

AXA CHINA REGION INSURANCE COMPANY
(BERMUDA) LIMITED

Directors' Report and Consolidated Financial Statements
For the year ended 31 December 2022

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

REPORTS AND FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 December 2022

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AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

DIRECTORS' REPORT

The directors of AXA China Region Insurance Company (Bermuda) Limited (the “Company”) have pleasure in presenting their annual report and the audited financial information of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2022 prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) and the provisions of the Companies Act 1981 of Bermuda.

PRINCIPAL ACTIVITY

The principal activity of the Group is underwriting insurance business, insurance agency and unit trust.

During the year, the Group has carried on employee compensation, motor vehicle and liability insurance business relating to liabilities or risks in respect of which persons are required by law to be insured.

RESULTS AND APPROPRIATIONS

The results of the Group, prepared in accordance with accounting principles generally accepted in Hong Kong, for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 10 to 11 of the consolidated financial statements.

During the year, dividends of US\$1.01 per ordinary share, totalling US\$178,346,326 (2021: US\$Nil) were paid to the ordinary shareholder.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 20 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

PLANT AND EQUIPMENT

Details of the movements in plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SUBSIDIARIES AND ASSOCIATES

Details of the Company's subsidiaries and associates as at 31 December 2022 are set out in notes 33 and 16 respectively to the consolidated financial statements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

DIRECTORS' REPORT- continued

REINSURANCE ARRANGEMENTS

The Company has reinsurance arrangements with various reputable reinsurers. They are summarised by line of business as follows:

<u>Line of business</u>	<u>Retention</u>	<u>Type of treaty</u>
Individual business	US\$125,000 for policies effective before 1 September 2008	Surplus
	US\$350,000 for policies effective on or after 1 September 2008	
	1% share of guaranteed death benefit less guaranteed surrender value less other reinsurance payable under any other treaty for in-force policies as at 31 Dec 2016	Quota share
	US\$70,000	Surplus
	50% Share	Quota share
	US\$34,000	Surplus
	1% share	Quota share
	1% of surrender value in death benefit	Quota share
	50% Share	Quota share
	40% Share	Quota share
	10% share of life benefit	Quota share
	HK\$ 5m	Excess of loss
	4.3% share of all benefits	Coinurance
	4.3% share of death benefit	Quota share
	1% share	Quota share
	81%/76%/71%/70%/61% share	Quota share
	25% share of the initial sum assured up to US\$125,000	Quota share
	25% of the sum assured less policy reserve	Quota share
Individual business (accepted)	100% share	Quota share
Medical & Critical illness (accepted)	80% share	Quota share
	50% share	Quota share
	20% share	Quota share
Critical illness	US\$125,000 for policies effective before 1 September 2008	Surplus
	US\$250,000 for policies effective on or after 1 September 2008	
	Retain the same proportion of risk as basic life benefit	Surplus
	HK\$ 300,000	Surplus
	25% share up to HK\$300,000 per life	Quota share
	20% share up to HK\$300,000 per life	Quota share
	10% share up to HK\$300,000 per life	Quota share
	26.2% share of all insurance risks	Modified coinsurance
	15% share of all insurance risks	Modified coinsurance
	up to US\$1,250 Waiver of Premium	US\$3,750 per annum
	Surplus	

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

DIRECTORS' REPORT- continued

REINSURANCE ARRANGEMENTS - continued

<u>Line of business</u>	<u>Retention</u>	<u>Type of treaty</u>
Disability Income	Effective Time	Surplus
	1983 HK\$5,000	
	1 Jan 1986 HK\$8,000	
	1 Jan 1987 HK\$10,000	
	1 Jan 1989 HK\$16,000	
	1 Mar 1996 HK\$40,000	
	US\$2,500 per month	Surplus
	25% share of the maximum monthly benefit	Quota share
Individual business - medical	1% of insurance	Quota share
	25% of insurance	Quota share
	60% of insurance	Quota share
Deferred Annuity	40% share under accumulation phase	Quota Share
Life and Personal Accident	USD 40,000,000	Catastrophe excess of loss
Group life	70% Sum Insured to HK\$560,000 for death	Quota share
	70% Sum Insured to HK\$240,000 for critical Illness	Quota share
	MOP2,800,000 Sum Insured for death	Surplus
	US\$125,000 for policies effective before 1 Jul 2008	Surplus
	US\$350,000 for policies effective on or after 1 Jul 2008	
	Nil	Quota share
	HK\$ 20,000 per month	Surplus
	HK\$ 40,000 per month	Surplus
Group Business under pooling arrangement	Range from 90% share to 50% share of the risk retained	
General Insurance - Combined Liability	HK\$8 million	Excess of loss
a) Motor own damage, third party property damage and third party bodily injury		
b) Employee's compensation and employer's liability		
c) Public liability/engineering liability		
Marine	US\$12 million for Cargo	Surplus
	US\$3 million for Marine hull, Builders risks, Marine liabilities, Pleasure craft hull, and Pleasure craft third party liability	
	US\$350,000	Excess of loss
Property Cat	HK\$14 million	Excess of loss
Property	HK\$6 million	Excess of loss
	HK\$110 million	Surplus
Personal Accident	HK\$2.9 million	Excess of loss
General Insurance Business (Travel, Home Contents, Business Insurance, Domestic Helper, Commercial Vehicle and Private Motor Car)	0% share for Travel, Home Contents, Business Insurance, Domestic Helper and Commercial Vehicle	Quota share
	60% share for Private Motor Car	

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

DIRECTORS' REPORT- continued

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

G.T. Watson
Y.W. Wan
K.M. Wong
C.J. Ryan
C. Feathers
P.J. Fishwick

In accordance with Bye-Law 74 of the Company's Bye-Laws, all remaining directors retire and, being eligible, offer themselves for re-election.

CONTROLLERS

The controllers of the Company, within the meaning of Section 9(1) of the Hong Kong Insurance Ordinance, during the year and up to the date of this report were:

AXA Assurances IARD Mutuelle
AXA SA ("AXA")
AXA ASIA SAS
AXA China Region Limited
T. Buberl
G.T. Watson
Y.W. Wan

DIRECTORS' AND CONTROLLERS' INTERESTS

No contracts of significance to which the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries was a party and in which a director or a controller of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No properties were transferred, loans advanced to or obligations assumed by or for a director or a controller of the Company, his nominees or associates (within the meaning of section 9 of the Insurance Ordinance) during the year. Amount paid or payable to the directors or controllers of the Company for the year are shown in notes 9 and 32 to the consolidated financial statements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

DIRECTORS' REPORT- continued

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

During the year, a director and certain controllers of the Company who were a director and controllers during the year held options to subscribe for shares at fixed prices in AXA, the ultimate holding company of the Company, granted under the AXA SA Stock Option Plan. Mr. T. Buberl and Mr. G.T. Watson partially exercised their options under the AXA SA Stock Option Plan to subscribe for AXA shares.

During the year, certain directors and the controllers of the Company who were directors and controllers during the year held performance shares granted under the International Performance Share Plan of AXA. Under this Plan, AXA grants to certain executives performance shares to acquire AXA shares at the end of the acquisition period without any exercise price. Mr. T. Buberl, Mr. G.T. Watson, Ms. Y.W. Wan and Ms. K.M. Wong acquired AXA shares under this Plan.

During the year, a controller of the Company who was a controller during the year held performance shares dedicated to retirement granted under the Performance Share Retirement Plan of AXA. Under this Plan, AXA grants to certain executives performance shares to acquire AXA shares at the end of the acquisition period without any exercise price. Mr. T. Buberl acquired AXA shares under this Plan.

During the year, Mr. T. Buberl, Mr. G.T. Watson, Ms. Y.W. Wan and Ms. K.M. Wong participated in the AXA Shareplan. Under this Shareplan, AXA offers employees of the AXA Group opportunity to invest and hold units in funds in this Shareplan which in turn hold AXA shares. This Shareplan enables such employees to purchase AXA shares indirectly through the funds at fixed discounts to AXA share prices.

Apart from the above, at no time during the year was the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries a party to any arrangements to enable the directors and controllers of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

AUDITORS

The auditors, Messrs. PricewaterhouseCoopers, will retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

A resolution will be submitted to the shareholder of the Company to re-appoint Messrs. PricewaterhouseCoopers as auditors of the Company.

On behalf of the Board


Y.W. Wan
DIRECTOR

28 JUN 2023

Independent Auditor's Report

To the Board of Directors of
AXA China Region Insurance Company (Bermuda) Limited
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of AXA China Region Insurance Company (Bermuda) Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 10 to 100, comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Independent Auditor's Report

To the Board of Directors of
AXA China Region Insurance Company (Bermuda) Limited - continued
(incorporated in Bermuda with limited liability)

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the directors' report on pages 1 to 5, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Independent Auditor's Report

To the Board of Directors of
AXA China Region Insurance Company (Bermuda) Limited - continued
(incorporated in Bermuda with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

To the Board of Directors of
AXA China Region Insurance Company (Bermuda) Limited - continued
(incorporated in Bermuda with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements – continued

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 June 2023

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	Year ended 31.12.2022 US\$000	Unaudited Year ended 31.12.2021 US\$000
<u>CONSOLIDATED STATEMENT OF PROFIT OR LOSS</u>			
INSURANCE PREMIUM REVENUE			
Gross premiums and contributions	7	3,819,044	4,022,508
Reinsurance premiums accepted	7	103,219	69,485
Reinsurance premiums ceded	7	(597,662)	(812,983)
		<u>3,324,601</u>	<u>3,279,010</u>
Investment income	8	1,116,761	1,072,321
Net realised and unrealised losses on investments	8	(5,135,699)	(1,485,044)
Other income		49,901	42,413
Gross claims		(578,025)	(510,505)
Reinsurance claims accepted		(48,003)	(27,318)
Claims recoverable		222,867	261,445
Surrenders, maturities, dividends and withdrawals		(977,147)	(1,075,171)
Gross commissions		(328,982)	(408,297)
Commissions on reinsurance accepted		(28,528)	(13,060)
Commissions on reinsurance ceded		92,729	82,704
Gain on portfolio reinsurance		-	217,309
Management and other expenses		(268,328)	(386,231)
Investment expenses		(363,621)	(330,466)
Decrease/(increase) in insurance liabilities		2,300,756	(1,085,598)
(Decrease)/increase in reinsurance assets		(730,623)	245,179
Decrease/(increase) in investment liabilities		205,006	(5,970)
LOSS BEFORE TAXATION	9	<u>(1,146,335)</u>	<u>(127,279)</u>
TAXATION	10	<u>(39,122)</u>	<u>(44,191)</u>
LOSS FOR THE YEAR		<u><u>(1,185,457)</u></u>	<u><u>(171,470)</u></u>
LOSS FOR THE YEAR ATTRIBUTABLE TO			
Non-controlling interest		(146)	(46)
Shareholders of the company		<u>(1,185,311)</u>	<u>(171,424)</u>
		<u><u>(1,185,457)</u></u>	<u><u>(171,470)</u></u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME – continued FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	Year ended 31.12.2022 US\$000	Unaudited Year ended 31.12.2021 US\$000
OTHER COMPREHENSIVE LOSS			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of available-for-sale financial assets		(177,778)	(36,632)
Exchange difference on translation of foreign operations		(237)	(1,401)
OTHER COMPREHENSIVE LOSS, net of tax		(178,015)	(38,033)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,363,472)	(209,503)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO			
Non-controlling interest		(146)	(46)
Shareholders of the company		(1,363,326)	(209,457)
		(1,363,472)	(209,503)
DIVIDENDS	11	(178,346)	-

The notes on pages 17 to 100 are an integral part of these consolidated financial statements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2022

	NOTES	At 31.12.2022 US\$000	Unaudited At 31.12.2021 US\$000
<u>ASSETS</u>			
INTANGIBLE ASSETS	12	2,516	2,799
PLANT AND EQUIPMENT	13	10,737	13,424
RIGHT-OF-USE ASSETS	14	67,214	72,361
INVESTMENTS IN ASSOCIATES	16	101,233	127,095
INVESTMENTS IN SECURITIES	17, 32	24,469,337	30,282,329
LOANS	18	224,246	206,185
DEFERRED TAX ASSETS	19	3,256	-
OTHER ASSETS			
Direct premiums receivable	25	433,442	365,735
Debtors and prepayments, unsecured	25	670,275	212,728
Reinsurance assets	21, 22, 25	6,393,201	7,083,653
Amounts due from reinsurers and intermediaries under reinsurance contracts ceded	25	22,531	4,522
Amount due from the immediate holding company	25	85,516	81,028
Amounts due from fellow subsidiaries	25	48,128	71,688
Amounts due from an intermediate holding company	25	25,486	8,320
Derivative financial instruments	29	1,134,844	338,031
Pledged bank deposits	28, 30	58,523	44,802
Fixed term bank deposits	28	68,336	64,272
Cash and cash equivalents	28	1,504,392	953,063
		10,444,674	9,227,842
TOTAL ASSETS		35,323,213	39,932,035

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

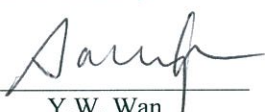
CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued AT 31 DECEMBER 2022

	NOTES	At 31.12.2022 US\$000	Unaudited At 31.12.2021 US\$000
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	20	175,783	175,783
Reserves			
Share premium		383,257	383,257
Other reserve		(218,836)	(40,821)
Retained profits		2,243,566	3,607,223
		2,407,987	3,949,659
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE GROUP		2,583,770	4,125,442
Non-controlling interest	33	20,805	698
TOTAL EQUITY		2,604,575	4,126,140
INSURANCE LIABILITIES	21	21,406,477	23,707,513
DEFERRED TAX LIABILITIES	19	-	2,824
SUBORDINATED LOAN	15	32,067	32,067
OTHER LIABILITIES			
Financial liabilities – investment contracts	21,23	1,258,317	1,562,914
Derivative financial instruments	29	1,497,447	1,236,382
Deferred revenue	31	13,170	13,727
Repurchase obligations and debt instruments liabilities	25	2,880,251	4,155,400
Creditors and accrued charges	25	1,060,106	623,134
Lease payable	14	70,346	75,018
Claims payable	22	368,341	305,574
Commissions payable	25	149,182	163,373
Policyholders' funds on deposit	25	366,549	473,401
Dividend payable	25	3,177,618	2,986,312
Amounts due to reinsurers and intermediaries under reinsurance contracts ceded	25	269,025	346,352
Amount due to the ultimate holding company	25	105,215	-
Amount due to an intermediate holding company	25	2,990	2,993
Amounts due to fellow subsidiaries	25	53,201	109,587
Current tax payables		8,336	9,324
		11,280,094	12,063,491
TOTAL EQUITY AND LIABILITIES		35,323,213	39,932,035

The notes on pages 17 to 100 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 10 to 100 were approved by the Board of Directors for issue on and were signed on its behalf by:

28 JUN 2023


Y.W. Wan
DIRECTOR


K.M. Wong
DIRECTOR

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	Attributable to shareholders of the Group					Total	Non-controlling interest	Total equity
		Share capital	Share premium	Retained profits	Fair value reserve	Translation reserve			
		US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
At 1.1.2021 (unaudited)		175,783	383,257	3,778,647	(2,687)	(101)	4,334,899	788	4,335,687
Capital change		-	-	-	-	-	-	(44)	(44)
Loss for the year		-	-	(171,424)	-	-	(171,424)	(46)	(171,470)
Other comprehensive loss		-	-	-	(36,632)	(1,401)	(38,033)	-	(38,033)
Total comprehensive loss for the year		-	-	(171,424)	(36,632)	(1,401)	(209,457)	(46)	(209,503)
At 31.12.2021 (unaudited)		175,783	383,257	3,607,223	(39,319)	(1,502)	4,125,442	698	4,126,140
Acquisition of a subsidiary company		-	-	-	-	-	-	20,379	20,379
Capital change		-	-	-	-	-	-	(126)	(126)
Dividends	11	-	-	(178,346)	-	-	(178,346)	-	(178,346)
Loss for the year		-	-	(1,185,311)	-	-	(1,185,311)	(146)	(1,185,457)
Other comprehensive loss		-	-	-	(177,778)	(237)	(178,015)	-	(178,015)
Total comprehensive loss for the year		-	-	(1,185,311)	(177,778)	(237)	(1,363,326)	(146)	(1,363,472)
At 31.12.2022		175,783	383,257	2,243,566	(217,097)	(1,739)	2,583,770	20,805	2,604,575

The notes on pages 17 to 100 are an integral part of these consolidated financial statements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	Year ended 31.12.2022 US\$000	Unaudited Year ended 31.12.2021 US\$000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(1,146,335)	(127,279)
Adjustments for:			
Interest income on debt securities		(479,730)	(565,112)
Interest income on bank deposits		(4,844)	(3,807)
Interest income on policy loans		(18,638)	(18,796)
Interest income on amount due from an immediate holding company		(2,419)	(2,459)
Interest income on amount due from a fellow subsidiary		(77)	-
Net realised and unrealised losses on investments	8	5,135,699	1,485,044
Other expense/(income)		51,130	(72,445)
Other interest income		(103,039)	(56,521)
Amortisation of intangible assets		32,627	17,152
Depreciation of plant and equipment		2,766	2,675
Depreciation of right-of-use assets		22,561	23,218
Loss on disposal of intangible assets		47	231
Interest expense on lease payable		1,634	1,949
Additional of right-of use assets		(17,483)	(5,298)
Exchange difference		(198)	(1,517)
Cash flows from operations before working capital changes		3,473,701	677,035
(Increase)/decrease in direct premiums receivable		(67,707)	109,845
(Increase)/decrease in debtors and prepayments		(442,145)	343
Decrease/(increase) in reinsurance assets		690,452	(5,344,564)
Increase in amounts due from reinsurers and intermediaries under reinsurance contracts ceded		(18,009)	(2,640)
Increase in amount due from the immediate holding company		(2,069)	(46,974)
Decrease in amount due from the ultimate holding company		-	6
Decrease/(increase) in amounts due from fellow subsidiaries		23,637	(35,908)
(Increase)/decrease in amounts due from intermediate holding company		(17,166)	38,452
Increase in pledged bank deposits		(13,721)	(28)
(Decrease)/increase in insurance liabilities		(2,301,036)	1,085,245
Decrease in deferred revenue		(557)	(611)
Decrease in repurchase obligations and debt instruments liabilities		(1,275,149)	(4,408,261)
Increase/(decrease) in creditors and accrued charges		436,972	(99,188)
Increase in claims payable		62,767	17,096
(Decrease)/increase in commissions payable		(14,191)	7,418
(Decrease)/increase in policyholders' funds on deposit		(106,852)	82,682
Increase in dividend payable		191,306	76,057
(Decrease)/increase in amounts due to reinsurers and intermediaries under reinsurance contracts ceded		(77,327)	198,077
Increase/(decrease) in amount due to the ultimate holding company		105,215	(3,706)
Decrease in amount due to the immediate holding company		-	(12,444)
Decrease in amount due to an intermediate holding company		(3)	(3)
Decrease in amounts due to fellow subsidiaries		(56,386)	(15,862)
Decrease in amount due to a related company		-	(2,011)
Decrease in financial liabilities – investment contracts		(304,597)	(86,332)
Purchase of intangible assets		(32,395)	(16,856)
Net cash generated from/(used in) operations		254,740	(7,783,132)

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS - continued
FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	Year ended 31.12.2022 US\$000	Unaudited Year ended 31.12.2021 US\$000
Hong Kong profits tax paid		(25,216)	(50,844)
Overseas withholding tax paid		(20,960)	(18,098)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		208,564	(7,852,074)
CASH FLOW FROM INVESTING ACTIVITIES			
Interest received on debt securities		465,135	615,353
Interest received on bank deposits		4,676	4,268
Interest received on policy loans		17,999	18,108
Other interest income received		132,476	56,564
(Increase)/decrease in fixed term bank deposits		(4,064)	139,863
Proceeds from sale of investments in securities		65,059,090	98,618,742
Purchase of investments in securities		(65,402,032)	(91,567,404)
Purchase of derivative, net		272,257	(280,060)
Increase in loan to a fellow subsidiary		(6,382)	-
Increase in policyholders' loans		(12,114)	(9,993)
(Increase)/decrease in mortgage and other loans		(6)	11
Advances of loans to employees and agents		403	1,418
Purchase of plant and equipment		(95)	(699)
NET CASH GENERATED FROM INVESTING ACTIVITIES		527,343	7,596,171
CASH FLOW FROM FINANCING ACTIVITIES			
Additional of lease		17,375	5,282
Payment of lease payable		(23,607)	(24,371)
Dividends paid	11	(178,346)	-
NET CASH USED IN FINANCING ACTIVITIES		(184,578)	(19,089)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		551,329	(274,992)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		953,063	1,228,055
CASH AND CASH EQUIVALENTS AT END OF YEAR	28	1,504,392	953,063

The notes on pages 17 to 100 are an integral part of these consolidated financial statements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. GENERAL

The Company is an “Exempted Company” under Bermuda Companies Act 1981, which is incorporated under the laws of the Islands of Bermuda with limited liability. Its parent company is AXA China Region Limited, incorporated in Bermuda and its ultimate controlling party is AXA, incorporated in France. The address of the registered office of the Company is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda and the principal place of business of the Company is 20th Floor, Vertical Sq, 28 Heung Yip Road, Wong Chuk Hang, Hong Kong.

The principal activity of the Group is underwriting insurance business, insurance agency and unit trust.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) New and amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2022:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to HKAS 16
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to HKAS 37
- Annual Improvements to HKFRS Standards 2018-2020, and
- Reference to the Conceptual Framework – Amendments to HKFRS 3.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group. The Group’s assessment of these new standards and interpretations is set out below.

HKFRS 9 - Financial instruments

HKFRS 9 - Financial instruments replaces HKAS 39 and provides accounting requirements related to the classification and measurement of financial instruments. Changes in accounting policies resulting from the adoption of HKFRS 9 will be applied retrospectively.

Classification and measurement of financial assets

HKFRS 9 uses a single approach to determine the measurement category for financial assets based on the business model in which those financial assets are held and on the characteristics of their contractual cash flows:

- a financial asset is measured at amortised cost if both (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI”);
- if both (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and for sale, and (ii) the contractual terms of cash flows are SPPI, the financial asset is measured at fair value through other comprehensive income (“FVOCI”) and realised gains or losses would be recycled through profit or loss upon sale. Most of the Group’s investments in debt instruments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- assets not fitting either of these categories are measured at fair value through profit or loss (“FVTPL”).

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) - continued

(b) New standards and interpretations not early adopted – continued

HKFRS 9 - Financial instruments – continued

Classification and measurement of financial assets – continued

In addition, HKFRS 9 provides the following classification options designed to eliminate or significantly reduce accounting mismatches that would otherwise arise if the general classification approach were applied:

- an entity can designate at FVTPL a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI if doing so eliminates or significantly reduces an accounting mismatch in profit or loss;
- for equity instruments that are not held for trading, an entity can make an irrevocable election to present in OCI (instead of profit or loss) subsequent changes in the fair value of those instruments (including realised gains and losses), dividends being recognised in profit or loss.

Impairment of financial assets

The impairment model under HKFRS 9 reflects expected credit losses (“ECL”), as opposed to incurred credit losses under HKAS 39. Under the HKFRS 9 impairment approach, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses.

ECL is defined at each financial reporting date based on the key inputs which are the probability of the default, the magnitude of the potential credit loss (after any potential recovery) and the exposure to the risk of default. HKFRS 9 distinguishes between lifetime ECL calculated for financial instruments for which there have been significant increases in credit risk since initial recognition, and 12-month ECL recognised for financial instruments for which the credit risk has not increased significantly since initial recognition. It is assumed that the credit risk has not increased significantly since initial recognition if the financial instrument has low credit risk at the reporting date, and 12-month ECL is recognised for those financial instruments. In addition, a particular impairment approach, similar to that existing under HKAS 39, is applied to instruments for which the credit event has already occurred. Previously recognised ECL allowances are reversed when the corresponding credit risk improves.

As a part of its HKFRS 9 implementation process, the Group created a new impairment model including a credit risk assessment that combines quantitative and qualitative approaches, ECL calculation tools, dedicated accounting and specific governance.

The new impairment model will apply to debt instruments and receivables held by the Group and measured at amortised cost or at FVOCI.

Estimated impacts of HKFRS 9 on financial assets as of 1 January 2023

Most of the Group’s financial assets are measured at fair value both before and after transition to HKFRS 9, and most of the non-consolidated funds and part of the debt instruments are designated at FVTPL under HKAS 39 are expected to continue to be designated at FVTPL under HKFRS 9 because those instruments do not meet the SPPI criteria or because the option designation at FVTPL is applied. The new classification and measurement (including impairment) requirements are however expected to result in the following changes in the financial assets held by the Group as of 1 January 2023:

- for equity securities, the Group expects to apply the optional designation at FVOCI without recycling for most of equity securities held in order to avoid a significant new volatility in net income resulting from this asset class, compared to the current HKAS 39 accounting which are designated at FVTPL. As a consequence of this reclassification from FVTPL to FVOCI without recycling, the cumulated amount of HKAS 39 unrealised gain / loss is also expected to be transferred from retained earnings to OCI without recycling, with no impact on the Group’s total shareholders’ equity;
- most debt instruments are expected to be reclassified from FVTPL to FVOCI if those instruments meet the SPPI criteria;

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) - continued

(b) New standards and interpretations not early adopted – continued

HKFRS 9 - Financial instruments – continued

Estimated impacts of HKFRS 9 on financial assets as of 1 January 2023 – continued

- some loans are expected to be designated at FVTPL under HKFRS 9 applying the fair value option in order to eliminate or significantly reduce accounting mismatches in profit or loss, with a limited impact on retained earnings;
- loans granted to policyholders accounted for as investments at amortised cost under HKAS 39, will be reclassified as a part of fulfilment cash flows of insurance contracts within the scope of HKFRS 17.

Hedge accounting

HKFRS 9 establishes a more principle-based approach for the general hedge accounting model and aligns hedge accounting more closely with the risk management.

In the current year, the Group has applied the temporary exemption from HKFRS 9 under paragraph 20A of HKFRS 4, which permits, but does not require, the insurer to apply HKAS 39 for annual periods beginning before 1 January 2023. An insurer may apply the temporary exemption from HKFRS 9 if, and only if, (a) it has not previously applied any version of HKFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss; and (b) its activities are predominantly connected with insurance, as described in paragraph 20D, at its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date as specified in HKFRS 4.

The carrying amount of the Group’s liabilities connected with insurance (including life insurance contract liabilities, unearned premium provisions, provision for outstanding claims, investment contract liabilities, insurance creditors and others) relative to the total carrying amount of all its liabilities as at 31 December 2015 was higher than 80%. For the purpose of paragraph 20D of HKFRS 4, the Group’s activities continue to be predominantly connected with insurance, based on the sources of income and expenses, the Group’s industry classification, and other factors.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) - continued

(b) New standards and interpretations not early adopted - continued

The additional disclosures required as a result of applying temporary exemption from HKFRS 9 are as follows:

(i) Fair value of financial assets

The table below presents the fair value of the following groups of financial assets under HKFRS 9 as at 31 December 2022 and fair value changes for the year then ended 31 December 2022:

	Fair value as at 31.12.2022 US\$000	Fair value changes for the year ended 31.12.2022 US\$000
Held-for-trading financial assets (A) ¹	1,134,844	501,439
Financial assets that are managed and whose performance is evaluated on a fair value basis (B)	9,901,188	(1,692,519)
Financial assets that are neither A nor B		
- Financial assets with contractual terms that give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding (“SPPI”)	14,669,382	(4,045,323)
- Financial assets with contractual terms that do not meet SPPI terms	-	-
Total	25,705,414	(5,236,403)

¹ Including investments in held-for-trading securities held for policyholders of unit-linked products.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) - continued

(b) New standards and interpretations not early adopted - continued

The table below presents the fair value of the following groups of financial assets under HKFRS 9 as at 31 December 2021 and fair value changes for the year then ended 31 December 2021:

	Unaudited Fair value as at 31.12.2021 US\$000	Unaudited Fair value changes for the year ended 31.12.2021 US\$000
Held-for-trading financial assets (A) ²	338,031	(444,916)
Financial assets that are managed and whose performance is evaluated on a fair value basis (B)	11,415,142	(428,004)
Financial assets that are neither A nor B		
- Financial assets with contractual terms that give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding (“SPPI”)	18,994,282	(1,540,137)
- Financial assets with contractual terms that do not meet SPPI terms	-	-
Total	30,747,455	(2,413,057)

Other financial assets including amounts due from group companies are financial assets which meet the SPPI conditions. The carrying amounts to these assets approximate their fair values.

The financial assets presented above that met SPPI criteria and not held for trading or managed on fair value basis are primarily debt securities. Additional information on the credit quality analysis of these debt securities is provided in note 5.5(i).

² Including investments in held-for-trading securities held for policyholders of unit-linked products.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

(b) New standards and interpretations not early adopted - continued

HKFRS 17 - Insurance Contracts

HKFRS 17, 'Insurance Contracts', a comprehensive standard that establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts, was issued in January 2018 as replacement for HKFRS 4 Insurance Contracts. The new standard, HKFRS 17, includes fundamental differences to current accounting in both insurance contracts measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. It aims at being more economic and better reflecting the underlying profitability of the business, while increasing comparability across the industry. Additionally, HKFRS 17 requires more granular information and a new presentation format for the consolidated statement of profit or loss and other comprehensive income as well as extensive disclosures.

On 25 June 2020, the IASB issued the amendments to IFRS 17 and the effective date of IFRS 17 was deferred to annual reporting periods beginning on or after 1 January 2023. In October 2020, HKICPA finalised endorsement of, and issued, equivalent Amendments to HKFRS 17. Therefore, the Group will adopt HKFRS 17 effective January 1, 2023, with 2022 as a comparative period. The Group is in the midst of conducting an implementation programme which covered various aspects such as methodology, modelling, information systems, accounting and reporting, risk management, internal control, etc., and required the update of existing tools or the creation of new dedicated ones.

The Group's significant accounting policy decisions include:

Scope

HKFRS 17 applies to insurance contracts issued, reinsurance contracts issued (inward business), reinsurance contracts held (outward business) and investment contracts with discretionary participation features provided the entity also issues insurance contracts. It requires separating the following components from insurance contracts: (i) embedded derivatives, if they meet certain specified criteria, (ii) distinct investment components, and (iii) distinct performance obligations to provide non-insurance goods and services. These components should be accounted for separately in accordance with the related standards.

Contract boundaries

Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services. A substantive obligation to provide services ends notably when the entity has the practical ability to reassess the risks of the policyholder and, as a result, can set a price or level of benefits that fully reflects those risks.

Level of aggregation

The standard defines the level of aggregation to be used for measuring the insurance contract liabilities and the related profitability. Indeed, HKFRS 17 requires identifying portfolios of insurance contracts, which comprise contracts that are subject to similar risks and are managed together. Afterwards, each portfolio of insurance contracts shall be divided into groups based on both (1) the issue date, such that each group contains contracts issued no more than one year apart, and (2) the profitability, such that each group contains contracts of only one of the following three types:

- contracts that are onerous at initial recognition;
- contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and
- the remaining contracts in the portfolio.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) - continued

(b) New standards and interpretations not early adopted - continued

HKFRS 17 - Insurance Contracts – continued

The general measurement model

HKFRS 17 requires applying by default the general measurement model (“Building Block Approach”, or “BBA”) which is based on the following “building blocks”:

- the fulfilment cash flows (“FCF”), which comprise;
 - probability-weighted estimates of future cash flows;
 - an adjustment to reflect the time value of money (*i.e.*, discounting) and the financial risks associated with those future cash flows; and
 - a risk adjustment for non-financial risk;
- the Contractual Service Margin (“CSM”).

Risk adjustment for non-financial risk

Regarding the risk adjustment, its measurement should reflect the compensation required by the Group for bearing the uncertainty around the amount and timing of the future cash flows that arises from non-financial risk as the Group fulfils insurance contracts.

The Group considers the 62.5th-67.5th percentile range as the adequate level of prudence on underlying reserves.

The determination of the risk adjustment follows a value-at-risk type approach, reflecting a retained confidence level with reference to the risk drivers of reserves. The value-at-risk is the maximum loss within a certain confidence level.

A diversification effect among risk factors is considered. In addition, the Group also considers the diversification effect among entities of AXA Group as the Group determines the compensation by also taking into account the degree of risk diversification benefit available at the AXA Group level.

Discount rates

Regarding the discount rate, the Group intends to adopt a bottom-up approach. HKFRS 17 requires the use of a market consistent yield curve factoring the illiquidity embedded in insurance liabilities. The methodology consists in using a Basic Risk-Free Rate (“RFR”), based on swaps for Hong Kong dollar and government bonds for US dollar, and adding on an illiquidity premium (“ILP”) allowance to reflect the illiquidity characteristics of the insurance contracts.

Contractual Service Margin (CSM)

Compared to HKFRS 4, the introduction of the CSM is a major change. The CSM represents the unearned profit for a group of insurance contracts, in other words the present value of future profits attributable to the shareholders. It will be recognised in the statement of financial performance over the coverage period of the contracts, as the entity provides services to the policyholders. Except for reinsurance contracts held, the CSM of a group of contracts cannot be negative at inception; if the fulfilment cash flows at inception represent a liability, the net amount will be recorded in profit or loss immediately.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

(b) New standards and interpretations not early adopted - continued

HKFRS 17 - Insurance Contracts – continued

Contractual Service Margin (CSM)- continued

At the end of each subsequent reporting period the carrying amount of a group of insurance contracts is remeasured to be the sum of:

- the liability for remaining coverage ("LRC"), which comprises the FCF related to future services and the CSM of the group at that date; and
- the liability for incurred claims ("LIC"), which is measured as the FCF related to past services allocated to the group at that date.

Under the BBA, the CSM is adjusted at each subsequent reporting period for changes in expected future cash flows driven by changes in technical assumptions. However, except for reinsurance contracts held, if negative changes in future discounted cash flows are greater than the remaining CSM, the difference is immediately recognised in profit or loss as the CSM cannot be negative. Interest is also accreted on the CSM at rates locked in at initial recognition of a contract. Moreover, the CSM will be released into profit or loss based on coverage units, reflecting the quantity of the benefits provided and the expected coverage duration of the remaining contracts in the group. Given the variety of insurance contracts, the definition of coverage units involves the use of judgment by considering both the level of coverage defined within the contract and the expected coverage duration of the contract.

In general, this BBA is expected to apply on the Group's long-term Protection and Health business as well as for few General Account savings contracts with no direct participation features and for the long-term reinsurance.

Onerous contracts

A group of insurance contracts issued is onerous at initial recognition if the total fulfilment cash flows, previously recognised acquisition cash flows and any cash flows arising from the contracts (such as premiums received) is a net outflow. Groups of contracts that were not onerous on initial recognition can become onerous on subsequent measurement due to unfavourable changes in the fulfilment cash flows that relate to future service (for example, increased estimates of expected claims to be incurred over the period of remaining coverage). The shortfall (or reversal of any previous shortfall) is immediately recognised in the consolidated statement of profit or loss and other comprehensive income.

The Premium Allocation Approach

A simplified Premium Allocation Approach ("PAA") is permitted for the measurement of the LRC if it provides a measurement that is not materially different from the BBA or if the coverage period is one year or less. With the PAA, the LRC corresponds to premiums received at initial recognition less acquisition costs and amounts already recognised as insurance revenue at the closing date. However, the BBA remains applicable for the measurement of incurred claims. For the PAA, changes relative to HKFRS 4 are expected to be limited and mainly linked to the discounting of liabilities of incurred claims, a more granular onerous contract testing based on facts and circumstances and the inclusion of a risk adjustment for non-financial risk.

In general, the PAA is expected to be used for contracts with coverage period of one year or less.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) - continued

(b) New standards and interpretations not early adopted - continued

HKFRS 17 - Insurance Contracts – continued

The Variable Fee Approach

The Variable Fee Approach (“VFA”) is the mandatory model for measuring contracts with direct participation features (also referred to as “direct participating contracts”). A contract has a direct participation feature if it meets all three requirements below:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items;
- the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

This assessment of whether the contract meets the criteria above is made at inception of the contract and not revised subsequently, except in case of substantial modification of the contract.

The VFA is expected to apply for the majority of the Group’s Life and Savings businesses (both General Account with direct participation features and Unit-linked contracts).

For these contracts, the general model described above is adapted as follows: the CSM needs to be adjusted (i) for changes in the variable fee (Group’s share in the change in fair value of underlying items that corresponds to the revenue of the insurer), (ii) for the time value of money, and (iii) for the effect of changes in financial risks not arising from underlying items (such as options and guarantees). In order to allow an appropriate release pattern of the CSM, consistent with the definition of the investment-related service, real-world expected development of the CSM and coverage units (the policyholders’ account value) need to be considered when determining the CSM release factor.

As a result of applying HKFRS 17, the shareholders’ share in the unrealised capital gains and losses on underlying items related to VFA contracts will be recognised in CSM.

For some groups of VFA contracts, the Group also intends to apply the “risk mitigation” accounting option that allows to reduce or remove any accounting mismatch arising from the mitigation of financial risks impacting the CSM by using derivatives held within shareholders’ fund. Under this option, it is allowed (on a prospective basis from the transition date to HKFRS 17) not to adjust the CSM but instead affect the profit or loss for the changes in the fulfilment cash flows and the entity’s share in the fair value return on the underlying items that the hedging instruments are intended to mitigate.

Presentation

Under HKFRS 17, in terms of presentation, the amounts recognised in the statements of financial performance have to be disaggregated into:

- an insurance service result, comprising insurance revenue (corresponding to the insurance service provided over the period, which will be more comparable with the revenue of other industries) and insurance service expenses; and
- a net insurance finance income or expenses from insurance and reinsurance contracts

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

(b) New standards and interpretations not early adopted - continued

HKFRS 17 - Insurance Contracts - continued

Presentation - continued

For contracts measured with VFA, the Group will generally apply the option to disaggregate the insurance finance income or expense between the statement of profit or loss and the other comprehensive income in order to limit the volatility in profit or loss. Under this option, the insurance finance income or expense will be set equal to the investment income of assets backing the underlying items, resulting in the net of these separately presented items being nil.

When it relates to non-direct participating business, the Group will generally apply the option to disaggregate insurance financial income or expense between the statement of profit or loss and the other comprehensive income in order to limit the volatility in profit or loss (considering that many of the supporting financial assets will be measured at fair value through other comprehensive income under HKFRS 9). Under this option, for non-participating contracts, the difference between the valuation of the liabilities at locked-in interest rates (used for the unwind in the insurance finance income or expenses) and their valuation at current rates is recognised in OCI. In the same way, when changes in liabilities arise from a contractual link (indexation) between inflation and the payments to policyholders, the changes due to inflation that relate to future services should also be considered as result from a financial risk and therefore recognised through OCI with a release through profit or loss over the duration of the payments to the policyholders.

A minimal part of the expenses (up to 10%) will not be attributable to HKFRS 17 contracts and therefore will not be projected in the FCF and will be charged to the profit or loss as incurred.

Under HKFRS 17, compared to HKFRS 4, insurance revenues will not anymore reflect the premiums underwritten during the period since they will:

- reflect the portion of the premiums earned during the period, i.e., the release of the FCF as well as the CSM release; and,
- exclude any investment component that is the main bulk of the premiums in Life and Savings business.

In respect of the presentation of consolidated statement of financial position, the other changes compared to HKFRS 4 relate notably to the following:

- insurance and reinsurance related receivables and payables will no longer be presented separately from insurance contract assets and liabilities and reinsurance assets and liabilities;
- insurance contract liabilities under HKFRS 17 will include all cash flows that directly relate to the fulfilment of insurance contracts (direct business and inward reinsurance), including acquisition, claims settlement, policy administration and maintenance costs;
- portfolios of contracts that have asset balances and those that have liability balances will be presented separately on each side of the consolidated statement of financial position.

Transition methods

For the transition from HKFRS 4 to HKFRS 17, the standard has to be applied retrospectively using the Full Retrospective Approach ("FRA") unless impracticable.

The Group intends to apply the FRA mainly to the liabilities for remaining coverage of contracts measured with the PAA and the liabilities for incurred claims occurred.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)
- continued

(b) New standards and interpretations not early adopted - continued

HKFRS 17 - Insurance Contracts - continued

Transition methods - continued

For other groups of contracts, different factors are expected to make the application of the FRA unpracticable. For these groups of contracts, the Group therefore expects to apply the MRA or the FVA.

In particular, for long-term Life and Savings contracts, the FVA is expected to be the approach the most broadly used, the MRA being applied only on health business.

The requirements of HKFRS 17 are complex and the accounting policies noted above are subject to change as the Group works to finalise key assumptions in relation to each of the above components. The Group’s implementation of HKFRS 17 is well-progressed and work is ongoing to finalise the transition impacts and restate comparative information for reporting on this basis in 2023.

There are no other HKFRSs interpretations that are not yet effective that would be expected to have a material impact on the Group.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the Companies Act 1981 of Bermuda.

Basis of preparation

The Group has taken advantage of the exemption under HKFRS 10 from the requirement to prepare consolidated financial statements as it and its subsidiaries are included in the consolidated financial statements of its parent, AXA SA. AXA SA was incorporated in France. It has prepared the consolidated financial statements for public use in accordance with IFRS. The address where these consolidated financial statements are obtainable is www.axa.com.

The consolidated financial information for the year ended 31 December 2021 were not previously audited on consolidated basis, the presentation for the year 2021 as comparatives will therefore be disclosed as “unaudited”.

The principal accounting policies adopted are as follows:

3.1 Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the Group. Premiums from insurance contracts and investment contracts with discretionary participation features (“DPF”) are recognised in the statement of profit or loss on an accruals basis.

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are recognised as reinsurance premiums ceded. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are recognised as reinsurance premiums accepted.

Premiums paid by the Group in respect of contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are recognised as reinsurance premiums ceded. For portfolio reinsurance, the initial payments to the reinsurer are not recognised as reinsurance premiums ceded in the income statement. The net gain/(loss) on the purchase of reinsurance is presented in the income statement under the heading gain on portfolio reinsurance.

Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are recognised as reinsurance premiums accepted.

Reinsurance premiums accepted and reinsurance premium ceded are recognised in the statement of comprehensive income when they become payable by the contract holder.

For short-term insurance contracts and reinsurance contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability which is included in insurance liabilities. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Fee income is measured at the fair value of the consideration received or receivable for long term business in the ordinary course of the Group’s activities.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.1 Revenue recognition - continued

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income is recognised when the right to receive payment is established.

Purchases and sales of investments in securities are recognised as a trade date basis. Realised gains or losses on disposal and unrealised gains or losses on investments are recognised in the statement of profit or loss.

3.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

3.3 Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.
- lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.3 Leases - continued

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

3.4 Associates

Associates are all entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in unit trusts are classified as financial assets and are stated at fair value through profit or loss.

3.5 Plant and equipment

Plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.5 Plant and equipment - continued

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives to the Group after taking into account of their estimated residual value, using the straight-line method, at the following annual rates:

Leasehold improvements	10-20%
Furniture, fixtures and equipment	10-20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of profit or loss.

3.6 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: available-for-sales, financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets held for trading or the Group has designated those as financial assets at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Financial assets held for trading consist of derivatives.

The Group designates certain financial assets upon initial recognition as financial assets at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to HKAS 39, the fair value option is only applied when the following conditions are met:

- the application on the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or
- the financial assets consist of debt host and embedded derivatives that must be separated.

Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in the statement of profit or loss as 'Net realised and unrealised gains/ (losses) on investments'.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (ii) those that the entity upon initial recognition designates as available-for-sale; and (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.6 Financial assets - continued

(a) Classification - continued

(iii) Available-for-sale financial assets

Financial assets, other than those at fair value through profit or loss and loans and receivables, are classified as available-for-sale.

(b) Recognition and measurement

Regular-way purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices. Valuation of fair values for unlisted unit trusts is based on latest available bid price or net asset value per unit. If there is no active market for a financial asset, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis / option pricing models, and other valuation techniques commonly used by market participants.

For holdings in hedge funds and private equity funds, fair values are determined based on the net asset values provided by the general partner or manager of each investment, the amounts which are generally audited on an annual basis. The transaction price is used as the best estimate of fair value at inception. The fair values of private companies are determined based on the net asset values reported by administrators.

Loans and receivables are carried at amortised cost using the effective interest method less impairment loss.

Available-for-sale financial assets are initially recognised at fair value plus attributable transaction costs. For available-for-sale debt securities, the difference between their cost and par value is amortised. Available-for-sale financial assets are subsequently measured at fair value.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" are presented in the statement of profit or loss as "net realised and unrealised gains/(losses) on investments" in the period in which they arise.

Unrealised gains and losses on securities classified as available-for-sale are analysed between differences resulting from foreign currency translation, and other fair value changes. Foreign currency translation differences on monetary available-for-sale investments, such as debt securities are calculated as if they were carried at amortised cost and so are recognised in the statement of profit or loss as "investment income".

Changes in the fair value of securities classified as available-for-sale, except for impairment losses and relevant foreign exchange gains and losses, are recognised in other comprehensive income and accumulated in a separate fair value reserve within equity.

Realised gains and losses on available-for-sale financial assets are determined as the difference between sale proceeds and the cost and recognised in the statement of profit or loss as "net realised and unrealised gains/(losses) on investments".

Interest and dividend from "financial assets at fair value through profit or loss" are recognised in the statement of profit or loss as "investment income" when the Group's right to receive payments is established.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.6 Financial assets - continued

(b) Recognition and measurement - continued

Interest on loans and receivables calculated using the effective interest rate method is recognised in the statement of profit or loss as part of “investment income”. Interest income from debt securities classified as available-for-sale is recognised in “investment income” in the statement of profit or loss.

(c) Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that a loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position;
- Deterioration in the value of ; and
- Downgrading to below investment grade level.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables, the amount of loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of loss is recognised in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss already recognised directly in other comprehensive income is recognised in the statement of profit or loss.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss. Where, following the recognition of an impairment loss in respect of an available-for-sale debt security, the asset suffers further falls in value, such further falls are recognised as an impairment only in the case when objective evidence exists of a further impairment event to which the losses can be attributed.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.7 Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

(i) Financial liabilities at fair value through profit or loss

A financial liability is typically classified as fair value through profit or loss if it meets the following criteria:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an “accounting mismatch”) that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on them on different bases; or
- Part of a group of financial liabilities that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis; and
- Financial instruments, such as debt securities issued, containing one or more embedded derivatives significantly modify the cash flows.

Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised as increase / decrease in investment liabilities in the statement of profit or loss.

Financial liabilities are derecognised when they are extinguished - that is, when the obligation is discharged, cancelled or expires.

(ii) Other financial liabilities

Other financial liabilities are recognised initially at fair value net of transaction costs incurred and subsequently stated at amortised cost using the effective interest method. Interest expense calculated using the effective interest rate method is recognised as investment expenses in the statement of profit or loss.

3.8 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into which represents their cost excluding transaction costs, which are expensed, and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Gains or losses are recognised in net realised and unrealised gains or losses in the statement of profit or loss in the period in which they arise.

3.9 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.10 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

3.11 Insurance and investment contracts – classification

The Group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines significant insurance risk as contracts which must have at least one plausible scenario, excluding scenarios that lack commercial substance, in which cash flows are altered by an amount that is significant relative to the fair value of the contract or the premium received for the contract and the contract holder is compensated. The event leading to the change in cash flows may be high incidence but small severity or small incidence but great severity.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of insurance and investment contracts contain DPF. This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are contractually based on:
 - (i) the performance of a specified pool of contracts or a specified type of contract;
 - (ii) realised and/or unrealised investment returns on a specified pool of assets held by the Group; or
 - (iii) the profit or loss of the Group, fund or other entity that issues the contract.

3.12 Insurance contracts and investment contracts with DPF

(a) Recognition and measurement

The insurance liabilities in respect of long term business are determined by the Group's appointed actuary in accordance with the requirements of the Hong Kong Insurance (Determination of Long Term Liabilities) Rules. At each reporting date, the Group assesses its recognised insurance liabilities to determine whether they are adequate, using estimates of future cash flows under its insurance contracts based on the current best estimate assumptions. If the assessment of liability adequacy shows that the carrying amounts of its insurance liabilities are inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the statement of profit or loss.

According to section 15 of the Hong Kong Insurance Ordinance, initial acquisition expenses can be capitalised to reduce new business strain, subject to a maximum limit of 1.5 times valuation net premium. This is also limited by the actual initial expenses incurred.

Policy benefits vested in the policy owner (policyholder's bonus) are treated as an expense and any amount payable at the reporting date is included in other liabilities.

Insurance contracts and investment contracts with DPF are classified into three main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.12 Insurance contracts and investment contracts with DPF – continued

(a) Recognition and measurement - continued

(i) Short-term insurance contracts

These contracts are casualty, property and short-duration life insurance contracts.

Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Short-duration life insurance contracts protect the Group's customers from the consequences of events (such as death or disability) that would affect the ability of the customer or his/her dependants to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these contracts, premiums are recognised as revenue. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability which is included in insurance liabilities. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims and loss adjustment expenses are charged to the statement of profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Group. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported.

(ii) Long-term insurance contracts

Insurance contracts with and without DPF include traditional life insurance contracts and the unit-linked contracts that have significant mortality risk. These contracts insure events associated with human life (for example death or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liabilities for traditional life contracts are calculated as the difference between the estimated present value of sum assured and any reversionary bonuses and the estimated present value of net premiums.

For unit-linked insurance contracts, insurance premiums are recognised as revenue. Their liabilities reflect changes in the unit prices and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Fees charged for investment management services are recognised as revenue based on the stage of completion of the contracts. Other fees received at the inception of a contract are deferred and recognised on a straight line basis over the expected term of the contract.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.12 Insurance contracts and investment contracts with DPF - continued

(a) Recognition and measurement - continued

(iii) Investment contracts with DPF

Insurance premium are recognised directly as revenue. These liabilities are increased by credited interest and are decreased by policy administration fees, surrender charges and any withdrawals.

(b) Embedded derivatives

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

(c) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts as mentioned above are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of amounts due from reinsurers, as well as reinsurance assets that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment at each reporting date. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of profit or loss. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also measured and recognised following the same method used for these financial assets.

(d) Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of profit or loss. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also measured and recognised under the same method used for these financial assets.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.12 Insurance contracts and investment contracts with DPF - continued

(e) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The Group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

(f) Liability adequacy testing

At each reporting date, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are projected to assess if future revenue (income plus release of reserve) is adequate to cover future obligations. Any deficiency will be immediately charged to profit or loss and a reserve will be set up.

3.13 Investment contracts without DPF

Investment contracts without DPF are recognised as financial liabilities on the consolidated statement of financial position when the Group becomes a party to the contractual obligations.

Investment contracts without DPF are financial liabilities whose fair value is dependent on the fair value of underlying financial assets, derivatives and/or investment property (linked products) and are designated at inception as at fair value through profit or loss.

Valuation techniques are used to establish the fair value at inception and each reporting date. The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the unit values that reflect the fair values of the financial assets contained within the Group's unitised investments funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the end of the reporting period.

This product group includes the unit-linked contracts that does not have significant mortality risk.

3.14 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are declared by the Board of Directors of the Group.

3.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.15 Current and deferred income tax - continued

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.16 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United States dollars (US\$), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Translation differences on financial assets and liabilities held at fair value through income are reported as part of the fair value gain or loss.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.16 Foreign currency translation - continued

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

3.17 Employee benefits

(a) Pension obligations

The Group operates a number of defined contribution plans. The schemes are generally funded through payments to separate trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Share-based payments

AXA operates a number of equity-settled, share-based compensation plans, under which the Group receives services from directors and employees as consideration for equity instruments of AXA. The fair value of the directors and employees services received in exchange for the grant of the equity instruments is recognised as an expense being absorbed by an intermediate holding company. The total amount to be recognised as an expense in the intermediate holding company's statement of profit or loss is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

3.19 Share capital

Ordinary shares are classified as equity

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.20 Fair value of financial instruments

Financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis. An other than active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability.

3.21 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that may affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results can always differ from estimates, possibly significantly.

Estimate of future benefit payments and premiums arising from long-term insurance contracts

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience. The estimated number of deaths plus an additional layer of prudence determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, SARS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality and morbidity being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality and morbidity risk. Details are set out in note 21 to the consolidated financial statements.

Valuation mortality and interest rate assumptions

The Group selects its key assumptions and performed sensitivity analysis through a prudent approach and to reflect the actual experience development.

For long-term insurance contracts, prudent mortality assumptions and a valuation interest rate lower than or equal to the regulatory maximum interest rate are used to determine the liabilities. These assumptions are reviewed on an annual basis to ensure the assumptions used still meet regulatory requirements and the liabilities remain adequate.

Impairment of assets

If there is objective evidence that an impairment loss has been incurred on loans and receivables, other assets carried at amortised cost or debt instruments classified as available-for-sale, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by an impairment allowance, which is recognised in the statement of profit or loss. As a practical approach, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

Fair value of financial assets/liabilities

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Valuation techniques include the use of recent arm's length transactions, net asset value reported to general partners or managers by fund administrators, discounted cash flow analysis / option pricing models, and other valuation techniques commonly used by market participants.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS

Insurance and financial risk management objectives and policies

The Group issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks, including other market risks, that the Group identifies and the way it manages them.

5.1 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the amount of the resulting claim is uncertain. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and reserving, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

(a) Casualty and property insurance risks

(i) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. These include weather, society's sentiment towards claims and increasing court awards for bodily injury compensation.

The Group manages these risks through its underwriting strategy, product design, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Prior to the acceptance of major risk, site visits by in-house assessor and pre-risk surveys will be performed to ensure risks are only accepted within the Group's capacity.

Underwriting limits are in place to enforce appropriate risk selection criteria and ensure that the Group is protected adequately by the reinsurance arrangements. In addition, the Group has the right not to renew individual policies, impose deductibles where applicable and reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (i.e., subrogation).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.1 Insurance risk – continued

(a) Casualty and property insurance risks - continued

(ii) Sources of uncertainty in the estimation of future claim payments

Claims on casualty and property contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occur during the term of the contract, even if the loss is discovered after the end of the contract term.

For casualty risks, claims can be settled over a long period of time and a larger element of the claims provision relates to incurred but not reported (“IBNR”) claims. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and their risk management procedures. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer’s liability covers) or members of the public (for public liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident. For property risks, claims are usually of a much shorter duration and relatively fewer IBNR claims are held at year-end.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period.

(b) Long-term insurance contracts

(i) Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS or SARS) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. Undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. For contracts with DPF, insurance risk can be shared with the contract holder.

For unit-linked business, the Group charges for mortality risk on a monthly basis. It has the right to alter these charges based on its mortality experience and hence minimise its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

The Group manages these risks through its underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. For example, medical selection is included in the Group’s underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. The Group also underwrites using geographical, nationality and occupation rating.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.1 Insurance risk - continued

(b) Long-term insurance contracts - continued

(ii) Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of changes in overall levels of mortality and the variability in contract holder behaviour.

The Group uses appropriate base tables of standard mortality according to the type of contract being written. An investigation into the actual experience of the Group over the last three years is carried out, and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future. A margin of prudence is added to the best estimate mortality rate to derive the final mortality assumption used.

The impact of any historical evidence of selective termination behaviour will be reflected in this experience.

(iii) Guaranteed annuity options

The amount of insurance risk under contracts with guaranteed annuity options is also dependent on the number of contract holders that will exercise their option ('option take-up rate'). This will depend significantly on the investment conditions that apply when the options can be exercised. The lower the current market interest rates in relation to the rates implicit in the guaranteed annuity rates, the more likely it is that contract holders will exercise their options. Continuing improvements in longevity reflected in current annuity rates will increase the likelihood of contract holders exercising their options as well as increasing the level of insurance risk borne by the Group under the annuities issued. To date, a very small number of the contract holders have exercised this option and hence the Group does not have sufficient historical data on which to base its estimate of the number of contract holders who will exercise their options. As a result of this, the Group estimates the cost of this option to be insignificant under the current economic environment.

(c) Short-duration life insurance contracts

(i) Frequency and severity of claims

These contracts are mainly issued to employers to insure their commitments to their employees in terms of their pension fund and other employee benefit plans. The risk is affected by the nature of the industry in which the employer operates, in addition to the factors described above. The risk of death and disability will vary by industry. Undue concentration of risk by industry will therefore increase the risk of a change in the underlying average mortality or morbidity of employees in a given industry, with significant effects on the overall insurance risk.

Insurance risk under disability contracts is also dependent on economic conditions in the industry. Historical data indicates that recession and unemployment in an industry will increase the number of claims for disability benefits as well as reducing the rate of recovery from disability. The Group attempts to manage this risk through its underwriting, claims handling and reinsurance policy. The amount of disability benefit cover provided per individual is restricted to a maximum of 70% of the individual's monthly income for individual life business. Surplus reinsurance contracts have been purchased by the Group, the retention is HK\$40,000 per month on any one life.

(ii) Sources of uncertainty in the estimation of future claim payments

There is no need to estimate mortality rates or morbidity rates for future years because these contracts have short duration. However, for incurred disability income claims, it is necessary to estimate the rates of recovery from disability for future years.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.2 Financial risk

The Group is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of financial risk are liquidity risk and market risks, which include interest rate risk, equity price risk, credit risk and currency risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Group manages these positions within an asset liability management (“ALM”) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts.

The Risk Committee of the Group identifies the risk appetite of the Group and assesses the Group’s risk exposure regularly. The Group has a Management Investment Committee that determines the investment strategy accordingly. A set of the Group’s investment mandate is then distributed to the Group’s fund managers, which provides appropriate guidelines with respect to the portfolio they manage. These investment instructions within specify limits for each portfolio with respect to authorised securities (including derivatives), gearing, free liquidity, concentration, currency, duration and credit limits (where applicable). Each fund manager regularly monitors its portfolios against these criteria and reports breaches.

5.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with its financial liabilities due to shortage of liquid funds. In particular to the Group, the risk that the Group’s financial assets are insufficient to fund the guaranteed benefit payments required under its insurance and investment contracts when they fall due.

The Group manages the liquidity risk by holding sufficient liquid assets such as cash and short-term deposits. The underlying investments backing the liabilities that are traded in an active market and are readily disposed of can also meet the requirement of benefit payments as needed. For the underlying investment backing the liabilities that are not traded in an active market, the Group has the contractual right to proceed to payment upon surrender/settlement when and only when the underlying asset itself is settled.

The following table analyses the Group’s financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows, except for the insurance and investment contract liabilities which are presented on an expected basis. These contracts typically include policyholder surrenders or transfer options at value equal to, or below, the carrying value of those liabilities. A maturity analysis of insurance contracts prepared on the basis of the earliest possible contractual repayment date (assuming that all surrenders are exercised) would result in the contracts being presented as falling due within one year or less. Asset balances under no stated maturity equal their carrying balances, as the impact of discounting is not significant. Insurance contract liability cash flows greater than five years consist of the maturity payments and the net liability cash flow adjusted for future premiums associated with these policy liabilities including the investment returns and other outgoes on such premium flows.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.3 Liquidity risk – continued

At 31.12.2022

	Carrying value US\$000	Contractual/ expected cash flows (undiscounted)			
		No stated maturity US\$000	Less than or equal to one year US\$000	Greater than one year and less than or equal to five years US\$000	Greater than five years US\$000
Insurance and financial assets:					
Investments in associates	101,233	101,233	-	-	-
Listed debt securities:					
- Fixed rate	9,899,364	-	1,007,749	2,779,216	13,356,614
- Floating rate	4,331,387	-	164,445	485,885	5,623,973
Unlisted debt securities:					
- Fixed rate	502,092	-	12,864	387,276	224,251
- Floating rate	2,402	-	57	2,346	-
Listed equity securities	3,562,758	3,562,758	-	-	-
Unlisted unit trust investments	6,033,344	6,033,344	-	-	-
Private companies	137,990	137,990	-	-	-
Loans	224,246	-	217,864	6,382	-
Direct premiums receivable	433,442	-	433,442	-	-
Debtors, unsecured	657,679	-	657,679	-	-
Reinsurance assets	6,393,201	-	979,072	707,081	8,517,649
Amounts due from reinsurers and intermediaries under reinsurance contracts ceded	22,531	-	22,531	-	-
Amount due from the immediate holding company	85,516	-	85,516	-	-
Amount due from the intermediate holding company	25,486	-	25,486	-	-
Amounts due from fellow subsidiaries	48,128	-	48,128	-	-
Derivative financial instruments:					
- Equity options	30,702	-	26,847	3,854	-
- Forward currency contracts	143,516	-	131,137	12,380	-
- Asset swap	40,763	-	86,813	332,201	1,741,053
- Interest rate swap	453	-	743	149	-
- Forward interest rate swap	584,198	-	29,997	113,783	1,111,352
- Bond forward	11,947	-	7,141	4,806	-
- IR swaption	119,307	-	3,096	51,854	569,734
- Credit default swap	1,808	-	4,303	1,768	-
- Cross currency swap	71,190	-	143,692	549,271	436,936
- Currency option	866	-	866	-	-
- Equity forward	130,094	-	56,091	74,004	-
Pledged bank deposits	58,523	-	58,523	-	-
Fixed term bank deposits	68,336	-	68,336	-	-
Cash and cash equivalents	1,504,392	-	1,504,392	-	-
	<u>35,226,894</u>	<u>9,835,325</u>	<u>5,776,810</u>	<u>5,512,256</u>	<u>31,581,562</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.3 Liquidity risk - continued

At 31.12.2022 - continued

	Carrying value US\$000	<u>Contractual/ expected cash flows (undiscounted)</u>			
		No stated maturity US\$000	Less than or equal to one year US\$000	Greater than one year and less than or equal to five years US\$000	Greater than five years US\$000
Insurance and financial liabilities:					
Insurance contract with DPF	17,501,686	-	(834,757)	(763,615)	54,404,739
Insurance contract without DPF	3,042,899	-	2,179,710	(896)	2,031,208
Investment contract with DPF	812,810	-	(9,035)	16,025	1,654,797
Short-term insurance contracts	49,082	-	49,082	-	-
Financial liabilities in investment contracts	1,258,317	-	1,231,234	(18,870)	79,006
Subordinated loan	32,067	-	32,067	-	-
Deferred revenue	13,170	-	13,170	-	-
Repurchase obligations and debt instruments liabilities	2,880,251	-	1,319,113	1,624,264	-
Creditors and accrued charges	1,060,106	-	1,060,106	-	-
Lease Payable	70,346	-	19,448	50,898	-
Claims payable	368,341	-	368,341	-	-
Commissions payable	149,182	-	149,182	-	-
Policyholders' funds on deposit	366,549	-	366,549	-	-
Dividend payable	3,177,618	-	3,177,618	-	-
Amounts due to reinsurers and intermediaries under reinsurance contracts ceded	269,025	-	269,025	-	-
Amount due to an intermediate holding company	2,990	-	2,990	-	-
Amount due to an ultimate holding company	105,215	-	105,215	-	-
Amounts due to fellow subsidiaries	53,201	-	53,201	-	-
Derivative financial instruments:-					
- Equity options	1,740	-	1,740	-	-
- Interest rate swap	1,845	-	1,432	2,523	-
- Asset swap	553,090	-	31,448	111,781	1,116,513
- Forward interest rate swap	864,479	-	21,367	300,026	2,657,080
- Currency option	756	-	756	-	-
- Bond forward	3,664	-	-	3,664	-
- Forward currency contracts	51,882	-	44,863	7,018	-
- IR swaption	4,376	-	14,857	215,882	1,509,226
- Credit default swap	233	-	223	1,014	-
- Cross currency swap	13,825	-	141,831	536,368	387,592
- Equity forward	1,557	-	1,117	440	-
Current tax payable	8,336	-	8,336	-	-
	<u>32,718,638</u>	<u>-</u>	<u>9,820,229</u>	<u>2,086,522</u>	<u>63,840,161</u>
Net expected cash inflows/(outflows)		<u>9,835,325</u>	<u>(4,043,419)</u>	<u>3,425,734</u>	<u>(32,258,599)</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.3 Liquidity risk - continued

At 31.12.2021 (unaudited)

	Carrying value US\$000	Contractual/ expected cash flows (undiscounted)			
		No stated maturity US\$000	Less than or equal to one year US\$000	Greater than one year and less than or equal to five years US\$000	Greater than five years US\$000
Insurance and financial assets:					
Investments in associates	127,095	127,095	-	-	-
Listed debt securities:					
- Fixed rate	14,131,208	-	1,027,757	2,890,459	15,163,295
- Floating rate	5,029,311	-	45,679	182,719	4,427,881
Unlisted debt securities:					
- Fixed rate	727,766	-	77,092	418,972	366,198
- Floating rate	2,935	-	32	2,903	-
Listed equity securities	4,359,090	4,359,090	-	-	-
Unlisted unit trust investments	5,882,034	5,882,034	-	-	-
Private companies	149,985	149,985	-	-	-
Loans	206,185	-	206,185	-	-
Direct premiums receivable	365,735	-	365,735	-	-
Debtors, unsecured	194,746	-	194,746	-	-
Reinsurance assets	7,083,653	-	937,263	540,358	8,760,236
Amounts due from reinsurers and intermediaries under reinsurance contracts ceded	4,522	-	4,522	-	-
Amount due from the immediate holding company	81,028	-	81,028	-	-
Amount due from an intermediate holding company	8,320	-	8,320	-	-
Amounts due from fellow subsidiaries	71,688	-	71,688	-	-
Derivative financial instruments:					
- Equity options	46,429	-	45,229	1,199	-
- Asset swap	23,796	-	89,362	345,312	2,315,599
- Interest rate swap	2,538	-	1,965	3,628	162
- Forward interest rate swap	88,208	-	24,444	132,964	503,263
- Forward currency contracts	86,321	-	86,321	-	-
- IR swaption	31,588	-	2,344	54,889	471,267
- Credit default swap	3,376	-	4,111	4,215	-
- Cross currency swap	34,453	-	108,171	427,516	318,042
- Equity forward	21,322	-	10,507	5,642	-
Pledged bank deposits	44,802	-	44,802	-	-
Fixed term bank deposits	64,272	-	64,272	-	-
Cash and cash equivalents	953,063	-	953,063	-	-
	<u>39,825,469</u>	<u>10,518,204</u>	<u>4,454,638</u>	<u>5,010,776</u>	<u>32,325,943</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.3 Liquidity risk – continued

At 31.12.2021 (unaudited) - continued

	Carrying value US\$000	Contractual/ expected cash flows (undiscounted)			
		No stated maturity US\$000	Less than or equal to one year US\$000	Greater than one year and less than or equal to five years US\$000	Greater than five years US\$000
Insurance and financial liabilities:					
Insurance contract with DPF	19,235,728	-	(1,107,445)	(1,747,004)	45,848,218
Insurance contract without DPF	3,630,127	-	2,647,547	(83,107)	1,902,829
Investment contract with DPF	798,481	-	(11,017)	(34,461)	1,332,083
Short-term insurance contracts	43,177	-	43,177	-	-
Financial liabilities in investment contracts	1,562,914	-	1,511,558	(35,723)	120,703
Subordinated loan	32,067	-	32,067	-	-
Deferred revenue	13,727	-	13,727	-	-
Repurchase obligations and debt instruments liabilities	4,155,400	-	1,672,078	2,542,664	-
Creditors and accrued charges	623,134	-	623,134	-	-
Lease Payable	75,018	-	18,618	52,247	4,153
Claims payable	305,574	-	305,574	-	-
Commissions payable	163,373	-	163,373	-	-
Policyholders' funds on deposit	473,401	-	473,401	-	-
Dividend payable	2,986,312	-	2,986,312	-	-
Amounts due to reinsurers and intermediaries under reinsurance contracts ceded	346,352	-	346,352	-	-
Amounts due to the ultimate holding company	-	-	-	-	-
Amount due to an intermediate holding company	2,993	-	2,993	-	-
Amounts due to fellow subsidiaries	109,587	-	109,587	-	-
Derivative financial instruments:-					
- Equity options	19,614	-	19,614	-	-
- Interest rate swap	314	-	43	261	-
- Asset swap	908,808	-	80,968	149,381	2,156,596
- Forward interest rate swap	250,631	-	21,370	182,289	688,326
- Forward currency contacts	43,823	-	43,823	-	-
- IR swaption	181	-	13,892	281,672	1,902,398
- Credit default swap	155	-	-	155	-
- Credit cross swap	2,682	-	106,556	415,919	292,031
- Equity forward	10,174	-	-	10,174	-
Current tax payable	9,324	-	9,324	-	-
	<u>35,803,071</u>	<u>-</u>	<u>10,126,626</u>	<u>1,734,467</u>	<u>54,247,337</u>
Net expected cash inflows/(outflows)		<u>10,518,204</u>	<u>(5,671,988)</u>	<u>3,276,309</u>	<u>(21,921,394)</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.4 Interest rate risk

(a) Long-term insurance contracts and investment contracts with DPF

Insurance and investment contracts with DPF have benefit payments whose financial component is usually a guaranteed fixed interest rate (for the insurance contracts, this rate may apply to maturity and/or death benefits) and hence the Group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable. There are also supplemental benefits payable (which are not guaranteed) to holders of these contracts. These are based on historic and current rates of return on the assets in which the funds are invested, as well as the Group's expectations of future investment returns.

The Group mainly bears financial risk in relation to the guaranteed benefits payable under these contracts. Any interest rate risk in relation to the DPF component liability will be limited for the Group as these are discretionary benefits.

(b) Investment contracts without DPF

For linked contracts, the financial risks are borne by the policyholder. Therefore, the Group does not have any market risk exposure in relation to these contracts.

The Group's primary exposure to financial risk from these contracts is the risk of volatility in asset management fees due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based.

(c) Short-term insurance contracts

No material interest rate risk exists for short term insurance liabilities, as they are not directly sensitive to the level of market interest rates since they are undiscounted and contractually non-interest-bearing.

(d) Interest rate swap and step up swap

The Group entered into interest rate swap to obtain economic benefit and step up swap, fixed to floating interest, to manage its duration gap.

(e) Investment portfolio

The Group is exposed to interest rate risk on the investment portfolio because any changes in interest rates would affect the value of fixed interest debt investments carried at fair value and which may differ from corresponding changes, if any, in the value of the liabilities. The Group mitigates interest rate risk through its asset liability management process.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.5 Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- reinsurers' share of insurance liabilities,
- amounts due from reinsurers in respect of claims already paid,
- amounts due from insurance contract holders,
- amounts due from insurance intermediaries,
- investments in debt securities,
- counterparty risk with respect to derivative transactions, and
- bank balances.

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk are subject to approval from the Local Management Investment Committee.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as a primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract and to ensure ongoing creditworthiness of the reinsurer.

Management manages credit risks on bank balances by using banks with good credit qualities.

The maximum credit risk for financial assets recognised on the consolidated statement of financial position is the carrying amount less, where applicable, any provision for doubtful debts.

(i) Analysis of underlying credit exposure:

	Issue Credit ratings per Standard & Poor's and Fitch							Total US\$000
	AAA US\$000	AA+ to AA- US\$000	A+ to A- US\$000	BBB+ to BBB- US\$000	BB+ to BB- US\$000	B+ to B- or below US\$000	Not rated US\$000	
As at 31.12.2022:								
Debt securities	444,729	5,687,697	3,887,303	3,781,392	143,931	64,474	725,722	14,735,248
Other financial assets and reinsurance assets	-	142,344	4,394,981	-	-	-	4,487,748	9,025,073
Total assets bearing credit risk	444,729	5,830,041	8,282,284	3,781,392	143,931	64,474	5,213,470	23,760,321
As at 31.12.2021 (unaudited):								
Debt securities	8,571,237	2,062,751	4,294,310	4,485,120	141,449	68,771	267,582	19,891,220
Other financial assets and reinsurance assets	-	132,373	4,968,560	-	-	-	3,252,975	8,353,908
Total assets bearing credit risk (unaudited)	8,571,237	2,195,124	9,262,870	4,485,120	141,449	68,771	3,520,557	28,245,128

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.5 Credit risk - continued

(ii) Collateral

The below table shows the fair value of the financial assets pledged to secure the liabilities and the fair value of collateral received.

	<u>At 31.12.2022</u> US\$000	Unaudited <u>At 31.12.2021</u> US\$000
Under repurchase agreement:		
- Loan value	-	178,050
- Securities Margin	-	15,562
Under total return swap		
- Loan value	2,880,251	(25,216,078)
- Cash Margin	295,945	(142,174)
- Securities Margin	(72,205)	10,383
Cash for derivative		
- Collar	(16,501)	(22,538)
- Forward currency contracts	(79,948)	(41,680)
- Interest rate swap	6,369	2,584
- Assets swap	78,637	29,811
- Forward interest rate swap	(196,847)	(5,512)
- Bond forward	(8,834)	-
- Swaption	(156,018)	(21,735)
- Equity forward	(45,539)	(11,805)
- Cross currency swap	(69,049)	(26,514)
- Credit default swap	(380)	(37)
- Currency option	(97)	-
Securities for derivative		
- Collar	(15,720)	(5,471)
- Forward currency contracts	72,180	(4,113)
- Interest rate swap	-	(996)
- Forward interest rate swap	1,066,917	196,037
- Assets swap	1,007,234	969,774
- Credit default swap	(2,014)	(3,316)
- Swaption	209,730	16,290
- Equity forward	(193,529)	1,553
- Cross currency swap	122,467	48,587
- Bond forward	6,814	-
- Currency option	33	-

5.6 Price risk

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done accordance with the limits set by the Group.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.7 Currency risk

The Group monitors overall currency exposure and decides on hedging implementations within the constraints of the mandates. Foreign currency exposure, arising from assets, liabilities and derivatives is monitored regularly and hedged when deemed appropriate and to the extent practicable.

The Group operates in Hong Kong and issues Hong Kong dollar and United States dollar denominated policies. The Group's policy is to generally invest in assets denominated in the same currencies and / or assets in foreign currencies hedged back to the currencies of the insurance liabilities, which mitigate the Group's foreign currency exchange rate risk. As at 31 December 2022, the majority of the Group's assets are denominated in United States dollars and Hong Kong dollars. Since the Hong Kong dollars are currently pegged to the United States dollars, the impact of exchange rate fluctuation is insignificant to the results of the Group.

Within the constraints of the investment mandates, the Group hedge its foreign currency exchange rate risk using foreign exchange forward contracts in order to mitigate the impact of fluctuations in fair value of the investments as a result of changes in foreign exchange rates.

The following table analyses the Group's insurance and financial liabilities and the financial assets backing these liabilities into relevant currency groupings based on the currency in which these insurance and financial liabilities and financial assets are denominated. The financial assets in the following table include amounts recoverable from reinsurers. Where the value of the insurance and financial liabilities are linked to the value of its backing assets and the currency risk is not borne by the Group, these insurance and financial liabilities and their backing assets are not included in the analysis. The value of the insurance and financial liabilities that are linked to the value of its backing assets amounted to US\$3,166,967,211 ((unaudited) 2021: US\$3,887,401,064).

At 31.12.2022

	HK Dollars	US Dollars	Other currencies	Total
	US\$000	US\$000	US\$000	US\$000
Financial assets	4,595,329	23,737,673	3,797,947	32,130,949
Insurance and financial liabilities	(12,707,491)	(16,484,775)	(430,427)	(29,622,693)
Net on-balance sheet position	(8,112,162)	7,252,898	3,367,520	2,508,256
Off-balance sheet net notional position*	3,133,688	(775,636)	(2,266,418)	91,634
	<u>(4,978,474)</u>	<u>6,477,262</u>	<u>1,101,102</u>	<u>2,599,890</u>

At 31.12.2021 (unaudited)

	HK Dollars	US Dollars	Other currencies	Total
	US\$000	US\$000	US\$000	US\$000
Financial assets	4,242,692	28,143,636	3,570,939	35,957,267
Insurance and financial liabilities	(13,749,471)	(17,703,096)	(482,302)	(31,934,869)
Net on-balance sheet position	(9,506,779)	10,440,540	3,088,637	4,022,398
Off-balance sheet net notional position*	5,574,967	(4,029,922)	(1,502,547)	42,498
	<u>(3,931,812)</u>	<u>6,410,618</u>	<u>1,586,090</u>	<u>4,064,896</u>

*Off- balance sheet net notional position represents the net notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.8 Sensitivity analysis

The Group uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced to inform the Group's decision making and planning process.

Some results of sensitivity testing for long-term business are set out below. For each sensitivity test the impact of a reasonably possible change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
(i) Interest rate and investment return	The impact of a change in market interest rates by 0.5% (e.g. current interest rate is 5%, the impact of an immediate change to 4.5% and 5.5%). The test allows consistently for similar changes to (i) investment returns; (ii) movements in the market value of fixed interest securities; and (iii) insurance and investment liabilities.
(ii) Equity market values	The impact of a change in equity market values by 5%
(iii) Worsening of mortality	The impact of a change in mortality assumption by 10% (e.g. current mortality rate is 5%, the impact of an immediate change to 5.5%).
(iv) Worsening of morbidity	The impact of a change in morbidity assumption by 10% (e.g. current morbidity rate is 5%, the impact of an immediate change to 5.5%).

The following tables disclose details of the sensitivities for the relevant period:

	<u>Impact on profit after tax</u> <u>increase/(decrease)</u>		Unaudited	
	<u>Year ended 31.12.2022</u>		<u>Year ended 31.12.2021</u>	
	<u>in profit or</u> <u>loss</u> US\$000	<u>in shareholders'</u> <u>equity</u> US\$000	<u>in profit or</u> <u>loss</u> US\$000	<u>in shareholders'</u> <u>equity</u> US\$000
Assumed future return on debt securities + 0.5%	(41,864)	-	(124,580)	-
Assumed future return on debt securities - 0.5%	103,888	-	(549,232)	-
Assumed future equity securities return rate + 5%	128,888	-	278,940	-
Assumed future equity securities return rate - 5%	(121,719)	-	(286,957)	-
Assumed mortality assumption +10%	(48,974)	-	(53,494)	-
Assumed morbidity assumption +10%	(62,265)	-	(176,901)	-

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.9 Capital management

Capital Management Approach

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern and to comply with capital requirements specified in the Insurance Ordinance, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders or return capital to shareholders.

Regulatory Solvency

The Group is in compliance with the solvency and capital adequacy requirements applied by its regulators. The Group's primary insurance regulators are the Bermuda Monetary Authority ("BMA"), and the Hong Kong Insurance Authority ("HKIA"). The HKIA requires that the Group meets the solvency margin requirements of the Hong Kong Insurance Ordinance ("HKIO"). The HKIO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The Group is subject to regulation in each of the geographical markets in which it operates. The Group is also regulated in Bermuda by the BMA as the Company is licensed as a Class 3 general business and as a Class E long-term insurer under the Insurance Act 1978 and related regulations in Bermuda.

The capital positions of the Company and its subsidiary as of 31 December 2022 and 31 December 2021 are as follows:

The Company

	<u>At 31.12.2022</u>	<u>At 31.12.2021</u>
	US\$000	US\$000
Capital and surplus (including unassigned surplus)	2,438,003	3,355,616
Minimum solvency margin	675,976	690,724
Solvency ratio	<u>361%</u>	<u>486%</u>

AXA China Region Insurance Company Limited

	<u>At 31.12.2022</u>	<u>At 31.12.2021</u>
	US\$000	US\$000
Capital and surplus (including unassigned surplus)	616,948	1,057,735
Minimum solvency margin	204,029	235,372
Solvency ratio	<u>302%</u>	<u>449%</u>

For these purposes, the Group defines total available capital as the amount of assets in excess of liabilities measured in accordance with the HKIO and "regulatory minimum capital" as the required minimum margin of solvency calculated in accordance with the HKIO. The solvency ratio is the ratio of total available capital to regulatory minimum capital.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. FINANCIAL INSTRUMENTS IN THREE LEVEL FAIR VALUE HIERARCHY

6.1 Fair value hierarchy

The table analyses the financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. quoted prices in active markets for similar financial instruments, quoted prices in not active markets for identical or similar financial instruments), or indirectly (i.e. valuation techniques in which all significant inputs are based on observable market data)
- Level 3 (lowest level): fair values measured using valuation techniques in which the inputs are not based on observable market data

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. FINANCIAL INSTRUMENTS IN THREE LEVEL FAIR VALUE HIERARCHY – continued

6.1 Fair value hierarchy - continued

The carrying value of financial instruments measured at fair value at the end of the reporting period across the above three levels of the fair value measurements hierarchy is presented in the following tables:

At 31.12.2022	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
Recurring fair value measurement				
ASSETS				
Investment in associates				
-unlisted unit trusts	-	101,233	-	101,233
Financial assets at fair value through profit or loss:				
Listed debt securities				
- Fixed rate	3,996,944	5,604,983	-	9,601,927
- Floating rate	2,959,722	1,371,665	-	4,331,387
Unlisted debt securities				
- Fixed rate	638	501,454	-	502,092
- Floating rate	-	2,402	-	2,402
Listed equity securities	2,725,226	837,532	-	3,562,758
Unlisted unit trust investments and others	2,707,761	1,534,832	1,790,751	6,033,344
Private companies	-	-	137,990	137,990
Available-for-sale financial assets:				
Listed debt securities				
- Fixed rate	297,437	-	-	297,437
	<u>12,687,728</u>	<u>9,954,101</u>	<u>1,928,741</u>	<u>24,570,570</u>
Derivative financial instruments:				
-Forward currency option	143,516	-	-	143,516
-Equity options	-	30,702	-	30,702
-Cross currency swap	-	71,190	-	71,190
-Interest rate swap	-	453	-	453
-Forward interest rate swap	-	584,198	-	584,198
-Asset swap	-	40,763	-	40,763
-Credit default swap	1,808	-	-	1,808
-IR swaption	-	119,307	-	119,307
-Equity forward	-	130,094	-	130,094
-Bond forward	11,947	-	-	11,947
-Currency Option	-	866	-	866
	<u>157,271</u>	<u>977,573</u>	<u>-</u>	<u>1,134,844</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. FINANCIAL INSTRUMENTS IN THREE LEVEL FAIR VALUE HIERARCHY – continued

6.1 Fair value hierarchy - continued

At 31.12.2022 - continued	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
Recurring fair value measurement - continued				
LIABILITIES				
Financial liabilities				
-investment contracts	910,814	8,185	339,318	1,258,317
Derivative financial instruments:				
-Forward currency option	51,882	-	-	51,882
-Equity option	-	1,740	-	1,740
-Asset swap	-	553,090	-	553,090
-Interest rate swap	-	1,845	-	1,845
-Forward interest rate swap	-	864,479	-	864,479
-IR swapation	-	4,376	-	4,376
-Credit default swap	233	-	-	233
-Equity forward	-	1,557	-	1,557
-Cross currency swap	-	13,825	-	13,825
-Bond forward	3,664	-	-	3,664
-Currency option	-	756	-	756
	<u>966,593</u>	<u>1,449,853</u>	<u>339,318</u>	<u>2,775,764</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. FINANCIAL INSTRUMENTS IN THREE LEVEL FAIR VALUE HIERARCHY – continued

6.1 Fair value hierarchy - continued

At 31.12.2021 (unaudited)	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
Recurring fair value measurement				
ASSETS				
Investment in associates				
-unlisted unit trusts	4,802	122,293	-	127,095
Financial assets at fair value through profit or loss:				
Listed debt securities				
- Fixed rate	8,097,591	5,562,872	-	13,660,463
- Floating rate	3,993,119	1,036,192	-	5,029,311
Unlisted debt securities				
- Fixed rate	8,806	718,960	-	727,766
- Floating rate	-	2,935	-	2,935
Listed equity securities	3,339,798	1,019,292	-	4,359,090
Unlisted unit trust investments and others	3,373,286	1,199,013	1,309,735	5,882,034
Private companies	-	-	149,985	149,985
Available-for-sale financial assets:				
Listed debt securities				
- Fixed rate	470,745	-	-	470,745
	<u>19,288,147</u>	<u>9,661,557</u>	<u>1,459,720</u>	<u>30,409,424</u>
Derivative financial instruments:				
-Forward currency option	86,321	-	-	86,321
-Equity options	-	46,429	-	46,429
-Cross currency swap	-	34,453	-	34,453
-Interest rate swap	-	2,538	-	2,538
-Forward interest rate swap	-	88,208	-	88,208
-Asset swap	-	23,796	-	23,796
Credit default swap	3,376	-	-	3,376
-IR swaption	-	31,588	-	31,588
-Equity forward	-	21,322	-	21,322
	<u>89,697</u>	<u>248,334</u>	<u>-</u>	<u>338,031</u>
LIABILITIES				
Financial liabilities				
-investment contracts	1,174,724	7,328	380,862	1,562,914
Derivative financial instruments:				
-Forward currency options	43,823	-	-	43,823
-Equity options	-	19,614	-	19,614
-Asset swap	-	908,808	-	908,808
-Interest rate swap	-	314	-	314
-Forward interest rate swap	-	250,631	-	250,631
-IR swaption	-	181	-	181
-Credit default swap	155	-	-	155
-Equity forward	-	10,174	-	10,174
-Cross currency swap	-	2,682	-	2,682
	<u>1,218,702</u>	<u>1,199,732</u>	<u>380,862</u>	<u>2,799,296</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. FINANCIAL INSTRUMENTS IN THREE LEVEL FAIR VALUE HIERARCHY – continued

6.1 Fair value hierarchy – continued

As at 31 December 2022, there were US\$338,868,498 ((unaudited) 2021: US\$2,139,272,783) transfers from Level 2 to Level 1 due to the market for identical bonds becoming active. There were US\$1,454,864,336 ((unaudited) 2021: US\$292,784,693) transfers from Level 1 to Level 2 due to the market for identical bonds becoming inactive. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur or change in circumstances that caused the transfer.

6.2 Financial instrument in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

6.3 Financial instrument in Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Fair value is derived from the model based on current market parameters such as observable yield curve.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. FINANCIAL INSTRUMENTS IN THREE LEVEL FAIR VALUE HIERARCHY – continued

6.4 Financial instrument in Level 3

<u>Description</u>	Fair value as at <u>31.12.2022</u> US\$000	Unaudited Fair value as at <u>31.12.2021</u> US\$000	<u>Valuation technique(s)</u>
Unlisted unit trust investments and others:			
Unlisted unit trust	1,790,751	1,309,735	Net asset value
Private companies	137,990	149,985	Net asset value

The Group has determined that (1) the reported net asset value represents fair value of unlisted unit trust investments (2) the company's net asset value represent fair value of private companies at the end of the reporting period, given the different nature of valuation in respect of each unit trust and private company, it is not practicable to quote a range of key unobservable inputs.

As certain unlisted unit trust investments are backing the unit linked contracts, any change to the fair valuation of these investments is retained by the policyholder. The valuation policies and procedures for the funds are established by the fund managers or fund administrators based on the framework disclosed in the prospectus. Prospectuses for each unit trust investment is obtained from the fund managers and reviewed by management for appropriateness of fair valuation against the Group's accounting policies. Upon execution of a recent transaction, the fair value of the transaction is utilised to validate the fair valuation of the net asset value statement obtained from the fund manager. Discussions with the fund managers are held on a periodic basis to go over the high level performance of the fund to analyse changes in fair value measurements from period to period. In case of a year end valuation not being available, the Group has carried out certain additional procedures to assess a relevant fair valuation as at 31 December 2022.

For unlisted non-linked unit trust investments, valuation process controls are obtained from fund managers or fund administrators. Discussion of valuation processes and results are held between fund managers and investment team at least once every quarter. In the meeting, fund managers go over major transactions or highlights of the past period and the potential investments. Investment performance are also presented and communicated with the members of the management investment committee at regular meetings.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. FINANCIAL INSTRUMENTS IN THREE LEVEL FAIR VALUE HIERARCHY – continued

6.4 Financial instrument in Level 3 – continued

The reconciliation from beginning to ending balance for the assets and liabilities that are classified as Level 3 is presented as follows:

<u>Financial assets</u>	<u>Financial assets at fair value through profit or loss</u>
	US\$000
At 1.1.2021 (unaudited)	995,788
Payment for purchases	382,670
Proceeds from sales	(180,716)
Transfer into level 3 during the year	143
Transfer from level 3 to level 1 / level 2 during the year	86,746
Net total gains for the period recognised in profit or losses	
- Included in net realised and unrealised losses on investments	175,089
At 31.12.2021 (unaudited)	1,459,720
Payment for purchases	776,081
Proceeds from sales	(320,833)
Transfer into level 3 during the year	64
Transfer from level 3 to level 1 / level 2 during the year	(6,120)
Net total gains for the period recognised in profit or losses	
- Included in net realised and unrealised gains on investments	19,830
At 31.12.2022	1,928,742
Change in unrealised losses for 2022 recognised in profit or losses	
- Included in net realised and unrealised losses on investments	19,830

As at 31 December 2022, there was US\$6,120,281 transfer from level 3 to level 1 / level 2 and US\$63,545 transfer into level 3 ((unaudited) 2021: US\$106,063,393 transfer from level 3 to level 1 / level 2 and US\$142,890 transfer into level 3) because the change of valuation techniques.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. FINANCIAL INSTRUMENTS IN THREE LEVEL FAIR VALUE HIERARCHY – continued

6.4 Financial instrument in Level 3 – continued

<u>Financial liabilities</u>	<u>Financial liabilities at fair value through profit or loss</u> US\$000
At 1.1.2021 (unaudited)	409,860
Net movement in investment contract liabilities from contributions and releases	(28,998)
At 31.12.2021 (unaudited)	380,862
Net movement in investment contract liabilities from contributions and releases	(41,544)
At 31.12.2022	339,318

7. INSURANCE PREMIUM REVENUE

Insurance premium revenue represents gross insurance premiums written from direct and reinsurance accepted businesses as follows:

	<u>Gross Premium</u> US\$000	<u>Reinsurance Premium Accepted</u> US\$000	<u>Reinsurance Premium Ceded</u> US\$000	<u>Net Insurance Premium Revenue</u> US\$000
<u>Year ended 31.12.2022</u>				
Long term business	3,647,326	21,789	(543,656)	3,125,459
General business	171,718	81,430	(54,006)	199,142
	<u>3,819,044</u>	<u>103,219</u>	<u>(597,662)</u>	<u>3,324,601</u>
<u>Year ended 31.12.2021 (unaudited)</u>				
Long term business	3,856,288	19,622	(760,150)	3,115,760
General business	166,220	49,863	(52,833)	163,250
	<u>4,022,508</u>	<u>69,485</u>	<u>(812,983)</u>	<u>3,279,010</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

8. INVESTMENT INCOME AND NET REALISED AND UNREALISED (LOSSES)/GAINS ON INVESTMENTS		
	Year ended 31.12.2022 US\$000	Unaudited Year ended 31.12.2021 US\$000
Investment income		
Interest income on debt securities	479,730	565,112
Interest income on bank deposits	4,844	3,807
Interest income on policy loans	18,638	18,796
Other interest income	2,627	2,665
Exchange losses	(3,748)	(34,638)
Total interest income	502,091	555,742
Dividend from equity securities	268,504	253,489
Other investment income	346,166	263,090
Total investment income	1,116,761	1,072,321
Net realised (losses)/gains		
Financial assets designed at fair value through profit or loss	(249,643)	1,180,774
Derivative financial instruments	350,347	(252,761)
	100,704	928,013
Net unrealised (losses)/gains		
Financial assets designed at fair value through profit or loss	(5,737,842)	(1,968,141)
Derivative financial instruments	501,439	(444,916)
	(5,236,403)	(2,413,057)
Total net realised and unrealised losses on investments	(5,135,699)	(1,485,044)
TOTAL	(4,018,938)	(412,723)

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

9. PROFIT BEFORE TAXATION	Year ended 31.12.2022 US\$000	Unaudited Year ended 31.12.2021 US\$000
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	2,018	1,526
Directors' remuneration	103	92
Depreciation of plant and equipment	2,766	2,675
Depreciation of right-of-use assets	22,561	23,218
Amortisation of intangible assets	32,627	17,152
Staff costs (note)	108,168	110,537
Pension costs – defined contribution plans (note below and note 24)	6,671	6,576
and after crediting:		
Interest income on debt securities		
- listed	473,703	561,990
- unlisted	6,027	3,122
Dividend income		
- listed	140,786	129,331
- unlisted	127,718	124,158
Interest income on policy loans	18,638	18,796
Interest income on bank deposits	4,844	3,807
Interest income from the immediate holding company (note 32)	2,419	2,459
Interest income from fellow subsidiary (note 32)	77	-
Other interest income	208	206
Loss on disposal of intangible assets	47	231
Exchange losses	(27,875)	(151,547)

Note: The directors received unapportioned remuneration of US\$4,982,937 ((unaudited) 2021: US\$3,154,501) from the Group's holding companies, fellow subsidiaries, associates or any other company for the directors' services to certain companies in the AXA China Region Group. Aggregated and unapportioned amount of top three highest-paid directors' emoluments is US\$4,982,937 ((unaudited) 2021: US\$3,154,501). Estimated money value of benefits other than cash within directors' emoluments include medical premium, group life premium, staff share options, performance units and child education benefits.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

10. TAXATION

	Year ended <u>31.12.2022</u> US\$000	Unaudited Year ended <u>31.12.2021</u> US\$000
The charge comprises:		
Current tax:		
Hong Kong Profits Tax		
- Current tax on profits for the year	23,353	25,122
- Adjustments in respect of prior years	(22)	(482)
Overseas		
- Current tax on profits for the year	908	-
- Overseas withholding tax	20,960	18,098
Total current tax	<u>45,199</u>	<u>42,738</u>
Deferred taxation (note 19):		
Origination and reversal of temporary differences	(6,082)	1,457
Adjustments in respect of prior years	5	(4)
Total deferred tax	<u>(6,077)</u>	<u>1,453</u>
Taxation	<u>39,122</u>	<u>44,191</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

10. TAXATION - continued

The tax charge for the year can be reconciled to the profit before taxation per the statement of profit or loss as follows:

	Year ended 31.12.2022 US\$000	Unaudited Year ended 31.12.2021 US\$000
Loss before taxation	(1,146,572)	(128,680)
Adjustments:		
Profit from long term life business (note)	1,146,909	147,512
Loss before tax for overseas branch included in profit from long term life business	(55,966)	(884)
Adjusted profit before tax	(55,629)	17,948
Tax at the Hong Kong Profits Tax rate of 16.5% (2021: 16.5%)	(9,178)	2,207
Tax on life insurance business in Hong Kong (note)	23,352	23,740
Tax effect of non-taxable income	449	(71)
Tax effect of non-deductible expenses	2,198	1,337
Tax effect of tax allowances	(127)	(132)
Effect of concessionary tax rate	(442)	-
Effect of different tax rate of the branch operating in other jurisdictions	1,928	(546)
Over/(under) provision of tax in prior years	(17)	(486)
Difference in accounting standards	(1)	44
Overseas withholding tax	20,960	18,098
Taxation	39,122	44,191

Note: Under the Hong Kong Inland Revenue Ordinance, assessable profits from the business of life insurance are deemed to be 5 percent of net premium income for the year.

Hong Kong Profits Tax is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year. Overseas taxation is calculated at the rate prevailing in the respective jurisdiction.

11. DIVIDENDS

	Year ended 31.12.2022 US\$000	Unaudited Year ended 31.12.2021 US\$000
Ordinary shares		
Final paid – US\$1.01 (2021: US\$Nil) per share	178,346	-
	178,346	-

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

12. INTANGIBLE ASSETS

	Career and production bonus	Capitalisation of project expenditures	Deferred commission	Total
	US\$000	US\$000	US\$000	US\$000
COST				
At 1.1.2021 (unaudited)	13,189	8,030	9,511	30,730
Exchange difference	(6)	-	(32)	(38)
Additions	349	-	16,507	16,856
Disposal	(287)	-	(9,478)	(9,765)
At 31.12.2021 (unaudited)	13,245	8,030	16,508	37,783
Exchange difference	(14)	(9)	(20)	(43)
Additions	124	-	32,271	32,395
Disposal	(91)	-	(16,489)	(16,580)
At 31.12.2022	13,264	8,021	32,270	53,555
AMORTISATION				
At 1.1.2021 (unaudited)	11,116	8,030	8,257	27,403
Exchange difference	(5)	-	(31)	(36)
Charged for the year	852	-	16,300	17,152
Eliminated on disposals	(56)	-	(9,479)	(9,535)
At 31.12.2021 (unaudited)	11,907	8,030	15,047	34,984
Exchange difference	(14)	(9)	(16)	(39)
Charged for the year	531	-	32,096	32,627
Eliminated on disposals	(44)	-	(16,489)	(16,533)
At 31.12.2022	12,380	8,021	30,638	51,039
NET BOOK VALUES				
At 31.12.2022	884	-	1,632	2,516
At 31.12.2021 (unaudited)	1,338	-	1,461	2,799

Career bonus and production bonus are offered under an “Experience Hire Program” by the Group. The bonuses are then amortised on a straight line basis over 3 years.

Both career bonus and production bonus net of accumulated amortisation is subjected to an annual impairment assessment.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

13. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment	Leasehold improvements	Computer equipment	Motor vehicle	Total
	US\$000	US\$000	US\$000	US\$000	US\$000
COST					
At 1.1.2021 (unaudited)	13,601	36,437	1,693	-	51,731
Exchange difference	(3)	(18)	-	-	(21)
Additions	369	-	247	83	699
At 31.12.2021 (unaudited)	13,967	36,419	1,940	83	52,409
Exchange difference	(8)	(35)	(3)	-	(46)
Additions	65	-	30	-	95
At 31.12.2022	14,024	36,384	1,967	83	52,458
DEPRECIATION					
At 1.1.2021 (unaudited)	11,414	24,445	459	-	36,318
Exchange difference	(1)	(7)	-	-	(8)
Provided for the year-additions	369	1,978	322	6	2,675
At 31.12.2021 (unaudited)	11,782	26,416	781	6	38,985
Exchange difference	(5)	(25)	-	-	(30)
Provided for the year-additions	432	1,949	368	17	2,766
At 31.12.2022	12,209	28,340	1,149	23	41,721
NET BOOK VALUES					
At 31.12.2022	1,815	8,044	818	60	10,737
At 31.12.2021 (unaudited)	2,185	10,003	1,159	77	13,424

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

14. LEASES

(a) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	<u>At 31.12.2022</u> US\$000	<u>Unaudited</u> <u>At 31.12.2021</u> US\$000
Right-of-use assets		
Buildings	67,214	72,361
Lease payable		
Current	19,448	18,618
Non-current	50,898	56,400
	<u>70,346</u>	<u>75,018</u>

(b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	<u>Year ended</u> <u>31.12.2022</u> US\$000	<u>Unaudited</u> <u>Year ended</u> <u>31.12.2021</u> US\$000
Depreciation charge of right-of-use assets		
Buildings	<u>(22,561)</u>	<u>(23,218)</u>
Interest expense (included in finance cost)	<u>(1,634)</u>	<u>(1,949)</u>

The total cash outflow for leases in 2022 was US\$23,607,414 (unaudited 2021: US\$24,371,683).

(c) The Group's leasing activities and how these accounted for

The Group leases various offices. Rental contracts are typically made for fixed period of 24 months.

Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Lease assets may not be used as security for borrowing purposes.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

15. SUBORDINATED LOAN

	<u>At 31.12.2022</u> US\$000	<u>Unaudited</u> <u>At 31.12.2021</u> US\$000
Subordinated loan from an intermediate holding company	<u>32,067</u>	<u>32,067</u>
Due within one year	<u>32,067</u>	<u>32,067</u>

The Group has entered into a subordinated loan agreement to borrow HK\$250 million from an intermediate holding company. The loan is unsecured and bears interest at the rate of 0.5 percent per annum above 3 month HIBOR starting from the date of loan agreement. It is repayable on demand.

The directors consider that the fair value of the loan approximately equals to the corresponding carrying value.

16. INVESTMENTS IN ASSOCIATES

	<u>At 31.12.2022</u> US\$000	<u>Unaudited</u> <u>At 31.12.2021</u> US\$000
Unlisted unit trust, at fair value	<u>101,233</u>	<u>127,095</u>

Particulars of the Group's associates as at 31 December 2022 are as follows:

<u>Name of unit trust</u>	<u>Place of incorporation</u>	<u>Class of shares held</u>	<u>Percentage of units held (directly)</u>	<u>Number of units held</u>	<u>Number of units in issue</u>	<u>Principal activities</u>
Australian Hotels Real Estate Fund	Australia	NA	35.00%	70	200	Unit trust
Australian BTR	Australia	NA	45.00%	450	1,000	Unit trust
Moorebank Logistics Park	Australia	NA	20.00%	2,000	10,000	Unit trust

The investment in associates are not accounted for using the equity method as the ultimate holding company, AXA, prepares consolidated consolidated financial statements available for public use which comply with the International Financial Reporting Standards. These consolidated financial statements are obtainable at www.axa.com.

Key financial information of the Group's associates are provided as follows:

	<u>At 31.12.2022</u> US\$000	<u>Unaudited</u> <u>At 31.12.2021</u> US\$000
Net assets	<u>261,545</u>	<u>185,033</u>
	<u>Year ended</u> <u>31.12.2022</u> US\$000	<u>Unaudited</u> <u>Year ended</u> <u>31.12.2021</u> US\$000
Profit for the year	<u>9,881</u>	<u>22,892</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

17. INVESTMENTS IN SECURITIES

- (a) The Group manages certain investment portfolios on behalf of its group entities. The following represents the Group's own share in the investment portfolios.

	Fair value through profit or loss	
	At 31.12.2022	Unaudited At 31.12.2021
	US\$000	US\$000
Fixed interest debt investments		
Government		
- listed	3,289,612	4,929,872
- unlisted	39,197	48,354
Others		
- listed	6,312,315	8,730,591
- unlisted	462,895	679,412
Floating interest debt investments		
Others		
- listed	4,331,387	5,029,311
- unlisted	2,402	2,935
Other investments		
Listed equity shares	3,562,758	4,359,090
Unlisted unit trust investments	6,033,344	5,882,034
Private companies	137,990	149,985
	<u>24,171,900</u>	<u>29,811,584</u>
Total		
- listed	17,496,071	23,048,863
- unlisted	6,675,829	6,762,721
	<u>24,171,900</u>	<u>29,811,584</u>
Analysed as:		
Current assets	655,766	655,128
Non-current assets	23,516,134	29,156,456
	Available-for-sale	
	At 31.12.2022	Unaudited At 31.12.2021
	US\$000	US\$000
Fixed interest debt investments		
Government		
- listed	297,437	470,745
	<u>297,437</u>	<u>470,745</u>
Analysed as:		
Current assets	-	-
Non-current assets	297,437	470,745
	<u>297,437</u>	<u>470,745</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

17. INVESTMENTS IN SECURITIES - continued

(b) Interests in Structured Entities

In accordance with HKFRS 12 “Disclosure of Interests in Other Entities”, a structured entity (“SE”) is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

In assessing the significance of a SE for disclosure purposes, the Group considers the nature of the Group’s relationship with the SEs including whether they are sponsored by the Group. In addition, the significance of the relationship with the SE to the Group is assessed including consideration of factors such as the Group’s investment in the SE as a percentage of the Group’s total assets, the Group’s aggregate investment return from the SE as a percentage of the Group’s total revenue and the Group’s exposure to any other risks from its involvement with the SE.

The Group has investment relationships with a variety of unlisted unit trusts and other entities (“Other Entities”), which result from its direct investment in their debt or equity and which have been assessed for control. This category includes, but is not limited to investments in money market fund, fixed income fund, equity fund, balance fund, power and infrastructure, private equity and real estate, organised as limited partnerships and limited liability companies. These Other Entities are not sponsored by the Group. The Group’s maximum exposure to losses as a result of its relationships with Other Entities is limited to its investment and amounts committed to be invested but not yet funded. The income that the Group generates from these Other Entities is recorded in investment income and net realised and unrealised gains/ (losses) on investments. The Group provides no guarantees to other investors in these Other Entities against the risk of financial loss.

For those Other Entities backing unit linked contracts, the Group retains legal title, however, returns from these are attributable to policy holders of the unit linked contracts. This category includes, but is not limited to investments in money market fund, fixed income fund, equity fund and balance fund. The Group does not bear the risk associated with these assets.

(c) Effect of Inter-bank offered rate (IBOR) reform

The HKICPA made amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 – Interest Rate Benchmark Reform Phase 2 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one. These amendments have been adopted from the first time for the year ended 31 December 2021 and have no material impact to the Group. The Group currently holds a number of financial instrument contracts which reference Euro Interbank Offered Rate (“EURIBOR”), USD London Interbank Offered Rate (“LIBOR”) that extend beyond 2021 (collectively “Original Benchmark Interest Rates”) and have not yet transitioned to replacement benchmark interest rates.

The Group monitors the exposure to instruments subject to such reform and is in the process of implementing changes to systems, processes, risk management procedures and valuation models that may arise as a consequence of the reform. Such reform has no impact on the Group’s risk management strategy. Risks arising from instruments that are subject to such transition are not considered significant.

While the impact of IBOR reform on profit or loss and other comprehensive income is not considered significant to Group, the following table contains the carrying value of relevant financial instruments that the Group holds as at 31 December 2022.

	Carrying value as at 31.12.2022 and have yet to transition to a replacement benchmark interest rate		
	EURIBOR US\$000	USD LIBOR US\$000	Total US\$000
Non-derivative financial assets	379,981	585,741	965,722
Net derivative financial assets	-	(245,332)	(245,332)

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

18. LOANS	At 31.12.2022 US\$000	Unaudited At 31.12.2021 US\$000
Policy loans	216,476	204,397
Loan to a fellow subsidiary	6,383	-
Other unsecured loans	1,387	1,788
	<u>224,246</u>	<u>206,185</u>
Current	217,863	206,185
Non-current	<u>6,383</u>	<u>-</u>

The policy loans are charged at a rate as recommended by the Appointed Actuary based on the market interest rate. The interest rate is 8% per annum (unaudited 2021: 8% per annum). The secured loans bear an interest at market rate. The unsecured loans are interest free.

Loan to a fellow subsidiary of RMB45,000,000 was issued on 26 September 2022 bears interest rate of 4.61%.

The directors consider that the fair value of the loans approximately equals to the corresponding carrying value.

19. DEFERRED TAXATION

The movement in deferred tax (liabilities)/assets during the year is as follows:

	Unrealised investment gains/losses US\$000	Tax losses US\$000	Deferred origination costs US\$000
At 1.1.2021 (unaudited)	(10,546)	9,161	-
(Charge)/credit for the year (note 10)	3,682	(5,127)	-
Exchange difference	57	(50)	-
At 31.12.2021 (unaudited)	<u>(6,807)</u>	<u>3,984</u>	<u>-</u>
Credit/(charge) for the year (note 10)	10,085	(3,980)	-
Exchange difference	7	(4)	-
At 31.12.2022	<u>3,285</u>	<u>-</u>	<u>-</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

19. DEFERRED TAXATION – continued

	Accelerated tax depreciation US\$000	Provisions US\$000	Total US\$000
At 1.1.2021 (unaudited)	5	2	(1,378)
(Charge)/credit for the year (note 10)	(23)	15	(1,453)
Exchange difference	-	-	7
At 31.12.2021 (unaudited)	(18)	17	(2,824)
(Charge)/credit for the year (note 10)	(28)	-	6,077
Exchange difference	-	-	3
At 31.12.2022	(46)	17	3,256

20. SHARE CAPITAL

	Number of shares	Share capital US\$000
Ordinary shares of US\$1 each:		
Authorised:		
Balance at 1.1.2021, 31.12.2021 and 31.12.2022	244,000,000	244,000
Issued and fully paid:		
Balance at 1.1.2021, 31.12.2021 and 31.12.2022	175,782,800	175,783

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

21. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT CONTRACTS

Insurance liabilities and reinsurance assets

	<u>At 31.12.2022</u> US\$000	Unaudited <u>At 31.12.2021</u> US\$000
Gross:		
Short-term insurance contracts		
- unearned premiums	49,082	43,177
- unexpired risk provision	-	-
Life insurance contracts		
- with DPF	17,501,686	19,235,728
- without DPF	3,042,899	3,630,127
Investment contracts with DPF	812,810	798,481
Total insurance liabilities, gross	<u>21,406,477</u>	<u>23,707,513</u>
Recoverable from reinsurers:		
Short-term insurance contracts		
- unearned premiums	14,093	13,068
- unexpired risk provision	-	-
Life insurance contracts		
- with DPF	5,494,003	6,221,302
- without DPF	3,954	3,770
Total reinsurer's share of liabilities (included in reinsurance assets)	<u>5,512,050</u>	<u>6,238,140</u>
Net:		
Short-term insurance contracts		
- unearned premiums	34,989	30,109
- unexpired risk provision	-	-
Life insurance contracts		
- with DPF	12,007,683	13,014,426
- without DPF	3,038,945	3,626,357
Investment contracts with DPF	812,810	798,481
Total insurance liabilities, net	<u>15,894,427</u>	<u>17,469,373</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

21. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT CONTRACTS – continued

Financial liabilities – investment contracts and reinsurance assets

	<u>At 31.12.2022</u> US\$000	Unaudited <u>At 31.12.2021</u> US\$000
Gross:		
Investment contracts without DPF	<u>1,258,317</u>	<u>1,562,914</u>
Recoverable from reinsurers:		
Investment contracts without DPF	<u>-</u>	<u>-</u>
Net:		
Investment contracts without DPF	<u>1,258,317</u>	<u>1,562,914</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

21. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT CONTRACTS – continued

(a) Long-term and short-term insurance contracts – assumptions, change in assumptions and sensitivity analysis

Process used to decide on assumptions

For long-term insurance contracts, prudent mortality assumptions and lower than regulatory maximum interest rates are used to determine the liabilities. These assumptions are reviewed on an annual basis to ensure the assumptions meet the regulatory requirements and the liabilities remain adequate.

The assumptions used for these insurance contracts are as follows:

- **Mortality**

An appropriate mortality table based on the Group's experience is chosen depending on the type of contract. A margin for prudence is then added to these assumptions. For the Company's policies not transferred from the former AXA (Hong Kong) Life Insurance Company Limited, the mortality assumption currently used is 110% (2021: 110%). For the Company's policies transferred from the former AXA (Hong Kong) Life Insurance Company Limited in 2012, the mortality assumption currently used is 110% (2021: 110%).

- **Morbidity**

Prudent rates of incidence and recovery are derived from industry and company experience studies.

- **Valuation interest rate**

The regulatory maximum interest rate is determined for each product group. This is the weighted average of the yield on government bonds for both duration and currency matching the liabilities and 97.5% of the weighted average yield on assets, where yield means redemption yield for fixed income securities and income yield for other assets. The determination of future yield is based on 20% of the current bond yield and 80% of the 5-year average bond yield with the approval by IA in 2020 Oct as a relaxation of Rule 8(7)(a)(i) of the Insurance (Determination of Long Term Liabilities) Rules (Cap. 41E).

AXA has incorporated into its methodology for determination of VIR (per Cap. 41E section 8(7)(a)(i)) the effect of the asset duration lengthening in 2019, which is part of AXA's dynamic duration gap management action to manage interest rate risk. Specifically, the Group has reflected such asset duration lengthening through the inclusion of the term spread of the asset lengthening instrument (US government bonds or related instrument) in the determination of Reinvestment Yield. The Group has also added additional shock on term spread under the resilience testing to be prudent in addressing any risk of the term spread narrowing. The same cap and floor as those applied in the shocks in fixed interest yields are applied to the shock in term spread.

The product grouping of the valuation interest rates was reviewed and implemented in 2019, whereby the policies are segregated into 5 product groups across 2 currency groups for Hong Kong policies, 5 product groups for Macau policies and Refundable Hospitalsurance ("HSR") product group. A set of valuation interest rates are determined for each group based on the assets assigned to each group. The valuation interest rates selected are as follows and are equal to or lower than the regulatory maximum interest rates required for each group. As the product grouping is changed for each valuation, the VIR for each group is not comparable for last VIR. The weighted VIR is summarised as below for comparison:

Weighted VIR	2022YE	2021YE
HKD	3.51% - 3.7%	2.37% - 2.77%
USD	3.50%	2.32%
MA	3.38%	2.40%
HSR	0.96%	0.96%

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

21. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT CONTRACTS – continued

(a) Long-term and short-term insurance contracts – assumptions, change in assumptions and sensitivity analysis – continued

The policy reserves adopted for HKFRS are the same as those determined in accordance with the requirements of the HKIO. This method complies with HKFRS 4 because insurance, or investment contracts with DPF, are already subject to a de facto liability adequacy test, since the HKIO specifies that all reserves must be prudent.

Change in assumptions

The valuation mortality rate is 110% (2021: 110%) of best estimate mortality rate during the year. This year, different mortality and morbidity assumptions are applied for Mainland Chinese Visitors (MCV) and non-MCV.

For non-MCV, the best estimate mortality rate in respect of the National Life business is 99% (2021: 90%) of HKA18 (adjusted) for female and is 93.5% (2021: 85%) of HKA18 (adjusted) for male during the year. For MCV, the best estimate mortality rate in respect of the National Life business is 60.5% (2021: 55%) of CIRC10-13 for female and is 55% (2021: 50%) of CIRC10-13 for male during the year.

For non-MCV, the best estimate mortality rate in respect of simplified underwriting business is 103.25% (2021: 93.75%) of HKA18 (adjusted) for female and is 103.25% (2021: 93.75%) of HKA18 (adjusted) for male during the year. For MCV, the best estimate mortality rate in respect of simplified underwriting business is 75.625% (2021: 68.75%) of CIRC10-13 for female and is 68.75% (2021: 62.5%) of CIRC10-13 for male during the year.

For non-MCV, the best estimate mortality rate in respect of business formerly transferred from AXA (HK) Life Insurance Company Limited is 104.5% (2021: 95%) of HKA18 (adjusted) for female and is 99% (2021: 95%) of HKA18 (adjusted) for male during the year. For MCV, the best estimate mortality rate in respect of business formerly transferred from AXA (HK) Life Insurance Company Limited is 75.625% (2021: 55%) of CIRC10-13 for female and is 68.75% (2021: 50%) of CIRC10-13 for male during the year.

For non-MCV, the best estimate mortality rate in respect of other life business is 82.5% (2021: 75%) of HKA18 (adjusted) for female and 82.5% (2021: 75%) of HKA18 (adjusted) for male during the year. For MCV, the best estimate mortality rate in respect of other life business is 60.5% (2021: 55%) of CIRC10-13 for female and is 55% (2021: 50%) of CIRC10-13 for male during the year.

For both MCV and non-MCV, the morbidity rate in respect of the Accelerated CI business is updated to 126% (2021: 110%) for female and 108% (2021: 90%) for male. For both MCV and non-MCV, The morbidity rate in respect of the Additional CI business is updated to 156% (2021: 130%) for female and 162% (2021: 135%) for male during the year. The morbidity curve is also updated with inhouse experience.

The acquisition expense per policy in respect of the Investment-linked business is \$187 (2021: \$242). The acquisition expense per Annual Premium Earned in respect of the Investment-linked business is 13.5% (2021: 11.7%) for basic plans and 13.5% (2021: 11.7%) for rider plans.

The impact of this change was US\$20 million increase in net in reserves at 31 December 2022.

The valuation interest rates by product group for insurance contracts with DPF, insurance contracts without DPF and riders products, were as above. The impact of this change was a US\$1,360 million decrease in net in reserves at 31 December 2022.

Sensitivity analysis

Investment return:

Gains on equity investments directly increase reported profit. Likewise, falls in the value of equities lead to a corresponding reduction in reported profit.

Changes in the value of fixed interest assets are partially offset by changes in the value of liabilities.

There are limits to the offset between asset and liability value changes due to the impact of other statutory regulations. The limits effectively put a floor on the value of liabilities.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

21. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT CONTRACTS – continued

- (a) Long-term and short-term insurance contracts – assumptions, change in assumptions and sensitivity analysis – continued

The following valuation interest rates are used in the sensitivity analysis:

Assumed market return on debt securities +0.5%

Weighted VIR	2022YE	2021YE
HKD	3.67% - 4.00%	2.63% - 3.02%
USD	3.69%	2.67%
MA	3.56%	2.72%

Assumed market return on debt securities -0.5%

Weighted VIR	2022YE	2021YE
HKD	3.33% - 3.40%	2.03% - 2.52%
USD	3.30%	1.80%
MA	3.20%	2.04%

Assumed equity securities market value +5%

Weighted VIR	2022YE	2021YE
HKD	3.53% - 3.71%	2.38% - 2.82%
USD	3.50%	2.32%
MA	3.38%	2.41%

Assumed equity securities market value -5%

Weighted VIR	2022YE	2021YE
HKD	3.48% - 3.70%	2.34% - 2.73%
USD	3.50%	2.31%
MA	3.38%	2.40%

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

21. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT CONTRACTS – continued

- (a) Long-term and short-term insurance contracts – assumptions, change in assumptions and sensitivity analysis – continued

Mortality / morbidity:

Improvements in mortality and/or morbidity lead to reduced incidence of claims and higher profits. Likewise, deterioration in these factors will reduce profits. However, various reinsurance arrangements are in place to control the impact of large individual claims and claims arising from catastrophic events.

- (b) Movement in insurance liabilities

<u>Short-term insurance contracts (gross)</u>	Year ended <u>31.12.2022</u> US\$000	Unaudited Year ended <u>31.12.2021</u> US\$000
At beginning of year	43,177	27,742
Premiums written during the year	253,148	216,083
Premiums earned during the year	(247,243)	(200,648)
Increase in unexpired risk provision	-	-
At end of year	<u>49,082</u>	<u>43,177</u>
 <u>Long-term insurance contracts with DPF (gross)</u>	 Year ended <u>31.12.2022</u> US\$000	 Unaudited Year ended <u>31.12.2021</u> US\$000
At beginning of year	19,235,728	18,298,552
Valuation premiums received	1,946,928	2,068,355
Interest credited	435,273	389,406
Impact of change in assumptions	(3,293,856)	(919,709)
Change in resilience reserve and voluntary reserve	(161,235)	139,943
Release in reserve on claims, surrenders and maturities	(661,152)	(740,819)
At end of year	<u>17,501,686</u>	<u>19,235,728</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

21. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT CONTRACTS – continued

(b) Movement in insurance liabilities – continued

Long-term insurance contracts without DPF (gross)

	Year ended <u>31.12.2022</u> US\$000	Unaudited Year ended <u>31.12.2021</u> US\$000
At beginning of year	3,630,127	3,440,943
Valuation premiums received	423,054	679,602
Premiums written during the year	413,889	413,046
Premiums earned during the year	(414,386)	(413,456)
Fee deducted from account balance	(53,462)	(57,402)
Interest credited	20,140	18,277
Impact of change in assumptions	(163,692)	(33,740)
Change in resilience reserve and voluntary reserve	(37,072)	15,237
Release in reserve on claims, surrenders and maturities and unit appreciation/depreciation	(775,699)	(432,380)
At end of year	<u>3,042,899</u>	<u>3,630,127</u>

Investment contract liabilities with DPF (gross)

	Year ended <u>31.12.2022</u> US\$000	Unaudited Year ended <u>31.12.2021</u> US\$000
At beginning of year	798,481	825,588
Valuation premiums/contributions received	14,880	22,534
Interest credited	13,729	12,346
Impact of change in assumptions	73,441	(38,030)
Change in resilience reserve and voluntary reserve	(78,189)	3,776
Release in reserve on claims, surrenders and maturities, and unit appreciation/depreciation	(9,532)	(27,733)
At end of year	<u>812,810</u>	<u>798,481</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

21. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT CONTRACTS – continued

(b) Movement in insurance liabilities – continued

Investment contract liabilities without DPF (gross)

	Year ended <u>31.12.2022</u> US\$000	Unaudited Year ended <u>31.12.2021</u> US\$000
At beginning of year	1,562,914	1,649,246
Premiums/contributions received	50,554	56,421
Fee deducted from account balance	(25,015)	(26,013)
Impact of change in assumptions	(18,614)	(12,306)
Change in resilience reserve and voluntary reserve	(3,376)	2,056
Release in reserve on claims, surrenders and maturities, and unit appreciation/depreciation	(308,146)	(106,490)
At end of year	<u>1,258,317</u>	<u>1,562,914</u>

(c) Movement in recoverable from reinsurers

Short-term insurance contracts

	Year ended <u>31.12.2022</u> US\$000	Unaudited Year ended <u>31.12.2021</u> US\$000
At beginning of year	13,068	13,122
Increase in period	53,925	52,784
Release in period	(52,900)	(52,838)
At end of year	<u>14,093</u>	<u>13,068</u>

Long-term insurance contracts

	Year ended <u>31.12.2022</u> US\$000	Unaudited Year ended <u>31.12.2021</u> US\$000
At beginning of year	6,225,072	1,554,680
Interest credited	190,908	25,057
Impact of change in assumptions	(963,355)	(10,535)
Impact of change in reinsurance arrangements	-	4,595,750
Change due to claims, surrenders, maturities and others	(133,553)	(88,646)
Increase in reserve due to new business	178,885	148,766
At end of year	<u>5,497,957</u>	<u>6,225,072</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

22.	CLAIMS PAYABLE		
		<u>At 31.12.2022</u>	<u>Unaudited</u>
		US\$000	At 31.12.2021
			US\$000
	Gross:		
	<u>Long term business</u>		
	Claims admitted but not paid – life and annuity business	103,929	95,282
	Claims incurred but not reported and others	187,485	148,255
	<u>General business</u>		
	Claims reported but not paid	3,710	4,555
	Claims incurred but not reported and others	73,217	57,482
		<u>368,341</u>	<u>305,574</u>
	Current	368,341	305,574
	Non-current	-	-
		<u>-</u>	<u>-</u>
		<u>At 31.12.2022</u>	<u>Unaudited</u>
		US\$000	At 31.12.2021
			US\$000
	Net:		
	<u>Long term business</u>		
	Claims admitted but not paid – life and annuity business	(222,484)	(142,553)
	Claims incurred but not reported and others	186,520	147,437
	<u>General business</u>		
	Claims reported but not paid	3,211	4,308
	Claims incurred but not reported and others	66,008	53,665
		<u>33,255</u>	<u>62,857</u>
	Current	33,255	62,857
	Non-current	-	-
		<u>-</u>	<u>-</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

23. FINANCIAL LIABILITIES – INVESTMENT CONTRACTS

Financial liabilities – investment contracts represent the amount which the policyholders of investment contracts without DPF are entitled to as at the end of the reporting period. The fair values, determined based on the fair value of underlying financial assets and derivatives at the end of the reporting period, approximate to the corresponding carrying amounts.

Financial liabilities – investment contracts of US\$1,258,316,931 ((unaudited) 2021: US\$1,562,913,539) are current liabilities.

24. PENSIONS – DEFINED CONTRIBUTION PLANS

	<u>At 31.12.2022</u> US\$000	<u>Unaudited</u> <u>At 31.12.2021</u> US\$000
Gross and net contributions charged to the statement of profit or loss	5,783	5,620

25. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Other financial assets:

The amounts due from group companies are unsecured, non interest bearing and due on demand.

The direct premiums receivable, debtors and amounts due from group companies at the end of the reporting period are stated at amortised cost using the effective interest rate method, as reduced by appropriate allowances for estimated irrecoveries. Insurance receivables that were past due but not impaired related to a number of independent policyholders that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

All of these balances are classified as current assets.

Other than those disclosed above, none of these financial assets is either past due or impaired.

Other financial liabilities:

Repurchase Obligations

The Group entered into Global Master Repurchase Agreements (“GMRA”) with several financial institutions to be able to enter into repurchase transactions (agreements to sell securities and repurchase them at a pre-defined price and on a pre-defined date, with a fee).

Pursuant to an Agency Agreement, the Group authorises a fund manager to act as its agent to arrange and administer the repurchase transactions within the parameters set forth in the agreement. In consideration of the services provided, the Group agrees to pay the agent a fee based on the notional amount of the repurchase transaction. The transaction adheres to the guidelines and requirements agreed to by all parties.

The securities sold under the transaction are marked to market daily, and the fund manager is responsible for checking the valuation, monitoring the compliance of the securities, and controlling the margin calls.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

25. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES – continued

Total Return Swaps

The Group entered into a structured financing arrangement that consists of a two-step process (1) a sale of a liquid government bond with (2) a corresponding total return swap with the transferee whereby all of the interest payment and principal redemption cash flows from the underlying bond are remitted back to the Group in exchange for agreed upon payments by the Group. Throughout the term of the agreement, the Group will receive the nominal bond coupons and pay a fixed financing cost to the counterparty bank. The term of the arrangement is until the maturity of the underlying bond. At the end of the agreement term, the asset maturity redemption amount is returned to the Group and the Group repays the counterparty bank the financing amount which could be either bond notional or initial price.

The collateral is marked to market daily, and the fund manager is responsible for checking the valuation, monitoring the compliance of the collateral, and controlling the margin calls.

The following table specifies the amounts subject to repurchase agreements and total return swaps which do not qualify for de-recognition at each year/period end:

	<u>At 31.12.2022</u>	<u>Unaudited</u> <u>At 31.12.2021</u>
	<u>US\$000</u>	<u>US\$000</u>
Repurchase agreement	-	178,681
Total return swap	<u>2,880,251</u>	<u>3,976,719</u>
	<u>2,880,251</u>	<u>4,155,400</u>

The amounts due to group companies are unsecured, non interest bearing and due on demand.

The insurance payables (including dividend payable and amounts due to reinsurers and intermediaries under reinsurance contracts ceded), creditors and amount due to group companies are subsequently measured at amortised cost using the effective interest method. In respect of the dividend payable and amounts due to reinsurers and intermediaries under reinsurance contracts ceded, a reinsurance recoverable of US\$546,064,807 has been included in the reinsurance assets on consolidated statement of financial position.

The directors consider the carrying values of the above items approximately equal to their fair values.

All of these balances are classified as current liabilities.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

26. EQUITY COMPENSATION BENEFITS

Certain eligible employees of AXA SA and its subsidiaries (the “AXA Group”) have been granted options to subscribe to AXA shares at fixed prices in AXA SA, the ultimate holding company of the Group, under the AXA SA Stock Option Plan.

The grantee may exercise the option in accordance with the following schedule:

- 1/3 of the options granted are vested and exercisable on or after the second anniversary of the grant date
- 2/3 of the options granted are vested and exercisable on or after the third anniversary of the grant date
- All options granted are vested and exercisable on or after the fourth anniversary of the grant date.

For the 2012 plan and before, a performance condition is applied for Stock Option grant more than 5,000: the last tranche when vested will become exercisable only if the AXA share price has performed at least as well as the EuroStoxx Insurance index either since the grant date or over the last 3-year period.

For the 2013 Plan, the performance condition is applied to the last third of the grant and will become exercisable as follows:

- If the performance of the AXA share is equal to 75% of the performance of the Eurostoxx Insurance Index over the same period, 50% of the options will be exercisable
- If the performance of the AXA share is equal to 100% of the performance of the Eurostoxx Insurance Index over the same period, 100% of the options will be exercisable
- If the performance of the AXA share range between 75% and 100% of the performance of the Eurostoxx Insurance Index over the same period, the number of options exercisable will vary proportionately from 50% to 100%

Since 2014 SXIP Insurance Index replaces EuroStoxx Insurance index and a new vesting schedule applies to the stock option grants:

- 1/3 of the options granted are vested and exercisable on or after the third anniversary of the grant date
- 2/3 of the options granted are vested and exercisable on or after the fourth anniversary of the grant date
- All options granted are vested and exercisable on or after the fifth anniversary of the grant date.

The exercise price of the stock options ranged from Euro 9.76 to Euro 33.78 with the average remaining anniversary of two to four years of grant date.

In 2019, in order to simplify AXA’s compensation policy and in line with market practice and feedbacks of many institutional investors, AXA’s Board of Directors, decided to cease awarding stock options to corporate officers and AXA employees.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

26. EQUITY COMPENSATION BENEFITS – continued

AXA SHAREPLAN

For the past 29 years, the AXA Group has continuously offered employees the opportunity to become AXA shareholders through the annual employee share offering (the “SharePlan”), comprising two investment options: the Traditional Plan and the Guarantee plus Plan.

Under the AXA Shareplan, AXA offers employees of the AXA group opportunity to invest and hold units in funds in this shareplan which in turn hold AXA shares. This shareplan enables such employees to purchase AXA shares indirectly through the funds at fixed discounts to AXA share reference prices.

SHARES SUBJECT TO PERFORMANCE CONDITIONS (INTERNATIONAL PERFORMANCE SHARES AND INTERNATIONAL RESTRICTED SHARES)

Shares subject to performance conditions are designed to recognize and motivate the Group’s best talents and core skills by aligning the individuals’ interests with the overall performance of the AXA Group, and the corresponding operational Entity/Business Unit as well as with the stock performance of the AXA share over the medium-long term.

Since 2013, beneficiaries have received Performance Shares plans. From 2022, the Board of Directors, upon recommendation of its of the Compensation and Governance Committee, may grant Performance Shares to Senior Management, including members of the Management Committee and Restricted Shares to other beneficiaries.

Rules regarding shares subject to performance conditions:

Each beneficiary receives an initial preliminary allocation of shares subject to performance conditions (Performance Shares or Restricted Shares) which is then used as a reference to calculate the number of shares that will be definitely granted at the end of a 3-year performance period.

During the performance period, all shares subject to performance conditions initially granted, are integrally subject to performance criteria regardless of the beneficiary’s status.

For Performance Shares and Restricted Shares, the achievement rate of the performance criterion (performance rate) is used to determine the number of AXA shares which will be definitively acquired by the beneficiaries at the end of the acquisition period, under the condition that the beneficiary is still employed by the AXA Group. The number of AXA shares definitively granted shall therefore be equal to the number of rights to AXA shares initially granted multiplied by the performance rate, which may not exceed 130% for the Performance Shares and 100% for the Restricted Shares.

Furthermore, for the Performances Shares and Restricted Shares, in the event that no dividend would be proposed for payment (outside regulatory constraint) by the Board of Directors to the Group shareholders for any of the fiscal years of the performance period, the number of shares definitively acquired shall be automatically divided by two.

AXA MILES

In 2012, AXA Group has announced the grant of 50 AXA Miles to all AXA Group employees. Every eligible employee was awarded 50 AXA Miles in March 2012, which convert into shares at the end of the acquisition period in March 2016. Out of the 50 AXA Miles, 25 have been granted without any particular conditions at grant date and 25 have been actually granted in March 2013 as performance conditions have been reached at that date.

In March 2016, all granted AXA Miles in 2012 were vested by eligible employees and have been converted to AXA shares.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

26. EQUITY COMPENSATION BENEFITS – continued

The following tables disclose details of the relevant share options held by employees of the Group and movements in such holdings during the year:

	<u>Number of units per plan type</u>	
	<u>AXA SA Stock Option Plan</u>	<u>International Performance Share Plan</u>
Outstanding at 1.1.2021 (unaudited)	-	97,235
Granted during the year	-	25,436
Adjustment (due to performance conditions / other reason)	-	(483)
Exercised during the year	-	(4,470)
Decrease due to resignation / withdrawal	-	(22,425)
Outstanding at 31.12.2021 (unaudited)	-	95,293
Granted during the year	-	20,128
Increase due to new appointments	-	18,546
Adjustment (due to performance conditions / other reason)	-	499
Exercised during the year	-	(13,108)
Decrease due to resignation / withdrawal	-	(28,334)
Outstanding at 31.12.2022	-	93,024

The expenses arising from equity-settled during the year relate to options granted to certain eligible employees for services provided to the Group and other group companies. Accordingly, the entire cost of these options, representing the amortisation of the relevant share-based plans for the period up to 31 December 2022 of US\$2,085,208 ((unaudited) 2021: US\$4,050,618).

27. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred is as follows:

	<u>At 31.12.2022</u>	<u>Unaudited At 31.12.2021</u>
	<u>US\$000</u>	<u>US\$000</u>
Unlisted unit trust investments	705,653	808,699

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

28. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	<u>At 31.12.2022</u> US\$000	Unaudited <u>At 31.12.2021</u> US\$000
Deposits with banks		
Fixed term	126,859	109,074
Current accounts	1,496,050	953,055
Cash	8,342	8
	<u>1,631,251</u>	<u>1,062,137</u>
Less:		
Pledged bank deposits (note 30)	(58,523)	(44,802)
Fixed term bank deposits with maturity over three months	<u>(68,336)</u>	<u>(64,272)</u>
	<u><u>1,504,392</u></u>	<u><u>953,063</u></u>

Deposits with banks represent cash at current accounts with banks and deposits placed with various banks with terms up to 367 days with interest rate up to 5.40% per annum (unaudited 2021: 2.4% per annum).

The directors consider the carrying values of the above items approximately equal to their fair values.

29. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Financial risk management

The Group enters into financial instruments, including derivative financial instruments, for hedging purposes. The use of financial derivatives is governed by the policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed on a continuous basis.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria of recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the consolidated financial statements.

(c) Derivatives

The Group uses derivatives as part of the normal investment management procedures. Derivatives are principally used as an effective alternative to physical assets in order to achieve a desired level of total exposure to various asset classes, and as a means to hedge against market movements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

29. DERIVATIVE FINANCIAL INSTRUMENTS - continued

	At 31.12.2022	
	Assets US\$000	Liabilities US\$000
Forward currency contracts	143,516	51,882
Interest rate swap	453	1,845
Equity options	30,702	1,740
Forward interest rate swap	584,198	864,479
Asset swap	40,763	553,090
Credit default swap	1,808	233
Swaption	119,307	4,376
Cross currency swap	71,190	13,825
Equity forward	130,094	1,557
Bond forward	11,947	3,664
Currency option	866	756
	<u>1,134,844</u>	<u>1,497,447</u>
	Unaudited At 31.12.2021	
	Assets US\$000	Liabilities US\$000
Forward currency contracts	86,321	43,823
Interest rate swap	2,538	314
Equity options	46,429	19,614
Forward interest rate swap	88,208	250,631
Asset swap	23,796	908,808
Credit default swap	3,376	155
Swaption	31,588	181
Cross currency swap	34,453	2,682
Equity forward	21,322	10,174
	<u>338,031</u>	<u>1,236,382</u>
	Contractual or notional amounts	
	Unaudited At 31.12.2022 US\$000	Unaudited At 31.12.2021 US\$000
Forward currency contracts - bought	18,915,458	15,473,390
- sold	(18,823,824)	(15,430,891)
Equity options - long	803,540	1,199,528
- short	-	(898,885)
Forward interest rate swap	8,498,033	6,804,745
Interest rate swaps - long	13,600	23,600
- short	(70,827)	(92,527)
Asset swap	3,379,280	3,394,601
Bond forward	850,000	-
Credit default swap- long	28,694	-
- short	(344,500)	(344,500)
Currency option- long	580,000	-
- short	(580,000)	-
Swaption	5,297,261	4,452,064
Equity forward - long	130,000	129,120
- short	(1,240,496)	(576,797)
Cross currency swap	6,684,654	5,261,027

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

29. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Derivatives held by the Group are valued on a fair value basis, which involves the calculation and recognition of unrealised gains and losses on all current positions.

There are four major types of risks inherent in derivatives, these are:

- Market risk – the risk of loss due to a change in market conditions
- Liquidity risk – the risk that a transaction in a particular physical asset or derivative could have a detrimental effect on its price; for example in the extreme, it may not be possible to sell the security
- Credit risk – the risk that a loss will be incurred if a counterparty defaults on a contract
- Operational risk – the risk of losses occurring as a result of inadequate systems and control, human error or management failure

The Group has a Derivatives Policy which describes the objectives, authorisation and conditions of uses, counterparty requirements, and operating procedures in order to manage the risks inherent in derivatives. Market risk is controlled through a process of setting exposure limits to various asset classes and exposure limits to particular holdings within an asset class.

30. PLEDGE OF ASSETS

The Group's Macau Branch has pledged its bank deposits of US\$58,523,214 ((unaudited) 2021: US\$44,802,201) and debt securities of US\$611,926,009 ((unaudited) 2021: US\$665,500,727) to Autoridade Monetária e Cambial de Macau as a guarantee in respect of the required technical reserves.

31. DEFERRED REVENUE

On 1 September 2015, the Group has entered into a 15-year Distribution and Co-branding Agreement (“DA”) with The Principal Financial Group (the “Principal”). Under this agreement, the Group is appointed as Principal’s intermediary for the purpose of distributing the MPF plans through the AXA Proprietary Distribution Network.

The fee received in advance for the distribution services is recognised as deferred income and is recognised as revenue over the 15 years contract period which the service is performed.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

32. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following major transactions with related parties:

	Notes	Year ended 31.12.2022 US\$000	Unaudited Year ended 31.12.2021 US\$000
Reinsurance premiums to fellow subsidiaries	a	(121,793)	(157,382)
Reinsurance premiums to ultimate holding company	a	(22,686)	-
Reinsurance recoveries from fellow subsidiaries	a	97,646	123,166
Reinsurance recoveries from ultimate holding company	a	23,067	-
Reinsurance commissions from fellow subsidiaries	a	10,671	14,173
Reinsurance commissions from ultimate holding company	a	1,083	-
Reinsurance assets from fellow subsidiaries	a	18,142	66,081
Reinsurance assets from ultimate holding company	a	96,920	-
Reinsurance premiums from fellow subsidiaries	b	16,712	13,977
Reinsurance recoveries to fellow subsidiaries	b	(4,503)	(8)
Reinsurance commissions to fellow subsidiaries	b	(2,058)	(962)
Reinsurance claims handling fees from a fellow subsidiary	a	366	326
Reinsurance premiums, commissions and claims recoveries payable to fellow subsidiaries	a	(36,118)	(38,963)
Investment charges paid to fellow subsidiaries	c	(21,853)	(24,254)
Investment charges paid to intermediate holding company	c	-	(1,201)
Administrative service fee from a fellow subsidiary	d	78	78
Interest income from the immediate holding company	e	2,419	2,459
Interest income from fellow subsidiary	f	77	-
Interest expense to an intermediate holding company	g	(643)	(234)
Management expenses paid to a fellow subsidiary	h	(29,318)	(53,727)
Claims handling fees to a fellow subsidiary	i	(354)	(326)
Allocation of management expenses to an intermediate holding company	j	336	677
Allocation of management expenses to fellow subsidiaries	j	30,185	39,334
Services charges to a fellow subsidiary	k	(1,529)	(463)
Shared services charged by an intermediate holding company	j	(5,937)	(6,635)
Trademark fees to the ultimate holding company	l	(3,524)	(3,481)
Acquisition of a subsidiary from a fellow subsidiary	m	(6)	-

Notes:

- (a) The amounts relate to a reinsurance ceded arrangement made or payable with fellow subsidiaries and ultimate holding company in the normal course of business.
- (b) The amounts relate to the reinsurance accepted arrangements made with related group companies/fellow subsidiaries including a new reinsurance treaty with a fellow subsidiary for an accident and health product with fully refundable features. Commissions are paid and received on such arrangements. All reinsurance agreements are entered into in the normal course of business.
- (c) The investment charges were made to fellow subsidiaries for the provision of the investment services throughout the year based on the size of the investment portfolios.
- (d) The administrative service fee was charged at a fixed rate of US\$6,534 ((unaudited) 2021: US\$6,542) per month.
- (e) The floating rate of a debenture of HK\$1,600 million was terminated on 6 June 2021 and renewed on 7 June 2021 which issued by an immediate holding company is unsecured and bearing interest at the fixed interest rate of 1.18% per annum (2021: 1.18% per annum above Hong Kong Inter Bank Offer Rate ("HIBOR")). The debenture will be fully redeemed on or before 6 June 2026.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

32. RELATED PARTY TRANSACTIONS - continued

- (f) The loan to a fellow subsidiary is unsecured and bears interest at a fixed rate of 4.61% per annum was issued for a term of three years commencing on 26 September 2022.
- (g) Details of the subordinated loan from an intermediate holding company are set out in note 15 to the consolidated financial statements.
- (h) Certain management expenses were paid to a fellow subsidiary for the provision of various types of information technology related services and support.
- (i) The amounts related to a claims handling arrangement made with a fellow subsidiary in the normal course of business.
- (j) Certain overhead costs borne by the group companies were allocated to the Group for sharing the common services and facilities on time spent basis.
- (k) The amount related to value-added services provided by a fellow subsidiary in the normal course of business.
- (l) The trademark fees recharged from the ultimate holding company for the provision of brand usage.
- (m) All of the shares in Swiss Privilege Limited was transferred from a fellow subsidiary, AXA Wealth Management (HK) Limited to the Company on 21 July 2022.
- (n) Details of the Group's balances with related parties are set out in the consolidated statement of financial position and note 25 to the consolidated financial statements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

33. SUBSIDIARIES

The Company's principal subsidiaries at 31 December 2022 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that they are held directly by the company, and the proportion of ownership interest held equals the voting right held by the company. The country of incorporation or registration is also their principal place of business.

On 1 January 2022 and 21 July 2022, the Company acquired 66.39% and 100% of the issued share capital of AXA SICAV I Emerging Market Debt, an unit trust ("EMD") and Swiss Privilege Limited ("SP"), an insurance agency respectively. Details of the purchase consideration and the net assets acquired are as follows:

	EMD US\$000	SP US\$000
Purchase consideration	<u>40,203</u>	<u>6</u>
The assets and liabilities recognised as a result of the acquisition are as follows:		
Amount due from immediate holding company	-	6
Investment	58,157	-
Cash	3,075	-
Account payables	<u>(650)</u>	<u>-</u>
	60,582	6
Less: non-controlling interests	<u>(20,379)</u>	<u>-</u>
Net assets acquired	<u>40,203</u>	<u>6</u>
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	40,203	6
Less: Cash balances acquired	<u>(3,075)</u>	<u>-</u>
Net outflow of cash	<u>37,128</u>	<u>6</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

33. SUBSIDIARIES - continued

Particulars of the Company's subsidiaries as at 31 December 2022 are as follows:

<u>Name of unit trust</u>	<u>Place of incorporation</u>	<u>Class of shares held</u>	<u>Percentage of units held (directly)</u>	<u>Percentage held by non-controlling interest</u>	<u>Number of units held</u>	<u>Number of units in issue</u>	<u>Principal activities</u>
AXA China Region Insurance Company Limited	Hong Kong	Ordinary	100%	-	19,940,000	19,940,000	Insurance underwriter
Swiss Privilege Limited	Hong Kong	Ordinary	100%	-	100,000	100,000	Insurance agency
Axa Unit Trusts – Asia Multi Factor Advantage Fund	Hong Kong	Class “A”	99.60%	0.4%	1,785,466	1,792,716	Unit trust
AXA China Leveraged Loans Fund	France	Ordinary	99.89%	0.11%	941	942	Unit trust
AXA SICAV I Emerging Market Debt	Luxembourg	Class “S1D”	66.39%	33.61%	473,367	713,060	Unit trust

Particulars of the Company's subsidiaries as at 31 December 2021 are as follows:

<u>Name of unit trust</u>	<u>Place of incorporation</u>	<u>Class of shares held</u>	<u>Percentage of units held (directly)</u>	<u>Percentage held by non-controlling interest</u>	<u>Number of units held</u>	<u>Number of units in issue</u>	<u>Principal activities</u>
AXA China Region Insurance Company Limited	Hong Kong	Ordinary	100%	-	19,940,000	19,940,000	Insurance underwriter
Axa Unit Trusts – Asia Multi Factor Advantage Fund	Hong Kong	Class “A”	99.51%	0.49%	1,819,191	1,828,156	Unit trust
AXA China Leveraged Loans Fund	France	Ordinary	81.05%	18.95%	56,896	70,199	Unit trust
Negative Basis Trade Fund	France	Class “A”	100%	-	507,581	507,581	Unit trust

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

34. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of Financial Position of the Company

	NOTES	At 31.12.2022 US\$000	At 31.12.2021 US\$000
<u>ASSETS</u>			
INTANGIBLE ASSETS		114	188
PLANT AND EQUIPMENT		1,758	2,063
RIGHT-OF-USE ASSETS		203	1,454
INVESTMENTS IN SUBSIDIARIES		420,012	1,122,928
INVESTMENTS IN ASSOCIATES		101,233	127,095
INVESTMENTS IN SECURITIES		17,981,255	21,573,263
LOANS		188,547	172,221
DEFERRED TAX ASSETS		3,256	-
OTHER ASSETS			
Direct premiums receivable		364,029	305,412
Debtors and prepayments, unsecured		583,236	141,247
Reinsurance assets		5,858,857	6,368,207
Amounts due from reinsurers and intermediaries under reinsurance contracts ceded		22,531	4,522
Amount due from an insurer subsidiary		71,024	19,200
Amount due from the immediate holding company		42,661	41,580
Amounts due from fellow subsidiaries		181	83
Derivative financial instruments		742,915	237,502
Pledged bank deposits		58,523	44,802
Fixed term bank deposits		37,968	37,704
Cash and cash equivalents		1,144,801	715,976
		8,926,726	7,916,235
TOTAL ASSETS		27,623,104	30,915,447

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

34. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY – continued

(a) Statement of Financial Position of the Company – continued

	NOTES	At 31.12.2022 US\$000	At 31.12.2021 US\$000
<u>EQUITY AND LIABILITIES</u>			
CAPITAL AND RESERVES			
Share capital		175,783	175,783
Reserves			
Share premium	34 (b)	383,257	383,257
Fair value reserve	34 (b)	(100,826)	(18,431)
Retained profits	34 (b)	1,878,964	2,804,119
		2,161,395	3,168,945
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		2,337,178	3,344,728
INSURANCE LIABILITIES		17,126,441	18,435,986
DEFERRED TAX LIABILITIES		-	2,824
OTHER LIABILITIES			
Financial liabilities – investment contracts		1,258,317	1,562,914
Derivative financial instruments		1,178,863	954,392
Repurchase obligations and debt instruments liabilities		2,041,392	3,303,818
Creditors and accrued charges		662,851	396,853
Lease Payable		220	1,528
Claims payable		260,642	234,940
Commissions payable		120,511	130,417
Policyholders' funds on deposit		348,869	428,734
Dividend payable		1,970,063	1,836,885
Amounts due to reinsurers and intermediaries under reinsurance contracts ceded		157,414	168,586
Amount due to the ultimate holding company		105,215	-
Amount due to an intermediate holding company		2,990	2,993
Amounts due to fellow subsidiaries		49,891	106,230
Current tax payables		2,247	3,619
		8,159,485	9,131,909
TOTAL EQUITY AND LIABILITIES		27,623,104	30,915,447

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

34. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – continued

(b) Reserve movement of the Company

	<u>Share premium</u> US\$000	<u>Retained profits</u> US\$000	<u>Fair value reserve</u> US\$000	<u>Total</u> US\$000
At 1 January 2021	383,257	2,863,173	(753)	3,245,677
Loss for the year	-	(59,054)	-	(59,054)
Other comprehensive income for the year	-	-	(17,678)	(17,678)
At 31 December 2021	383,257	2,804,119	(18,431)	3,168,945
Loss for the year	-	(746,809)	-	(746,809)
Other comprehensive income for the year	-	-	(82,395)	(82,395)
Dividends	-	(178,346)	-	(178,346)
At 31 December 2022	383,257	1,878,964	(100,826)	2,161,395

35. EVENTS AFTER THE REPORTING PERIOD

The Group has acquired 100% ownership in ordinary share capital issued by AXA Tian Ping Insurance Distribution Company Limited on 13 March 2023, a limited company incorporated in China which principal activity is insurance agency and the consideration was RMB70,000,000.