

# AXA MPS Financial Limited

## Directors' Report and Financial Statements

Year ended 31 December 2012

*Registered number: 293822*

# AXA MPS Financial Limited

## Directors' report and financial statements

*For the year ended 31<sup>st</sup> December 2012*

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# AXA MPS Financial Limited

## Directors' report

*For the year ended 31<sup>st</sup> December 2012*

<b>Directors</b>	F. de Courtois, Chairman and Non Executive Director, (France) F. Accorinti, Non Executive Director (Italy) N. Guinan, CEO and Executive Director B. Guiot, Executive Director (France) J. Goold, Independent Non Executive Director (UK) S. Hughes, Independent Non Executive Director L. Mazzolin, 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>Appointed Actuary</b>	James Archer AXA MPS Financial Limited
<b>Auditors</b>	Mazars Chartered Accountants and Registered Auditors Harcourt Centre, Block 3 Harcourt Road Dublin 2 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 100 Lower Mount Street Dublin 2 Ireland

# AXA MPS Financial Limited

## Directors' report

*For the year ended 31<sup>st</sup> December 2012*

### Investment Managers

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

# AXA MPS Financial Limited

## Directors' report

*For the year ended 31<sup>st</sup> December 2012*

The Directors present their annual report and the audited financial statements for AXA MPS Financial Limited ("the Company") for the year ended 31 December 2012. The Directors consider it appropriate that these financial statements are prepared on a going concern basis.

### **Principal activities, business review and future developments**

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

The Company's business to date has mainly been the sale of single premium investment and insurance products in Italy through a broker, Marsh Italia.

During 2012, investment and insurance product sales amounted to €2,740 million (2011: €1,842 million), an increase of 49% on 2011. This level of sales was the highest recorded by the Company since inception. The Board acknowledged that one of the main contributors to the overall premium increase was the premium written for our new Valore Performance product which was launched in Jan 2012 to replace the index linked business which the Company decided to cease issuing due to the Italian regulatory requirement for product providers to accept the counterparty credit risk. Valore Performance is similar in structure to index linked but also includes an active management component which is an additional innovation compared to the previous index linked structure. This product alone contributed 87% of the total premium written in 2012. The Company noted that non structured unit linked products did not perform as well as expected despite the upturn in financial markets during 2012. The Company took a conscious decision in early 2012 to cease writing new variable annuity "Accumulator" business given the increased regulatory capital required to write and maintain this business and this was a contributing factor to low sales performance. On a positive side the Company restyled its "Unit Private" products in Q4 2012 launching "Valore Selezione" with a lower minimum premium and less funds to choose from and the Company were pleased with the positive reaction from our distributors with better than expected sales.

Total insurance claims and investment redemptions for the period amounted to €2,090 million for the year (2011: €1,777 million) an increase of 18% on 2011. Surrenders and partial surrenders of €1,229 million account for 59%. The surrender or "lapse" rate of the Company excluding maturities is 17.5% for 2012 compared to 11.5% for 2011 with all product lines showing an increase in lapse activity from the prior year. The Company believes that a number of factors are contributing to the increase such as personal policyholder circumstances during the continuing European financial crisis and indications of rational policyholder behaviour as policy values exceed premium paid. Of the €2,090 million, 29% was expected through the maturity of tracker policies. Net new money or technical operating cash flow (TOCF) was a positive €650m compared to a TOCF of positive €93m in 2011.

We, as Directors, play an active role in the development of the Company through the ongoing review and oversight of budgets and performance. At each Board Meeting in 2012 we were provided with financial key performance indicators and a margin variance analysis against budget to inform us of the main profit drivers. The Board was pleased with the increase in the profitability of the Company which was largely due to the sales of the Valore Performance product and improved market conditions generally.

2012 was a challenging year for the company and despite a good result for the year the Company cannot afford to rest on its laurels so constant monitoring on premium sales, lapses, investment returns, net income, solvency positions and return on capital is uppermost in the day to day operations of the company. As in previous years the Company's success continues to be dependent on understanding and meeting the developing needs of our customers, helping them grow and protecting their wealth. The Company believes it is important to retain a diversified portfolio of clients and to grow the business organically by providing a comprehensive range of long term savings and investment products for each of our customers.

# AXA MPS Financial Limited

## Directors' report

*For the year ended 31<sup>st</sup> December 2012*

### Financial Risk Management

The responsibility for the Company's internal control environment, including risk management, rests with the Company's Board of Directors. Management have day-to-day responsibility for monitoring, measuring, controlling and reporting the risks connected with the Company's activities. The Company's risk appetite limits have been set in the fields of Market Risks, Credit Risks (counterparty exposure), Life Risks and Operational Risks via the Risk Appetite Statement, the latest version of which was approved by the AMF Board of Directors in June 2012. In line with Group Risk Appetite Methodology, the AMF Risk Appetite is formulated across four metrics: Capital (Solvency I & Solvency II); Earnings; Liquidity and Value (NBV)

### Corporate Governance

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

The Company had already established a Board Audit Committee, a Board Investment Committee and a Board Risk Committee all of which met at least 4 times during 2012. The charter for these committees are reviewed annually and the committees report back to the Board on all issues noted to and raised by them.

During 2012 the Company CEO and fellow Director, Mr John Burton, resigned his position. We wish him well in his future endeavours. The Company was delighted to have found a successor for the CEO position from within the Company, Mr Neil Guinan, and he was formally approved to join the Board in October 2012. We also approved the appointment of Mr Bruno Guiot to join the Board and with these new additions we are confident that the life assurance and asset investment experience they both bring to the Board will enable the Company to build on the successes achieved by it to date.

### Key Performance Indicators

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

Premium written	€2,740,274	(2011: €1,842,270)
TOCF*	€650,326	(2011: (€64,996))
Staff Costs	€ 4,632	(2011: €4,028)
Profit after tax	€ 60,484	(2011: €32,443)

\*Technical Operating Cash Flow

### Results for the year and state of affairs at 31 December 2012

The results for the year are set out on pages 20 and 21. The Company's balance sheet is set out on pages 22 and 23.

### Dividends

The Directors have not declared a final dividend in respect of the year ended 31 December 2012 (2011: €Nil). An interim dividend of €80 million was paid to our shareholder, AXA MPS Assicurazioni Vita in May 2012.

# AXA MPS Financial Limited

## Directors' report

*For the year ended 31<sup>st</sup> December 2012*

### Directors

The following Directors served during the year:

John Burton (*resigned 20 Nov 2012*)

Frédéric de Courtois

Fabio Accorinti

Lodovico Mazzolin

Jonathan Goold

Seamus Hughes

Steve Hales (*appointed 17 April 2012, resigned 13 Feb 2013*)

Neil Guinan (*appointed 26 Oct 2012*)

Bruno Guiot (*appointed 26 Oct 2012*)

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

### Directors and Secretary and their interests

The Directors and Secretary who held office at 31 December 2012 had no interests in the shares in, or debentures or loan stock of, the Company. The beneficial interests of the Directors and Secretary in the share capital of the ultimate parent Company AXA S.A. and Banca Monte Paschi are as follows:

<i>Name of Director</i>	<i>Company</i>	<i>Shares</i>		<i>Options</i>	
		<i>31/12/12</i>	<i>01/01/12</i>	<i>31/12/12</i>	<i>01/01/12</i>
Frédéric de Courtois	AXA S.A.	11,845	9,000	226,083	206,586
Jonathan Goold	AXA S.A.	-	-	-	-
Lodovico Mazzolin	BMPS	-	7,413	-	-
Fabio Accorinti	BMPS	-	2,567	-	-
Seamus Hughes	AXA S.A.	-	-	-	-
Neil Guinan	AXA S.A.	-	-	1,041	1,041
Bruno Guiot	AXA S.A.	-	-	1,036	1,036

<i>Name of Director</i>	<i>Company</i>	<i>Performance Units</i>		<i>Share Plan Units</i>	
		<i>31/12/12</i>	<i>01/01/12</i>	<i>31/12/12</i>	<i>01/01/12</i>
Frédéric de Courtois	AXA S.A.	38,402	27,500	-	-
Neil Guinan	AXA S.A.	1,432	740	-	-
Bruno Guiot	AXA S.A.	1,432	740	-	-

### Accounting records

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

### Political Donations

The Company made no political donations during the year (2011: Nil).

### Post balance sheet events

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

# AXA MPS Financial Limited

## Directors' report

*For the year ended 31<sup>st</sup> December 2012*

### Solvency II

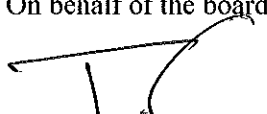
The Company considers that it is appropriately capitalised for its product range and the current regulatory requirements. The introduction of Solvency II will see a fundamental change in the way EU based insurers assess their capital requirements and risk management standards. The Company has participated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

The current implementation date of the Solvency II Directive is 1 January 2014 but with continuing political and economic issues in the European arena this deadline is becoming more unrealistic. Early indication is that 2016 will be the implementation year but no implementation date has been announced and the suspension of the 1 January 2014 deadline is still subject to a vote at European Union level. There is speculation that a phased approach to the implementation of Solvency II is the more likely scenario with emphasis being placed on Pillar II governance and documentation requirements. We are awaiting instructions from the EU Commission and from AXA Group on this matter however the Company continues with its governance and documentation work schedule and reports to the Board Risk Committee as to its progress.

### Auditors

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

On behalf of the board



Frédéric de Courtois  
Chairman



Neil Guinan  
CEO

30 April 2013



# AXA MPS Financial Limited

## Statement of Directors' responsibilities *for the year ended 31<sup>st</sup> December 2012*

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

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

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

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

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with the Companies Acts, 1963 to 2012. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board



Frédéric de Courtois  
Chairman



Neil Guinan  
CEO

30 April 2013

# AXA MPS Financial Limited

## Report of the reporting actuary *For the year ended 31<sup>st</sup> December 2012*

I certify that at 31 December 2012:

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



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

*30 April 2013*

## Report of the Independent Auditors to the members of AXA MPS Financial Limited

We have audited the financial statements of AXA MPS Financial Limited for the year ended 31 December 2012, which comprise the Profit and Loss Account, the Balance Sheet and related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

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

### **Respective responsibilities of directors and auditors**

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts, 1963 to 2012. We also report to you our opinion as to; whether proper books of account have been kept by the Company; whether at the balance sheet date there exists a financial situation which may require the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit, and whether the financial statements are in agreement with the books of account.

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

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

## Report of the Independent Auditors to the members of AXA MPS Financial Limited *(continued)*

### Basis of audit opinion

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

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

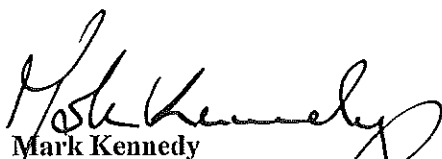
### Opinion

In our opinion the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Acts 1963 to 2012.

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

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

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



Mark Kennedy

For and on behalf of

MAZARS

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

Date:

30 April 2013

# AXA MPS Financial Limited

## Statement of accounting policies

*for the year ended 31 December 2012*

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

### **Basis of preparation**

The financial statements have been prepared in accordance with the Companies Acts, 1963 to 2012 and the Statement of Recommended Practice (SORP) issued by the association of British Insurers.

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

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

### **Currency**

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

### **Foreign currency transactions**

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

### **Insurance and investment contracts - classification**

#### *Classification of contracts*

Contracts under which the Company accepts insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts.

Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party or contract.

# AXA MPS Financial Limited

## Statement of accounting policies for the year ended 31 December 2012

### *Classification of contracts (continued)*

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

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

### **Insurance contracts – recognition and measurement**

#### *a) Premiums*

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

#### *b) Claims*

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

#### *c) Long term business provision*

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

# AXA MPS Financial Limited

## Statement of accounting policies *for the year ended 31 December 2012*

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

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

#### ***d) Reinsurance***

Only insurance contracts that give rise to a significant cession of insurance risk from the Company are accounted for as reinsurance. The Company only considers those companies with a credit rating of 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 Profit and Loss Account.

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

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

### **Investment contracts – recognition and measurement**

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

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

#### ***a) Premiums / Benefits paid***

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

#### ***b) Liability measurement***

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

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

# AXA MPS Financial Limited

## Statement of accounting policies *for the year ended 31 December 2012*

### **Liability measurement (continued)**

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

### **c) Deferred acquisition costs**

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

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

### **Deferred income liability**

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

### **Investment income**

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

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

### **a) Interest income**

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

### **b) Dividend income**

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



# AXA MPS Financial Limited

## Statement of accounting policies *for the year ended 31 December 2012*

### **Financial assets**

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

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

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

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

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

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

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

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

### **Derivative financial instruments**

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

# AXA MPS Financial Limited

## Statement of accounting policies *for the year ended 31 December 2012*

### **Derivative financial instruments (continued)**

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

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

### **Employee benefits**

#### **(a) Defined contribution plans**

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

#### **(b) Life assurance**

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

### **Italian tax provision**

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

### **Impairment of non-financial assets**

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

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

### **Calculation of recoverable amount**

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

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

# AXA MPS Financial Limited

## Statement of accounting policies *for the year ended 31 December 2012*

### *Calculation of recoverable amount (continued)*

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

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

### **Cash and cash equivalents**

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

### **Management expenses**

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

### **Technical provisions**

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

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

### **Taxation**

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

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

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

### **Trade and other receivables**

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

# AXA MPS Financial Limited

## Statement of accounting policies *for the year ended 31 December 2012*

### **Tangible fixed assets**

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

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

### **Dividend distributions**

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

# AXA MPS Financial Limited

## Profit and loss account for the year ended 31 December 2012

### Technical account – life assurance business

	Notes	2012 €'000	2011 €'000
<b>Earned premium, net of reinsurance</b>			
Gross premiums written	1	7,146	214,868
Outward reinsurance premiums	1	(68)	(95)
		<hr/>	<hr/>
		7,078	214,773
		<hr/>	<hr/>
<b>Investment income</b>	2	339,851	221,399
<b>Unrealised gains on investments</b>	2	609,887	28,398
<b>Fee and commission income</b>	3	242,230	139,463
<b>Change in deferred income liability</b>	23	(61,360)	(24,349)
		<hr/>	<hr/>
<b>Total technical income</b>		1,137,686	579,684
		<hr/>	<hr/>
<b>Claims incurred</b>	4	(83,774)	(29,877)
<b>Policyholder contract benefits</b>	20	(699,325)	138,018
<b>Change in technical provisions</b>			
Technical provision for linked liabilities		24,615	(137,955)
Other technical provisions		(2,600)	(44,516)
		<hr/>	<hr/>
		(761,084)	(74,330)
		<hr/>	<hr/>
<b>Investment expenses and charges</b>	2	(100,828)	(16,296)
<b>Unrealised losses on investments</b>	2	(96,487)	(390,819)
<b>Operating expenses</b>	5	(136,468)	(76,672)
		<hr/>	<hr/>
<b>Total technical charges</b>		(1,094,867)	(558,117)
		<hr/>	<hr/>
<b>Balance on the technical account – life assurance business</b>		42,819	21,567
		<hr/>	<hr/>

# AXA MPS Financial Limited

## Profit and loss account for the year ended 31 December 2012


	<i>Notes</i>	<b>2012 €'000</b>	<b>2011 €'000</b>
<b>Balance on the technical account - life assurance business</b>		42,819	21,567
Investment income	2	20,528	17,458
Investment expenses and charges	2	5,783	(1,956)
<b>Profit on ordinary activities before taxation</b>		69,130	37,069
Tax on profit on ordinary activities	9	(8,646)	(4,626)
<b>Profit on ordinary activities after taxation</b>	24	60,484	32,443


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

All profits were generated by continuing activities.

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

On behalf of the board

  
Frédéric de Courtois  
Chairman

  
Neil Guinan  
Director and CEO

30 April 2013

# AXA MPS Financial Limited

## Balance Sheet

*As at 31 December 2012*

<b>Assets</b>	<i>Notes</i>	<b>2012 €'000</b>	<b>2011 €'000</b>
<b>Investments</b>			
Financial assets held for trading	<i>10</i>	274,323	279,344
Financial assets held at fair value	<i>11</i>	7,732,417	6,539,074
Loans and receivables	<i>12</i>	367,972	261,198
		<hr/>	<hr/>
		8,374,712	7,079,616
<b>Other assets</b>			
Tangible fixed assets	<i>13</i>	432	183
Deferred acquisition cost	<i>14</i>	23,277	24,446
Other debtors	<i>15</i>	91,292	85,355
Cash and cash equivalents	<i>16</i>	106,816	77,356
		<hr/>	<hr/>
		221,817	187,340
<b>Total Assets</b>		<hr/> <hr/>	<hr/> <hr/>
		8,596,529	7,266,956

# AXA MPS Financial Limited

## Balance Sheet

*As at 31 December 2012*

<b>Liabilities</b>	<i>Notes</i>	<b>2012 €'000</b>	<b>2011 €'000</b>
<b>Capital and reserves</b>			
Share capital	17	635	635
Capital contribution	24	194,000	114,000
Profit and loss account	24	109,701	129,217
<b>Shareholders' funds— equity interests</b>	24	<u>304,336</u>	<u>243,852</u>
<b>Technical provisions</b>			
Technical provisions for linked liabilities	20	563,943	588,558
Other technical provisions	19	89,703	87,103
Financial liabilities – investment contracts	20	7,294,010	6,088,266
Deferred income liability	23	166,067	104,707
		<u>8,113,723</u>	<u>6,868,634</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	21	47	86
Other creditors including tax and social welfare	22	178,423	154,384
		<u>178,470</u>	<u>154,470</u>
<b>Total liabilities</b>		<u><u>8,596,529</u></u>	<u><u>7,266,956</u></u>

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

On behalf of the board

  
Frédéric de Courtois  
Chairman

  
Neil Guinan  
Director and CEO

30 April 2013



# AXA MPS Financial Limited

## Notes to the financial statements

For the year ended 31<sup>st</sup> December 2012

### 1 Segmental analysis

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

	2012 €'000	2011 €'000
Gross premiums written	7,146	214,868
Outward reinsurance premiums	(68)	(95)
	<u>7,078</u>	<u>214,773</u>

For the year ended 31 December 2012 premium income of €2,733 million (2011: €1,627 million) relates to investment contracts and is not included in total premiums written. Refer to note 20 for more details.

### 2 Investment income and expenses

	2012 €'000	2011 €'000
<b>Technical account</b>		
<b>Investment income</b>		
Gains on the realisation of investments	329,096	212,495
Income from other investments	10,755	8,904
	<u>339,851</u>	<u>221,399</u>
 <b>Unrealised gains on investments</b>	 609,887	 28,398
 <b>Investment expenses and charges</b>		
Investment expenses	(9,345)	(9,438)
Losses on the realisation of investments	(91,483)	(6,858)
	<u>(100,828)</u>	<u>(16,296)</u>
 <b>Unrealised losses on investments</b>	 (96,487)	 (390,819)

# AXA MPS Financial Limited

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

For the year ended 31<sup>st</sup> December 2012

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

	2012 €'000	2011 €'000
<b>Non technical account</b>		
<b>Investment income</b>		
Unrealised gains on investments	20,528	17,458
	<u>20,528</u>	<u>17,458</u>
<b>Investment expenses and charges</b>		
Unrealised gains on investments	5,783	(1,956)
	<u>5,783</u>	<u>(1,956)</u>

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

### 3 Fee and commission income

	2012 €'000	2011 €'000
Initial commission and fund fees	242,230	139,463
	<u>242,230</u>	<u>139,463</u>

### 4 Claims incurred

	2012 €'000	2011 €'000
Claims paid – gross amount	(83,774)	(29,877)
	<u>(83,774)</u>	<u>(29,877)</u>

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

Claims paid during 2012 of €1,975 million (2011: €1,747 million) relate to investment contracts and are therefore not included in claims above. Refer to note 20 for more details.

# AXA MPS Financial Limited

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

For the year ended 31<sup>st</sup> December 2012

<b>5 Operating expenses</b>	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
<b>Technical account – life assurance</b>		
Acquisition costs	110,213	62,267
Administrative expenses	25,086	21,905
Change in deferred acquisition costs	1,169	(7,500)
	<hr/>	<hr/>
	136,468	76,672
	<hr/>	<hr/>
<b>Operating expenses include:</b>		
Commission	106,164	62,065
Other Acquisition Costs	12,864	5,446
General administration and office expenses	14,798	15,428
Professional fees (including auditors remuneration)	1,473	1,233
Change in deferred acquisition costs (Note 14)	1,169	(7,500)
	<hr/>	<hr/>
	136,468	76,672
	<hr/>	<hr/>

## 6 Auditors remuneration

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

	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Audit of individual account	70	70
Other assurance services	8	8
Taxation advisory services	-	-
Other non audit services	11	-
	<hr/>	<hr/>
	89	78
	<hr/>	<hr/>

## 7 Staff costs and numbers

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

	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Wages and salaries	3,885	3,449
Social security costs	486	365
Pension costs	261	214
	<hr/>	<hr/>
	4,632	4,028
	<hr/>	<hr/>

# AXA MPS Financial Limited

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

For the year ended 31<sup>st</sup> December 2012

### 7 Staff costs and numbers *(continued)*

	2012	2011
Average number of employees during the period:		
Administration	27	21
Finance	5	5
Actuarial	6	6

### 8 Directors' emoluments

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

	2012 €'000	2011 €'000
For services as non executive Director	84	59
For services as executive Director	689	536
	773	595

The following are details of remuneration paid to executive Directors:

Wages and other benefits	576	461
Social Security costs	67	52
Pension contributions	46	23
	689	536

### 9 Tax on profit on ordinary activities

	2012 €'000	2011 €'000
(A) <i>Analysis of profit and loss charge</i>		

Corporation tax	8,649	4,626
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(B) *Reconciliation of current tax at standard rate to the actual tax charge at the effective rate*

Profit on ordinary activities before taxation	69,130	37,069
Current tax at 12.5%	8,641	4,634
Effects of:		
Items not deductible for tax purposes	12	8
Capital allowances for period in excess of depreciation	(7)	(8)
Tax allowance for foreign dividends	-	(8)
Current tax charge	8,646	4,626

# AXA MPS Financial Limited

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

*For the year ended 31<sup>st</sup> December 2012*

### 10 Financial assets held for trading

	2012 €'000	2011 €'000
Cost	409,586	479,642
Fair value	274,323	279,344
Analysed as follows:		
Index linked bonds	354	5,850
Unit trusts	650	650
Government securities	81,085	96,053
Corporate securities	34,460	18,977
Index linked options	101,840	123,182
Hedge assets backing Accumulator LOV	55,934	34,632
	274,323	279,344
Movement in financial assets held for trading:		
At beginning of year	279,344	362,808
Net additions/(disposals)	(70,056)	13,333
Net fair value gains/(losses)	65,035	(96,797)
Balance at end of year	274,323	279,344

### 11 Financial assets held for fair value

Cost	6,757,710	6,623,561
Fair value	7,732,417	6,539,074
Analysed as follows:		
Index linked bonds	3,530,170	4,634,225
Unit trusts	4,202,247	1,904,849
	7,732,417	6,539,074

# AXA MPS Financial Limited

Notes to the financial statements *(continued)*  
For the year ended 31<sup>st</sup> December 2012

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

	2012 €'000	2011 €'000
<b>Movement in financial assets held for fair value</b>		
At beginning of year	6,539,074	6,715,529
Net additions/(disposals)	134,149	361,873
Net fair value gains/(losses)	1,059,194	(538,329)
At end of year	7,732,417	6,539,074

## 12 Loans and receivables

	2012 €'000	2011 €'000
Fixed deposit accounts	345,887	247,267
Policyholder cash held to cover investment trading	22,085	13,931
	367,972	261,198

## 13 Tangible fixed assets

	Computer Equipment & Software €'000	Other Equipment €'000	Total €'000
<b>Cost</b>			
Balance at 1 January 2012	1,589	883	2,472
Additions	115	279	394
Balance at 31 December 2012	1,704	1,162	2,866
<b>Accumulated depreciation</b>			
Balance at 1 January 2012	1,542	748	2,290
Charge for year	46	98	144
Balance at 31 December 2012	1,588	846	2,434
<b>Net book value</b>			
At 31 December 2012	116	316	432
At 31 December 2011	48	135	183

# AXA MPS Financial Limited

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

*For the year ended 31<sup>st</sup> December 2012*

### 14 Deferred acquisition costs

	2012 €'000	2011 €'000
Balance at 1 January 2012	24,446	16,946
Release of prior year provision	(3,976)	(1,886)
Increase in provision for current year	2,807	9,386
Charge to the current year P&L (note 5)	(1,169)	7,500
Balance at 31 December 2012	23,277	24,446

### 15 Other Debtors

	2012 €'000	2011 €'000
Italian substitute tax	85,447	80,688
Sundry debtors	5,795	4,717
Fund rebates receivable	49	(50)
	91,292	85,355

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 reserve matematiche.*) the Company is required to make an advance payment of policyholder taxes to the Italian Revenue Authorities.

The tax asset is recoverable against taxes withheld on policyholder gains and through a group recovery mechanism i.e. offset against other taxes payable, 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. Our 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 it is also dependent on the volume of surrenders. In 2012 the amount of tax recovered through exit taxes on policyholder surrenders amounted to €34.5 million (2011: €13.6 million) and an amount of €2.8 million (2011: €5.4 million) was recovered through the additional recovery mechanism.

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

# AXA MPS Financial Limited

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

*For the year ended 31<sup>st</sup> December 2012*

### 16 Cash and cash equivalents

	2012 €'000	2011 €'000
Balance at Bank	106,816	77,356

### 17 Share capital

	2012 €'000	2011 €'000
<i>Authorised:</i>		
5,078,953 Ordinary shares of €1 each	5,079	5,079
<i>Allotted, called up and fully paid:</i>		
634,870 Ordinary shares of €1 each	635	635

### 18 Capital position statement

#### *Capital management policies and objectives*

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

The Company's objectives in managing its capital are:

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

Capital is closely monitored by the Company.

#### *Capital composition*

The Company capital comprises €0.6 million of paid-up share capital, €194 million of capital contributions and €109.7 million of retained surplus, totaling €304.3 million.

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



# AXA MPS Financial Limited

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

For the year ended 31<sup>st</sup> December 2012

### 18 Capital position statement *(continued)*

The Company had available capital resources of €213.2 million at 31 December 2012 (2011: €127.3 million) to cover a solvency margin requirement of €50.3 million (2011: 50.7 million). Available capital resources represent the excess of assets valued in accordance with the European Communities (Life Assurance) Framework Regulations 1994 (the “Solvency Regulations”) over liabilities calculated in accordance with the Solvency Regulations.

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

#### *Restrictions on available capital resources*

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

Reconciliation of total shareholder’s funds per the financial statements to the total available capital resources per the 2012 annual return to be submitted to the Central Bank of Ireland .

	2012 €’000	2011 €’000
Total shareholder funds	304,337	243,852
Adjustment to regulatory bases:		
Adjustment to asset values	(5,154)	(6,931)
Adjustment to reserves values	(239,052)	(189,898)
Adjustment to retained profit – FRS 26	153,095	80,261
	<hr/> (91,111) <hr/>	<hr/> (116,568) <hr/>
Total available capital resources	<hr/> 213,226 <hr/>	<hr/> 127,284 <hr/>
Minimum solvency level required by Central Bank of Ireland	<hr/> 50,333 <hr/>	<hr/> 50,742 <hr/>

# AXA MPS Financial Limited

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

For the year ended 31<sup>st</sup> December 2012

### 19 Other technical provisions

	2012 €'000	2011 €'000
Life assurance provision		
Gross amount		
Balance at 1 January	87,103	42,587
Movement in provision	2,600	44,516
	<hr/>	<hr/>
Balance at 31 December	89,703	87,103
	<hr/>	<hr/>

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

### 20 Financial Liabilities – Investment Contracts

	2012 €'000	2011 €'000
Balance at 1 January	6,088,266	6,476,021
Movement in provision	1,205,744	(387,755)
	<hr/>	<hr/>
Unit reserve at 31 December	7,294,010	6,088,266
	<hr/>	<hr/>
Unit reserve at 1 January	6,088,266	6,476,021
Contributions received from policyholders (note 1)	2,733,101	1,627,318
Fee income	(251,699)	(129,658)
Claims (note 4)	(1,974,983)	(1,747,397)
Policyholder contract benefits	699,325	(138,018)
Bond options	-	-
	<hr/>	<hr/>
Unit reserve at 31 December	7,294,010	6,088,266
	<hr/>	<hr/>

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

### Technical Provisions – Linked Liabilities

	2012 €'000	2011 €'000
Balance at 1 January	588,558	450,603
Movement in provision	(24,615)	137,955
	<hr/>	<hr/>
Unit reserve at 31 December	563,943	588,558
	<hr/>	<hr/>

# AXA MPS Financial Limited

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

For the year ended 31<sup>st</sup> December 2012

### 20 Financial Liabilities – Investment Contracts *(continued)*

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

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

	2012 €'000	2011 €'000
Financial assets held for trading	103,451	123,819
Financial assets at fair value through Profit and Loss (note 11)	7,732,417	6,539,074
Policyholder cash held to cover investment trading (note 12)	22,085	13,931
Loans and receivable (unallocated cash)	-	-
	<hr/>	<hr/>
	7,857,953	6,676,824
	<hr/>	<hr/>

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

### 21 Creditors arising out of direct insurance operations

	2012 €'000	2011 €'000
Amounts falling due within one year:		
Amounts due in respect of reinsurance outwards	47	86
	<hr/>	<hr/>
	47	86
	<hr/>	<hr/>

### 22 Other creditors including tax and social welfare

	2012 €'000	2011 €'000
Amounts falling due within one year:		
Employment costs	1,198	987
Corporation tax	1,593	293
Italian tax payable	39,282	20,503
Other creditors (commission payables and accruals)	57,176	25,971
Investment redemptions payable	79,174	97,230
Bank overdraft	-	9,400
	<hr/>	<hr/>
	178,423	154,384
	<hr/>	<hr/>

# AXA MPS Financial Limited

Notes to the financial statements *(continued)*  
For the year ended 31<sup>st</sup> December 2012

## 23 Deferred income liability

	2012 €'000	2011 €'000
At 1 January	104,707	80,359
Release of prior year provision	(29,813)	(26,787)
Increase in provision for current year	91,173	51,136
Charge to the current year	61,360	24,349
At 31 December	166,067	104,707

## 24 Statement of movement on shareholder's funds

2012	Share capital €'000	Capital contribution €'000	Profit and loss €'000	Total €'000
Balance at 1 January	635	114,000	129,217	243,852
Recognised income and expense for the year	-	-	60,484	60,484
Dividends paid	-	-	(80,000)	(80,000)
Capital contribution	-	80,000	-	80,000
Balance at 31 December	635	194,000	109,701	304,336

2011	Share capital €'000	Capital contribution €'000	Profit and loss €'000	Total €'000
Balance at 1 January	635	114,000	96,774	211,409
Recognised income and expense for the year	-	-	32,443	32,443
Dividends paid	-	-	-	-
Capital contribution	-	-	-	-
Balance at 31 December	635	114,000	129,217	243,852

# AXA MPS Financial Limited

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

*For the year ended 31<sup>st</sup> December 2012*

### **24 Statement of movement on shareholders *(continued)***

-In 1999, the then shareholders of the Company, Montepaschi Vita S.p.A. and Banca Monte dei Paschi di Siena S.p.A., companies incorporated in Italy, made an irrevocable contribution of €4,444,083 to the capital of the Company. On 30 December 2004 the Company received additional capital contributions from Montepaschi Vita S.p.A. and Banca Monte dei Paschi di Siena S.p.A. of €30,000,000 and €20,000,000 respectively. In 2008 further capital contributions were made by the shareholder, AXA MPS Assicurazioni Vita, of €29,555,919 and €30,000,000 on 17th June 2008 and 30th December 2008. In 2012 a further capital contribution for €80,000,000 was paid on 8 May by the shareholder. These capital contributions are non-refundable and non interest bearing. These contributions, after all accumulated losses have been taken into account are available to be distributed to the shareholder.

### **25 Risk management policies**

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

#### *Credit risk*

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

- Amounts due from policyholders;
- Amounts due from corporate bond issuer;
- Amounts due from reinsurers in respect of insurance claims paid 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. All policyholder premiums are debited directly from the bank account at the inception of the policy.

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

Corporate bond holdings have an initial investment minimum rating of BBB but the Company can hold residual amounts at a lower level subject to risk management guidelines. All investment in these bonds is strictly monitored by the Company in conjunction with AXA Investment Managers and AXA Group Risk Management.

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

For unit linked contracts the Company matches all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no credit risk for the Company on these contracts. The Company bears the credit risk on the underlying Italian BTP assets for the index linked products TB90 to TB102.

# AXA MPS Financial Limited

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

For the year ended 31<sup>st</sup> December 2012

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

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

Counterparty risk assumed by shareholder:	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Holding of unit linked structured products	23	6,009
German Government bond (shareholder investment)	3,752	3,679
Italian Government bond (shareholder investment)	33,928	85,099
Austrian Government Bond (shareholder investment)	1,170	1,063
French Government Bonds (shareholder investment)	9,415	6,212
Irish Government Bonds (shareholder investment)	31,706	-
EIB Bonds (shareholder investment)	1,113	-
Corporate bonds	31,803	16,797
Equities	2,645	2,180
Unit trusts	700	980
Italian Government bonds backing index-linked bonds	2,142,420	1,860,054
Swaps backing index-linked bonds	(412,991)	(303,558)
Options backing index-linked bonds	67,480	53,878
Other	585,066	469,484
	<hr/>	<hr/>
	2,498,230	2,201,877
	<hr/>	<hr/>
	<b>2012</b>	<b>2011</b>
	<b>€'000</b>	<b>€'000</b>
Other assets where counterparty risk is assumed by the policyholder:		
Investments in unit trusts	4,545,656	2,029,123
Investments in Index linked bonds	1,552,643	3,035,926
	<hr/>	<hr/>
	6,098,299	5,065,049
	<hr/>	<hr/>

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

#### *Exposure to market risk*

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

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

#### *Interest rate hedging*

Interest rate risk can be described as the risk that a security's value will change due to a change in interest rates. All interest 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.

# AXA MPS Financial Limited

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

*For the year ended 31<sup>st</sup> December 2012*

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

#### *Interest rate hedging (continued)*

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

#### *Foreign currency risk*

Foreign currency risk can be described as the risk that the Company may be affected due to an adverse movement in foreign exchange rates. The Company does hold assets which are subject to exposure on currency movements. These 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 sales value does not match the minimum sell quantity, the Company is required to take a shareholding in the offering. The risk is minimised by entering into a sell back contract at the original price.

#### *Price risk*

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

#### *Operational Risk*

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

# AXA MPS Financial Limited

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

For the year ended 31<sup>st</sup> December 2012

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

#### *Insurance risk*

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

Given the limited nature of the insurance risk, underwriting procedures are limited to seeking declarations of good health from policyholders. This declaration is not sought for some policies with minimal insurance risk. The Company's reinsurance policy is to reinsure additional rider benefits such as critical illness cover and permanent and total disability. In 2010 the Company decided not to reinsure any new business in relation to rider benefits. The Company has put in place a Board-approved Reinsurance Strategy which continually monitors the level of mortality risk on the balance sheet. 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 2012	6 months or less €'000	6-12 months €'000	1-5 years €'000	over 5 years €'000	Total €'000
Government bonds	12,713	1,535	17,186	49,651	81,085
Corporate bonds	1,488	2,021	19,900	8,395	31,804
Deposits with credit institutions	106,816	-	-	-	106,816
	<u>121,017</u>	<u>3,556</u>	<u>37,086</u>	<u>58,046</u>	<u>219,705</u>
At 31 December 2011	6 months or less €'000	6-12 months €'000	1-5 years €'000	over 5 years €'000	Total €'000
Government bonds	17,309	42,085	22,006	14,654	96,054
Corporate bonds	-	-	14,597	2,200	16,797
Deposits with credit institutions	77,356	-	-	-	77,356
	<u>94,665</u>	<u>42,085</u>	<u>36,603</u>	<u>16,854</u>	<u>190,207</u>

The effective interest rates at 31 December 2012 were as follows:

	6 months or less	6-12 months	1-5 years	over 5 years
Government bonds	-	1.34%	1.97%	3.41%
Corporate bonds	0.83%	0.47%	1.34%	2.26%
Deposits with credit institutions	2.01%	-	-	-



# AXA MPS Financial Limited

Notes to the financial statements *(continued)*  
For the year ended 31<sup>st</sup> December 2012

## 25 Risk management policies *(continued)*

The following sensitivity analysis shows the cash flow impact of a reduction by 1% on interest rate sensitive asset cash flows held at 31 December 2012. These cash flows contribute directly to the profit before tax result. The principle components are as follows:

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

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

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

### 1% reduction in interest rates

2012	6 months or less €'000	6-12 months €'000	1-5 years €'000	over 5 years €'000	Total €'000
Government bonds	-	(63)	-	-	(63)
Corporate Bonds	-	-	-	-	-
Deposits with credit institutions	(715)	-	-	-	(715)
	<u>(715)</u>	<u>(63)</u>	<u>-</u>	<u>-</u>	<u>(778)</u>

### 1% reduction in interest rates

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

### Derivatives

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

# AXA MPS Financial Limited

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

For the year ended 31<sup>st</sup> December 2012

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

#### *Derivatives (continued)*

The amount of hedge assets held is adjusted regularly in line with changes in business volumes and with market movements. This process is known as dynamic hedging strategy. The Company's dynamic hedging strategy as approved by the Board and seeks to ensure that a position on fixed income and equity futures offsets a change in the "marked to market" value of the minimum guarantee benefits, as the equity markets fluctuate. As the markets increase or decrease the change in the value of the guarantees is offset by a change in the value of the portfolio of hedge instruments. At policy inception the Company will set up the initial futures position as a hedge for the guarantee liability. As time passes, the number of contracts needed to hedge the exposure changes as the markets move and as premiums are received.

The Company receives hedging advisory services from AXA Hedging Services Limited (AHS), a subsidiary of AXA Bank Europe, which is itself a subsidiary of AXA S.A. AHS uses sophisticated valuation systems to model the assets and liabilities and to calculate the number of 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.

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

The Company's derivative portfolio at 31 December 2012 is shown below:

	Notional amount €000	Fair Value asset €000	Fair value liability €000	Fair value net €000
Interest rate swaps	2,299,559	100,185	(52,041)	48,145
Exchange traded futures	256,501	652	(1,021)	(369)
	<u>2,556,060</u>	<u>100,837</u>	<u>(53,062)</u>	<u>47,776</u>

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

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

# AXA MPS Financial Limited

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

For the year ended 31<sup>st</sup> December 2012

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

#### *Derivatives (continued)*

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

2012	<1 year €'000	1-5 years €'000	>5 years €'000	Total €'000
Interest rate swaps	73,491	1,111,150	1,114,918	2,299,559
Exchange traded futures	256,501	-	-	256,501
	<u>329,992</u>	<u>1,111,150</u>	<u>1,114,918</u>	<u>2,556,060</u>
2011	<1 year €'000	1-5 years €'000	>5 years €'000	Total €'000
Interest rate swaps	1,652,314	2,300,655	908,745	4,861,714
Exchange traded futures	131,204	-	-	131,204
	<u>1,783,518</u>	<u>2,300,655</u>	<u>908,745</u>	<u>4,992,918</u>

#### *Exposure to equity market movements:*

Any movement in the Company's assets due to equity market movements, to the extent that they are held on behalf of the policyholder, is exactly offset by a corresponding movement in liabilities. The Company's exposure to market movements is limited to the investment of shareholder assets in equities. Shareholder assets invested in funds exposed to equity market movements represents 0.7% (2011: 1.5%) of total shareholder funds. These assets comprise direct equity holdings of 0.5%, loyalty units held of 0.1% which are held for the benefit of policyholders whose policies allow for a loyalty bonus top up upon reaching a specified anniversary date. The Company also holds a small number of tracker options which are typically comprised of a basket of various equity stocks and direct equity holdings. The value of these options was less than 0.1% (2011: 0.3%) of total shareholder's assets at 31 December 2012.

#### **Fair Value Hierarchy**

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

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

Level 2 refers to asset inputs other than quoted prices included within Level 1 that are observable for the assets, either directly (i.e. as prices) or indirectly (i.e. derived from prices) "Investments in index linked bonds" includes €34 million of equity options for investment and insurance policies purchased via 'over-the-counter' contracts and €1.5 billion of structured bonds issued by

# AXA MPS Financial Limited

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

For the year ended 31<sup>st</sup> December 2012

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

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

Banca Monte dei Paschi di Siena. There is not an active market in these assets which would allow an independent verification of the price. The counterparty produces prices for these assets, which are checked through the Company's own independent checking of the option price and bond price. The Company treats these assets as Level 2 assets. Level 3 refers to assets whose fair value cannot be determined using observable measures, such as market prices or models. The Company holds no such assets.

	2012 €'000	Level 1 €'000	Level 2 €'000	Level 3 €'000
Holding of MPS structured products	23	-	23	-
German Government bond	3,752	3,752	-	-
Italian Government bond	33,928	33,928	-	-
Austrian Government bond	1,170	1,170	-	-
French Government Bonds	9,415	9,415	-	-
Irish Government Bonds	31,706	31,706	-	-
EIB Bonds	1,113	1,113	-	-
Corporate bonds	31,803	31,803	-	-
Equities	2,645	2,645	-	-
Unit trusts	700	-	700	-
Italian Government bonds backing IL Bonds	2,142,420	2,142,420	-	-
Options backing index-linked bonds	67,480	-	67,480	-
Swaps backing index-linked bonds	(412,991)	-	(412,991)	-
Investments in unit trusts	4,545,656	-	4,545,656	-
Investments in index linked bonds (MPS)	1,552,643	-	1,552,643	-
<b>Total Assets</b>	<b>8,011,463</b>	<b>2,257,952</b>	<b>5,753,511</b>	<b>-</b>
	2011 €'000	Level 1 €'000	Level 2 €'000	Level 3 €'000
Holding of MPS structured products	6,009	-	6,009	-
German Government bond	3,679	3,679	-	-
Italian Government bond	85,099	85,099	-	-
Austrian Government bond	1,063	1,063	-	-
French Government Bonds	6,212	6,212	-	-
Corporate bonds	16,797	16,797	-	-
Equities	2,180	2,180	-	-
Unit trusts	1,083	-	1,083	-
Italian Government bonds backing IL Bonds	1,860,045	1,860,045	-	-
Options backing index-linked bonds	53,878	-	53,878	-
Swaps backing index-linked bonds	(303,558)	-	(303,558)	-
Investments in unit trusts	2,029,123	-	2,029,123	-
Investments in index linked bonds(MPS)	3,035,926	-	3,035,926	-
<b>Total Assets</b>	<b>6,797,536</b>	<b>1,975,075</b>	<b>4,822,461</b>	<b>-</b>

# AXA MPS Financial Limited

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

*For the year ended 31<sup>st</sup> December 2012*

### **26 Accounting estimates and judgements**

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

#### *Insurance*

The Company makes estimates of the expected number of deaths for each of the years that it is exposed to risk. These estimates are based on standard industry and national mortality tables, adjusted to reflect the Company's own experience. Appropriate allowance is made for expected improvements in mortality, due to improvements in medical care and social conditions. However, there is considerable uncertainty regarding the impact of epidemics and changes in lifestyle such as smoking, eating and exercise habits, which could result in a deterioration in mortality. For contracts without fixed terms, the Company has assumed that it will be able to increase premiums in future years in line with emerging mortality experience.

#### *Investment contracts*

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

#### *Financial instruments*

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

#### *Other technical provisions*

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

### **27 Ultimate parent undertaking**

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

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

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

# AXA MPS Financial Limited

Notes to the financial statements *(continued)*  
For the year ended 31<sup>st</sup> December 2012

## 28 Related party transactions

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

## 27 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 €251,596 (including €46,442 in respect of executive Directors) in the year ended 31 December 2012 (2011: €151,751).

## 28 Other financial commitments

On the 26 February 2006 the Company entered into a long term lease of 9 years and 9 months for its office premises at Georges Quay. On 17<sup>th</sup> September 2010 the Company agreed to a Deed of Variation of the original lease which had the effect of reducing the Company's lease payments. The lease agreement expires on 19 November 2016. At the balance sheet date the Company's commitment in respect of this lease was as follows:

	2013	2014	2015	2016	2017 & beyond
Office Lease	€372,302	€372,302	€372,302	€356,790	-

## 29 Employee Share Ownership

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

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

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

The employee subscription for the Shareplan in 2012 was as follows:

Traditional Plan	€32,692	(2011: €24,437)
Leveraged Plan	€16,722	(2011: €13,206)

# AXA MPS Financial Limited

Notes to the financial statements *(continued)*  
*For the year ended 31<sup>st</sup> December 2012*

## **29 Employee Share Ownership *(continued)***

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

Performance Units operate as follows:

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

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

For beneficiaries in operational business units, their operational business unit performance carries a weighting of 2/3 while the AXA Group performance carries a weighting of 1/3. In 2012 and 2011, the performance indicators determined by the AXA Group Management Board have been as follows:

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

The cost to the Company in 2012 in respect of performance units was €34,887 (2011: €26,547)

## **30 Subsequent events**

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

## **31 Cash flow statement**

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

## **32 Approval of financial statements**

The Directors approved the financial statements on 30 April 2013.