 Accounting policies (*continued*)

#### Investment contracts – recognition and measurement (*continued*)

##### *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 2018

### 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 26;
- 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 26;
- 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 26;
- 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 26; and
- v) other financial assets relate to cash in unitised funds and are reported as Level 1 assets in Note 26.

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 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 2018

### 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 declared by the directors are recognised when paid.

# AXA MPS Financial DAC

## Notes to the financial statements *(continued)*

For the year ended 31 December 2018

### 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.

	2018 €'000	2017 €'000
Insurance premium revenue	709,267	760,117
Outward reinsurance premium	(29)	(36)
	<u>709,238</u>	<u>760,081</u>

Total gross written premium is recognised as follows:

	2018 €'000	2017 €'000
Statement of profit or loss	709,238	760,081
Financial liabilities - investment contracts	643,792	881,544
	<u>1,353,030</u>	<u>1,641,625</u>

### 3 Investment return

	2018 €'000	2017 €'000
Income from available for sale assets	3,586	4,241
Interest income from cash	3	9
Realised gain in policyholder assets	157,664	160,661
Unrealised gain/(losses) in policyholder assets	(615,901)	113,543
Realised gain in shareholder assets	333	359
Other shareholder (loss) / income	(152)	(7)
	<u>(454,467)</u>	<u>278,806</u>

### 4 Fee and commission income

	2018 €'000	2017 €'000
Management fees including initial margin	113,410	113,283
Coupon income	9,147	4,299
Rebate income	17,886	21,614
	<u>140,443</u>	<u>139,196</u>

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 5 Insurance claims and benefits incurred

	2018 €'000	2017 €'000
Insurance claims and benefits incurred	(658,895)	(827,464)
Change in investment liabilities	212,885	(180,670)
	<u>(446,010)</u>	<u>(1,008,134)</u>

### 6 Change in technical provisions for insurance liabilities

	2018 €'000	2017 €'000
Premiums received	(105)	(12)
Claims paid	(101)	4,667
Investment gains & losses	166,939	(53,841)
	<u>166,733</u>	<u>(49,186)</u>

### 7 Fee and commission expenses

	2018 €'000	2017 €'000
Commission expense – new	(39,711)	(45,845)
Commission expense – ongoing	(29,409)	(26,956)
	<u>(69,120)</u>	<u>(72,801)</u>

### 8 Administration expenses

	2018 €'000	2017 €'000
General administration and office expenses	14,203	15,882
Professional fees (including auditors remuneration) (note 9)	2,284	2,399
Depreciation (note 13)	16	21
	<u>16,503</u>	<u>18,302</u>

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 9 Auditors' remuneration

The total remuneration paid and payable to the auditors, PricewaterhouseCoopers, 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.

	2018 €'000	2017 €'000
Audit of statutory financial statements	70	70
Other assurance services	37	37
Taxation advisory services	-	-
Other non-audit services	-	-
	<u>107</u>	<u>107</u>

### 10 Staff costs and numbers

Staff costs shown here include remuneration paid to executive directors (Note 11):

	2018 €'000	2017 €'000
Wages and salaries	4,409	4,812
Social security costs	464	482
Pension costs	373	330
	<u>5,246</u>	<u>5,624</u>

	2018 No.	2017 No.
Average number of employees during the period		
Administration	48	49
Finance	6	6
Actuarial	5	6
	<u>59</u>	<u>61</u>

### 11 Directors' emoluments

	2018 €'000	2017 €'000
For services as non-executive director	84	86
For services as executive director	393	389
	<u>477</u>	<u>475</u>

The following are details of remuneration paid to executive directors:

Wages and salaries	327	325
Social security costs	35	33
Pension costs	31	31
	<u>393</u>	<u>389</u>



# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 12 Taxation

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	2018 €'000	2017 €'000
Corporation tax	7,174	8,095
<i>Reconciliation of current tax at standard rate to actual tax charge at the effective rate</i>		
Profit on ordinary activities before taxation	57,444	64,779
Current tax at 12.5%	7,181	8,097
<i>Effects of:</i>		
Prior year under provision	(29)	24
Items not deductible for tax purposes	25	8
Capital allowances for the period in excess of depreciation	(4)	(35)
Income tax withheld	1	1
Income tax reported in the statement of profit or loss	7,174	8,095
<b>Deferred tax related to items recognised in the statement of other comprehensive loss during the year:</b>		
Net losses on available-for-sale financial assets	(4,409)	(4,844)
Deferred tax recognised in other comprehensive loss	(551)	(606)
	2018 €'000	2017 €'000
<b>Deferred tax liability</b>		
Balance at 1 January	1,232	1,837
Movement during the financial year recognised in other comprehensive income	(551)	(605)
<b>Balance at 31 December</b>	681	1,232

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 13 Tangible assets

	Computer equipment & software €'000	Other equipment €'000	Total €'000
<b>Cost</b>			
Balance at 1 January 2018	1,920	1,271	3,191
Additions	-	-	-
Balance at 31 December 2018	<u>1,920</u>	<u>1,271</u>	<u>3,191</u>
<b>Accumulated depreciation</b>			
Balance at 1 January 2018	1,920	1,242	3,162
Charge for year	-	16	16
Balance at 31 December 2018	<u>1,920</u>	<u>1,258</u>	<u>3,178</u>
<b>Net book value</b>			
At 31 December 2018	<u>-</u>	<u>13</u>	<u>13</u>
At 31 December 2017	<u>-</u>	<u>29</u>	<u>29</u>

### 14 Shareholder financial assets

	2018 €'000	2017 €'000
Financial assets designated as fair value through profit or loss	<u>90,917</u>	<u>120,679</u>
<i>Analysed as follows:</i>		
Seed capital investment	1,086	250
Government securities	<u>89,831</u>	<u>120,429</u>
	<u>90,917</u>	<u>120,679</u>

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 15 Policyholder financial assets

	2018 €'000	2017 €'000
Financial assets designated as fair value through profit or loss	<u>7,742,253</u>	<u>8,273,308</u>
<i>Analysed as follows:</i>		
Index linked bonds	648	53,640
Index linked unit trusts	1,706,152	2,268,135
Unit trusts	6,023,680	5,933,217
Hedge assets backing Accumulator (Liability Option Value - LOV)	<u>11,773</u>	<u>18,316</u>
	<u><b>7,742,253</b></u>	<u><b>8,273,308</b></u>

### 16 Cash and cash equivalents

	2018 €'000	2017 €'000
Balance at bank	<u>75,185</u>	<u>86,722</u>

### 17 Deferred acquisition costs

	2018 €'000	2017 €'000
Balance at 1 January	<u>156,247</u>	<u>159,187</u>
Capitalisation during the year	40,967	40,784
Amortisation during the year	<u>(46,348)</u>	<u>(43,724)</u>
Movement in current year	(5,381)	(2,940)
Balance at 31 December	<u><b>150,866</b></u>	<u><b>156,247</b></u>

### 18 Other debtors

	2018 €'000	2017 €'000
Debtors	20,101	21,511
Current Tax	1,992	2,657
Prepayment of Italian tax	<u>37,571</u>	<u>51,933</u>
	<u><b>59,664</b></u>	<u><b>76,101</b></u>

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 18 Other debtors (*continued*)

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 2018 the amount of tax recovered through exit taxes on policyholders surrenders amounted to €17.1 million (2017: €29.2 million).

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

### 19 Ordinary share capital

	2018 €'000	2017 €'000
<i>Authorised</i>		
5,078,953 (2016: 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>

### 20 Insurance technical provisions

	2018 €'000	2017 €'000
At start of year	3,486,174	3,464,815
Premiums received	709,258	760,117
Claims paid	(658,895)	(827,464)
Investment gains & losses	(230,189)	112,616
Insurance margins, coupon income, fund income & expenses	<u>(15,100)</u>	<u>(23,910)</u>
At end of year	<u>3,291,248</u>	<u>3,486,174</u>

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 21 Investment contract technical provisions

	2018 €'000	2017 €'000
At start of year	4,781,987	4,528,486
Premiums received	643,792	881,443
Claims paid	(668,913)	(720,725)
Investment gains & losses	(224,278)	164,168
Management charges	(78,130)	(74,564)
Upfront margin, fund income & expenses	1,504	3,179
At end of year	<u>4,455,962</u>	<u>4,781,987</u>

### 22 Deferred income

	2018 €'000	2017 €'000
Balance at 1 January	<u>154,727</u>	<u>196,511</u>
Capitalisation during the year	12,435	23,826
Amortisation during the year	<u>(48,269)</u>	<u>(65,610)</u>
Movement in current year	(35,834)	(41,784)
Balance at 31 December	<u>118,893</u>	<u>154,727</u>

### 23 Creditors arising out of direct insurance operations

	2018 €'000	2017 €'000
Amounts falling due within one year:		
Claims payable / prepaid premiums	<u>64,359</u>	<u>62,914</u>

### 24 Other creditors

	2018 €'000	2017 €'000
Amounts falling due within one year:		
Creditors (excluding tax)	25,145	29,888
Current tax	-	588
	<u>25,145</u>	<u>30,476</u>

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

*For the year ended 31 December 2018*

### **25 Capital position statement**

Effective from 1 January 2016, the Solvency II Directive replaced the Solvency I regulatory solvency requirements. The Company has assessed its overall solvency needs using the Solvency II basis. This covers the preparation of the Solvency II Balance Sheet (which differs from the IFRS balance sheet) and the Solvency Capital Requirement ("SCR")/Minimum Capital Requirement ("MCR"). For the purposes of calculating its Solvency II Pillar I capital requirements, the SCR is calculated by using an Internal Model approach in accordance with the requirements set out in Regulation 114 of SI 485 of 2015. As at 31 December 2018, the Company's available capital resources were in excess of the regulatory capital requirements on a Solvency II basis and the Board is satisfied that the level of capital retained is appropriate.

The Company maintains a capital structure with a combination of share capital and retained profits, consistent with the Company's risk profile and the regulatory and market requirements of its business.

The Company is regulated in Ireland by the Central Bank of Ireland and is required to observe the rules for the amount and structure of the solvency capital for the business that it carries on.

The Company carries out regular projections of its capital adequacy and these are reviewed by the Board to ensure that satisfactory levels of cover are maintained. Capital adequacy and solvency cover are reported to the Central Bank of Ireland on a quarterly and annual basis.

No instances of non-compliance with solvency capital requirements were reported by the Company to the Central Bank of Ireland during the year.

### **26 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.

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 26 Risk management policies (*continued*)

#### *Credit risk (continued)*

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.

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. For the year ended 31 December 2018, the Company no longer bears the credit risk on the underlying Italian BTP assets for the index linked products TB99 to TB102. These products matured in February 2018.

#### *Analysis of counterparty risk on assets and exposures*

	2018	2017
	€'000	€'000
<i>Counterparty risk assumed by shareholders</i>		
German government bond (shareholder investment)	1,626	3,174
Italian government bond (shareholder investment)	3,887	4,574
Austrian government bond (shareholder investment)	1,120	1,144
French government bonds (shareholder investment)	6,702	16,524
Irish government bonds (shareholder investment)	46,866	59,753
Spanish government bonds (shareholder investment)	29,630	33,524
Seed capital (shareholder investment)	-	250
Units in managed funds	319	328
PIR Shareholder Assets	767	-
Italian government bonds backing index-linked bonds	-	51,733
Swaps backing index-linked bonds	-	9,449
Options backing index-linked bonds	-	(9,410)
Covered call option asset	-	(71,670)
Covered call option liability	-	71,670
	<b>90,917</b>	<b>171,043</b>
	2018	2017
	€'000	€'000
Other assets where counterparty risk is assumed by the policyholder:		
Investments in unit trusts	<b>7,702,380</b>	<b>8,172,599</b>

Investments in index linked bonds and corporate bonds are subject to a minimum credit rating of BBB.

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

*For the year ended 31 December 2018*

### **26 Risk management policies (*continued*)**

#### *Market risk*

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

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

#### *Interest rate 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 40.

#### *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.



# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 26 Risk management policies (*continued*)

#### *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.

#### *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 2018	6 months or less €'000	6 - 12 months €'000	1 - 5 years €'000	Over 5 years €'000	Total €'000
Government bonds	13,072	34,198	36,182	6,379	89,831
Deposits with credit institutions	75,185	-	-	-	75,185
	<b>88,257</b>	<b>34,198</b>	<b>36,182</b>	<b>6,379</b>	<b>165,016</b>
At 31 December 2017	6 months or less €'000	6 - 12 months €'000	1 - 5 years €'000	Over 5 years €'000	Total €'000
Government bonds	-	16,764	90,905	12,761	120,430
Deposits with credit institutions	86,722	-	-	-	86,722
	<b>86,722</b>	<b>16,764</b>	<b>90,905</b>	<b>12,761</b>	<b>207,152</b>

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 26 Risk management policies (*continued*)

The effective interest rates at 31 December 2018 were as follows:

	6 months or less	6 - 12 months	1 - 5 years	Over 5 years
Government bonds	(1.29%)	(0.45%)	(0.37%)	1.07%
Deposits with credit institutions	0.00%	-	-	-

The effective interest rates at 31 December 2017 were as follows:

	6 months or less	6 - 12 months	1 - 5 years	Over 5 years
Government bonds	0.00%	(0.32%)	(0.52%)	0.62%
Deposits with credit institutions	0.00%	-	-	-

The sensitivity analysis highlights the cash flow impact of a reduction by 1% on interest rate sensitive assets held at 31 December 2018 and 2017. These cash flows contribute directly to the profit before tax result. The principal components are as follows:

- 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. As the availability of positive deposit interest accounts in the current environment is low, the estimated impact is Nil as shown in the table below.

1% reduction in interest rates

At 31 December 2018

	6 months or less €'000	6 - 12 months €'000	1 - 5 years €'000	Over 5 years €'000	Total €'000
Government bonds	-	-	-	-	-
Deposits with credit institutions	(203)	-	-	-	(203)
	(203)	0	0	0	(203)

1% reduction in interest rates

At 31 December 2017

	6 months or less €'000	6 - 12 months €'000	1 - 5 years €'000	Over 5 years €'000	Total €'000
Government bonds	-	-	-	-	-
Deposits with credit institutions	-	-	-	-	-
	-	-	-	-	-

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 26 Risk management policies (*continued*)

#### 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.

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 Architas (formerly AXA Life Invest), a subsidiary of AXA S.A. Architas 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.

The Company's derivative portfolio at 31 December 2018 is shown below:

	Notional amount €'000	Fair value asset €'000	Fair value liability €'000	Fair value net €'000
Interest rate swaps	1,343,802	25,852	(14,079)	11,773
Exchange traded futures	32,028	475	(112)	362
	<b>1,375,830</b>	<b>26,326</b>	<b>(14,191)</b>	<b>12,135</b>

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 26 Risk management policies (*continued*)

#### Derivatives (*continued*)

The Company's derivative portfolio at 31 December 2017 is shown below:

	Notional amount €'000	Fair value asset €'000	Fair value liability €'000	Fair value net €'000
Interest rate swaps	1,656,274	38,580	(20,264)	18,316
Covered call option asset	262,325	71,670	-	71,670
Covered call option liability	(262,325)	-	(71,670)	(71,670)
Exchange traded futures	37,745	229	(63)	166
	<b>1,694,019</b>	<b>110,479</b>	<b>(91,997)</b>	<b>18,482</b>

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 2018	< 1 year €'000	1 - 5 years €'000	> 5years €'000	Total €'000
Interest rate swaps	461,052	855,504	27,245	1,343,802
Exchange traded futures	32,028	-	-	32,028
	<b>493,080</b>	<b>855,504</b>	<b>27,245</b>	<b>1,375,830</b>

At 31 December 2017	< 1 year €'000	1 - 5 years €'000	> 5years €'000	Total €'000
Interest rate swaps	328,174	1,252,935	75,165	1,656,274
Covered call option asset	262,325	-	-	262,325
Covered call option liability	(262,325)	-	-	(262,325)
Exchange traded futures	37,745	-	-	37,745
	<b>365,919</b>	<b>1,252,935</b>	<b>75,165</b>	<b>1,694,019</b>

#### 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 0.18% (2017: 0.21%) of total shareholder equity. These assets comprise primarily of loyalty units held of €305k (2017: €328k) which are held for the benefit of policyholders whose policies allow for a loyalty bonus top up upon reaching a specified anniversary date.

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 26 Risk management policies (*continued*)

#### 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).

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 2018 (31 December 2017: None)

At 31 December 2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
German government bond	1,626	-	-	1,626
Italian government bond	3,887	-	-	3,887
Austrian government bond	1,120	-	-	1,120
French government bonds	6,702	-	-	6,702
Irish government bonds	46,866	-	-	46,866
Spanish government bonds	29,630	-	-	29,630
Unit trusts	-	319	-	319
PIR Shareholder Assets	767	-	-	767
Investments in unit trusts	-	7,702,380	-	7,702,380
	<b>90,598</b>	<b>7,702,699</b>	<b>-</b>	<b>7,793,297</b>

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

For the year ended 31 December 2018

### 26 Risk management policies (*continued*)

#### *Fair Value Hierarchy (continued)*

At 31 December 2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
German government bond	3,174	-	-	3,174
Italian government bond	4,574	-	-	4,574
Austrian government bond	1,144	-	-	1,144
French government bonds	16,524	-	-	16,524
Irish government bonds	59,753	-	-	59,753
Spanish government bonds	33,524	-	-	33,524
Seed capital	250	-	-	250
Unit trusts	-	328	-	328
Italian government bonds backing IL bonds	51,733	-	-	51,733
Options backing index-linked bonds	-	(9,410)	-	(9,410)
Covered call option asset	-	(71,670)	-	(71,670)
Covered call option liability	-	71,670	-	71,670
Swaps backing index-linked bonds	-	9,449	-	9,449
Investments in unit trusts	-	8,172,599	-	8,172,599
	<b>170,676</b>	<b>8,172,966</b>	<b>-</b>	<b>8,343,642</b>

### 27 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.

#### *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.

# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

*For the year ended 31 December 2018*

### **27 Accounting estimates and judgements (*continued*)**

#### *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.

### **28 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.

### **29 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 Architas Solutions formerly 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 MPS Capital Services for the provision of structured policyholder products.
- The Company has a distribution agreement with Banca Monte dei Paschi di Siena (BMPS) and pays commissions in respect of new and ongoing business.
- The Company has an agreement with AXA Italia Servizi for the provision of IT services.
- The Company has a shared services agreement with AXA Life Europe for the secondment of the Company Head of Internal Audit on a 50/50 basis.
- The Company has a shared services agreement with AXA Life Europe for the secondment of the AXA Life Europe Head of Compliance on a 50/50 basis.
- The Company has an agreement with AXA MPS Assicurazioni Vita whereby the Company provides investment management advice for unit linked investment funds.

# AXA MPS Financial DAC

## Notes to the financial statements *(continued)*

For the year ended 31 December 2018

### 29 Related party transactions *(continued)*

#### Transactions with directors:

The following table provides transactions with related parties:

	Relationship	Payable at start of year €'000	Expense payable by AXA-MPS €'000	Income receivable by AXA-MPS €'000	Payments /(receipts) €'000	Payable at end of year €'000
<i>For the year ended 31 December 2018</i>						
AXA IM Paris	Group	(606)	(1,757)	-	2,029	(334)
Architas Solutions	Group	(142)	(739)	-	788	(93)
AXA IM London	Group	(340)	(1,698)	-	1,709	(329)
AXA MPS Assicurazioni Vita	Group	69	(219)	100	50	-
AXA Tech	Group	(435)	248	-	167	(20)
AXA Life Europe	Group	-	(108)	-	108	-
BMPS	JV Partner	(18,096)	(70,123)	-	73,866	(14,353)
		<b>(19,550)</b>	<b>(74,396)</b>	<b>100</b>	<b>78,716</b>	<b>(15,130)</b>
<i>For the year ended 31 December 2017</i>						
AXA IM Paris	Group	(252)	(1,199)	-	845	(606)
Architas Solutions	Group	(165)	(946)	-	969	(142)
AXA IM London	Group	(337)	(2,035)	-	2,032	(340)
AXA MPS Assicurazioni Vita	Group	50	(80)	100	(1)	69
AXA Tech	Group	-	(494)	-	59	(435)
BMPS	JV Partner	(11,445)	(71,400)	-	64,749	(18,096)
		<b>(12,149)</b>	<b>(76,154)</b>	<b>100</b>	<b>68,653</b>	<b>(19,550)</b>

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

### 30 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 €343,932 (including €31,380 in respect of executive Directors) in the year ended 31 December 2018 (2017: €330,169 (including €31,380 in respect of executive Directors)).



# AXA MPS Financial DAC

## Notes to the financial statements (*continued*)

*For the year ended 31 December 2018*

### 31 Other financial commitments

On 19 November 2016, the Company entered into a long term operating lease of 10 years for its office premises at One Georges Quay Plaza, Dublin 2. The lease has a no penalty five year break clause which can be invoked 12 months before the 5 year lease anniversary.

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

	2018 €'000	2017 €'000
Within one year	524	524
After one year but not more than five years	2,096	2,096
More than five years	1,510	2,034
	<u>4,130</u>	<u>4,654</u>

The cost to the Company in 2018 in respect of this operating lease was €531,395 (*2017: €531,395*).

### 32 Employee share ownership

AXA S.A. grant performance shares also known as International Performance Shares (Psi) which replaced Performance Units 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).

Under the International Performance Shares (PSi) plan, beneficiaries of Performance Shares have the right to receive at the settlement date, a certain number of AXA shares based on the achievement of performance criteria defined by AXA and vesting period. The performance's period and measurement is between two and three years. The vesting period (service condition) is between three and four years. However, as opposed to Performance Units granted in 2011 and 2012, under the International Performance Shares plan, the settlement will be made in shares rather than in cash (except where the settlement in shares is impossible for legal or other reasons).

The cost to the Company in 2018 in respect of performance shares was €16,710 (*2017: €125,217*)

### 33 Events after the reporting date

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

### 34 Approval of financial statements

The directors approved the financial statements on 18 April 2019.