

**AXA CHINA REGION INSURANCE COMPANY
(BERMUDA) LIMITED**

Reports and Financial Statements
(including Financial Information for the purpose of submission
to the Office of the Commissioner of Insurance)
For the year ended 31 December 2016

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

REPORTS AND FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2016

<u>CONTENTS</u>	<u>PAGE(S)</u>
DIRECTORS' REPORT	1 - 5
INDEPENDENT AUDITOR'S REPORT	6 - 14
STATEMENT OF COMPREHENSIVE INCOME	15
BALANCE SHEET	16 - 17
STATEMENT OF CHANGES IN EQUITY	18
CASH FLOW STATEMENT	19 - 20
NOTES TO THE FINANCIAL STATEMENTS	21 – 103
FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE	104 – 123

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

DIRECTORS' REPORT

The directors of AXA China Region Insurance Company (Bermuda) Limited have pleasure in presenting their annual report and the audited financial information for the year ended 31 December 2016 prepared in accordance with the Hong Kong Financial Reporting Standards (HKFRS), the provisions of the Companies Act 1981 of Bermuda and the Hong Kong Insurance Companies Ordinance (HKICO).

PRINCIPAL ACTIVITY

The principal activity of the Company is underwriting insurance business.

During the year, the Company 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 Company, prepared in accordance with accounting principles generally accepted in Hong Kong, for the year ended 31 December 2016 are set out in the statement of comprehensive income on page 15 of the financial statements.

During the year, dividends of US\$0.15 per ordinary share, totalling US\$25,793,000 (2015: US\$1.95 per ordinary share, totalling US\$343,183,136) 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 19 to the financial statements.

RESERVES

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

PLANT AND EQUIPMENT

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

SUBSIDIARIES AND ASSOCIATES

Details of the Company's subsidiaries and associates as at 31 December 2016 are set out in notes 14 and 15 respectively to the financial statements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

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 2014	Quota share
	US\$70,000	Surplus
	50% Share	Quota share
	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 2012	Quota share
	US\$34,000	Surplus
	1% share	Quota share
	1% of surrender value in death benefit	Quota share
	100% share	Quota share
Individual business (accepted)		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
	US\$37,500	Surplus
	25% share up to HK\$300,000 per life	Quota share
Disability Income	26.2% share of all insurance risks	Modified Coinsurance
	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
	US\$3,750 per annum	Surplus
	1% of insurance	Quota share
Waiver of Premium	25% of insurance	Quota share
	25% of insurance	Quota share
	25% of insurance	Quota share
Individual business - medical	EUR 35,000,000	Catastrophe excess of
	Nil (for policies accepted)	loss
Life and Personal Accident	70% Sum Insured to US\$70,000 for death	Quota share
	70% Sum Insured to US\$30,000 for critical illness	Quota share
	50% of first MOP 2,800,000 Sum Insured for death	Surplus

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

REINSURANCE ARRANGEMENTS - continued

<u>Line of business</u>	<u>Retention</u>	<u>Type of treaty</u>
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 US\$3 million for Marine hull, Builders risks, Marine liabilities, Pleasure craft hull, and Pleasure craft third party liability US\$350,000	Surplus
Property	HK\$14 million HK\$6.3 million HK\$110 million	Excess of loss Excess of loss Excess of loss
Personal Accident	HK\$2.9 million	Surplus
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 60% share for Private Motor Car	Excess of loss Quota share

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

DIRECTORS

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

S.E. Harrison	
P.D. Sullivan	
A.M.B. Breitburd	
A.M.W.Chui	(resigned on 1 March 2017)
B.M. Claveranne	(resigned on 22 September 2016)
E.M.F.Bouas-Laurent	(appointed on 22 September 2016)
C. Feathers	(appointed on 1 March 2017)
K.W. Goertzen (alternate to C.Feathers)	(appointed on 1 March 2017)

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 Companies 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	
H. de Castries	(ceased to be a Controller on 1 September 2016)
J-L.C.M. Laurent Josi	
S.E. Harrison	
T. Buberl	(became a Controller on 1 September 2016)
X.J.C. Lestrade	(became a Controller on 1 June 2016)

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 Companies 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 financial statements.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

During the year, certain directors and the controllers of the Company who were directors 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 Share Option Scheme. Mr. T. Buberl, Mr. J-L.C.M. Laurent Josi, Mr. S.E. Harrison and Mr. B.M. Claveranne partially exercised their options under the AXA Share Option Scheme to subscribe for AXA shares.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES - continued

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 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. J-L.C.M. Laurent Josi, Mr. E.M.F. Bouas-Laurent, Ms. A.M.B. Breitburd, Mr. S.E. Harrison, Mr. X.J.C. Lestrade and Mr. B.M. Claveranne acquired AXA shares under this Plan.

During the year, certain directors and controllers of the Company who were directors and controllers during the year were granted certain AXA Miles under the AXA Miles Program. These AXA Miles were granted to them in their capacity as employees of the AXA Group. Under this Program, each AXA Mile gives these directors and controllers the right to acquire an AXA share at the end of the acquisition period without any exercise price. Mr. J-L.C.M. Laurent Josi, Mr. E.M.F. Bouas-Laurent, Ms. A.M.B. Breitburd, Mr. S.E. Harrison, Ms. A.M.W. Chui, Mr. X.J.C. Lestrade and Mr. B.M. Claveranne acquired AXA shares under this Program.

During the year, Mr. H. de Castries, Mr. T. Buberl, Mr. E.M.F. Bouas-Laurent, Ms. A.M.B. Breitburd, Ms. A.M.W. Chui, Mr. S.E. Harrison, Mr. X.J.C. Lestrade and Mr. B.M. Claveranne participated in the AXA Group's Employee 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.

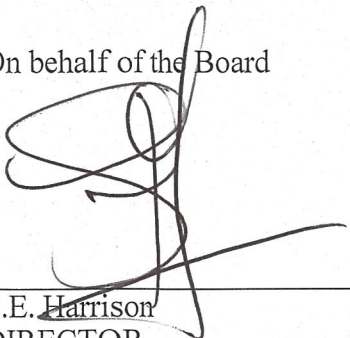
Apart from the above, at no time during the year was the Company, its subsidiaries, its holding companies or any of its fellow subsidiaries a party to any arrangements to enable the directors and controllers of the Company to acquire benefits by means of the acquisition of shares in, or debentures of,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

AUDITORS

The auditors, Messrs. PricewaterhouseCoopers, will retire at the forthcoming annual general meeting.

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



S.E. Harrison
DIRECTOR

24 APR 2017



M.C. Lam
ASSISTANT SECRETARY

24 APR 2017

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF
AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The financial statements of AXA China Region Insurance Company (Bermuda) Limited (the "Company") standing alone set out on pages 15 to 103, which comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2016, and of its financial performance and its 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 ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements of the Company Standing Alone 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 Company 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 SHAREHOLDER OF
AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED - continued
(incorporated in Bermuda with limited liability)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the directors' report on pages 1 to 5 and financial information prepared under the Insurance Companies Ordinance on pages 104 to 123, but does not include the financial statements and our auditor's report thereon.

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

If, 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 Financial Statements of the Company Standing Alone

The directors are responsible for the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF
AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED - continued
(incorporated in Bermuda with limited liability)

Auditor's Responsibilities for the Audit of the Financial Statements of the Company Standing Alone

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 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:

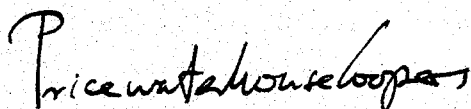
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF
AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED - continued
(incorporated in Bermuda with limited liability)

Auditor's Responsibilities for the Audit of the Financial Statements of the Company Standing Alone – continued

We communicate with those charged with governance 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 **24 APR 2017**

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF
AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED
(incorporated in Bermuda with limited liability)

Report on the Audit of the Financial Information

Opinion

What we have audited

The financial information of AXA China Region Insurance Company (Bermuda) Limited (the "Company") set out on pages 15 to 123, which comprise:

- the balance sheet as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement and the revenue account for the year then ended; and
- notes to the financial information, including a summary of significant accounting policies, and the supplementary schedules set out on pages 104 to 123.

Opinion

In our opinion, the financial information of the Company set out on pages 15 to 123 is prepared, in all material respects, in accordance with the provisions of the Ordinance and, on that basis, the long term business balance sheet on pages 120 to 121, when read in conjunction with the notes on pages 21 to 103 and the supplementary schedules on pages 104 to 123, gives a true and fair view of the financial position of the Company's long term business as at 31 December 2016 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and the provisions of the Hong Kong Insurance Companies Ordinance (the "Ordinance").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") and with reference to Practice Note 810.2 (Revised), "The Duties of the Auditor of an Insurer authorized under the Insurance Companies Ordinance" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Information 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 Company 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)

Emphasis of Matter – Basis of Accounting and Restriction on Use

We draw attention to note 3 to the financial information, which describes the basis of accounting. The financial information is prepared to assist the Company to comply with the provisions of the Ordinance. As a result, the financial information may not be suitable for another purpose. Our report is intended solely for the submissions by the Company to the Hong Kong Insurance Authority and the Registrar of Companies and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report. Our opinion is not modified in respect of this matter.

Other Information

The directors 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 financial information and our auditor's report thereon.

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

In connection with our audit of the financial information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial information 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 Financial Information

The directors are responsible for the preparation of financial information that is in accordance with the provisions of the Ordinance. This responsibility includes the preparation of a long term business balance sheet which, when read in conjunction with the notes and supplementary schedules to the financial information, gives a true and fair view of the financial position of the Company's long term business, in accordance with HKFRSs issued by the HKICPA and the provisions of the Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF
AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED - continued
(incorporated in Bermuda with limited liability)

Responsibilities of Directors and Those Charged with Governance for the Financial Information – continued

In addition, the directors are required to maintain proper records in accordance with Section 16 of the Ordinance and to maintain an excess of assets over liabilities by the aggregate of the relevant amount applicable and attributable to its general business as defined in Section 10 of the Ordinance and the greater of the required margin of solvency attributable to its long term business as determined by the Company's appointed actuary in accordance with the Insurance Companies (Margin of Solvency) Regulation and the relevant amount applicable and attributable to its long term business as defined in the Ordinance.

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

Auditor's Responsibilities for the Audit of the Financial Information

Our objectives are to obtain reasonable assurance about whether the financial information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 this financial information. In addition, we express opinion on whether proper records have been maintained in accordance with Section 16 of the Ordinance and as to whether the value of the assets of the Company as determined under the Ordinance exceeds its liabilities by not less than the relevant amount applicable and attributable to general business and the greater of the required margin of solvency attributable to its long term business as determined by the Company's appointed actuary in accordance with the Insurance Companies (Margin of Solvency) Regulation and the relevant amount applicable and attributable to its long term business as defined in the Ordinance as at year end.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial information, 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 Company's internal control.

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 Financial Information – continued

- 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 Company'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 financial information 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial information, including the disclosures, and whether the financial information represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.

Report on matters under paragraphs 4(1AC) of Part 1 of the Third Schedule to the Hong Kong Insurance Companies Ordinance

In respect of the Company's general business, the relevant premium income, the relevant claims outstanding and the relevant amount applicable, as defined in Section 10 of the Ordinance and reported in notes 7 and 21 to the financial information, amounted to US\$18,663,585, US\$36,833,410 and US\$6,262,339 respectively as at 31 December 2016.

In respect of the Company's long term business, the required margin of solvency, as determined by the Company's appointed actuary in accordance with the Insurance Companies (Margin of Solvency) Regulation, being greater than the relevant amount applicable, as defined in Section 10 of the Ordinance, amounted to US\$386,024,136 as at 31 December 2016.

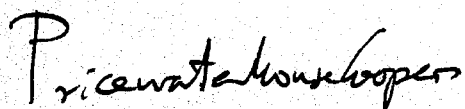
INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF
AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED - continued
(incorporated in Bermuda with limited liability)

Report on matters under paragraphs 4(1AC) of Part 1 of the Third Schedule to the Hong Kong Insurance Companies Ordinance – continued

In our opinion:

- (i) proper records have been maintained in accordance with Section 16 of the Ordinance in respect of the year ended 31 December 2016; and
- (ii) the value of the assets of the Company as stated in the financial information exceeds its liabilities by not less than US\$392,286,475 being the aggregate of the relevant amount applicable attributable to its general business and the required margin of solvency attributable to its long term business as at 31 December 2016.



PricewaterhouseCoopers
Certified Public Accountants
Hong Kong **24 APR 2017**

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	<u>NOTES</u>	<u>Year ended</u> <u>31.12.2016</u> US\$	<u>Year ended</u> <u>31.12.2015</u> US\$
INSURANCE PREMIUM REVENUE			
Gross premiums and contributions	7	2,047,398,923	1,596,039,841
Reinsurance premiums accepted	7	35,219,686	36,718,786
Reinsurance premiums ceded	7	(279,964,149)	(143,203,148)
		<u>1,802,654,460</u>	<u>1,489,555,479</u>
Investment income	8	404,673,449	481,975,523
Net realised and unrealised gains/ (losses) on investments	8	133,178,602	(413,433,170)
Other income		243,922,730	144,849,205
Gross claims		(182,571,831)	(156,052,979)
Reinsurance claims accepted		(4,810,354)	(1,262,026)
Claims recoverable		40,436,945	31,094,468
Surrenders, maturities, dividends and withdrawals		(489,708,962)	(457,931,506)
Gross commissions		(504,056,295)	(454,387,966)
Commissions on reinsurance accepted		(2,173,591)	(2,269,754)
Commissions on reinsurance ceded		30,392,776	48,482,955
Management and other expenses		(146,981,447)	(157,457,134)
Change in provision for unexpired risk		1,457,001	-
Investment expenses		(31,510,982)	(30,354,313)
Increase in insurance liabilities		(980,103,159)	(389,251,089)
Increase/ (decrease) in reinsurance assets		48,770,887	(10,402,556)
(Increase)/ decrease in investment liabilities		(21,269,225)	99,834,962
PROFIT BEFORE TAXATION		<u>342,301,004</u>	<u>222,990,099</u>
TAXATION	10	(24,115,054)	(15,240,191)
PROFIT FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
NET OF TAX		<u>-</u>	<u>131,404,159</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	9	<u>318,185,950</u>	<u>339,154,067</u>
DIVIDENDS	11	<u>(25,793,000)</u>	<u>(343,183,136)</u>

The notes on pages 21 to 103 are an integral part of these financial statements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

BALANCE SHEET
AT 31 DECEMBER 2016

	<u>NOTES</u>	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
<u>ASSETS</u>			
INTANGIBLE ASSETS	12	23,100	1,071,498
PLANT AND EQUIPMENT	13	409,132	524,165
INVESTMENTS IN SUBSIDIARIES	14	932,091,001	738,955,810
INVESTMENTS IN ASSOCIATES	15	53,953,211	51,524,766
INVESTMENTS IN SECURITIES	16	10,542,629,023	9,348,872,275
LOANS	17	212,631,479	219,733,662
DEFERRED TAX ASSETS	18	-	2,878,569
OTHER ASSETS			
Direct premiums receivable	24	180,335,472	134,907,547
Debtors and prepayments, unsecured	24	125,002,440	148,930,863
Reinsurance assets	20, 21	579,318,453	513,371,789
Amounts due from reinsurers and intermediaries under reinsurance contracts ceded	24	606,506	607,066
Amounts due from an insurer subsidiary	24	133,060,270	115,735,701
Amount due from immediate holding company	24	61,975,471	60,674,966
Amount due from intermediate holding company	24	310	310
Amounts due from fellow subsidiaries	24	8,386,298	4,670,373
Derivative financial instruments	29	26,406,379	22,798,421
Current tax assets		-	191,022
Pledged bank deposits	28, 31	358,077,928	323,022,515
Fixed term bank deposits	28	130,450,579	40,000,000
Cash and cash equivalents	28	543,624,532	555,415,067
		<u>2,147,244,638</u>	<u>1,920,325,640</u>
TOTAL ASSETS		<u>13,888,981,584</u>	<u>12,283,886,385</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

BALANCE SHEET - continued
AT 31 DECEMBER 2016

	NOTES	At 31.12.2016 US\$	At 31.12.2015 US\$
<u>EQUITY AND LIABILITIES</u>			
CAPITAL AND RESERVES			
Share capital	19	175,782,800	175,782,800
Reserves			
Share premium		383,257,000	383,257,000
Retained profits		900,605,453	608,212,503
		1,283,862,453	991,469,503
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		1,459,645,253	1,167,252,303
INSURANCE LIABILITIES	20	8,693,784,442	7,716,476,754
DEFERRED TAX LIABILITIES	18	624,963	-
OTHER LIABILITIES			
Financial liabilities – investment contracts	22	1,723,716,048	1,787,288,605
Derivative financial instruments	29	9,351,150	53,456,412
Creditors and accrued charges	24	200,418,251	87,265,325
Claims payable	21	107,624,481	92,348,711
Commissions payable	24	150,779,355	117,081,101
Policyholders' funds on deposit	24	269,394,850	113,293,392
Dividend payable	24	1,199,087,649	1,095,310,111
Amounts due to reinsurers and intermediaries under reinsurance contracts ceded	24	20,402,543	27,832,790
Amounts due to non-insurer subsidiaries	24	19	2,587,963
Amount due to intermediate holding company	24	2,986,757	2,979,308
Amounts due to fellow subsidiaries	24	48,181,315	20,713,610
Current tax payables		2,984,508	-
		3,734,926,926	3,400,157,328
TOTAL EQUITY AND LIABILITIES		13,888,981,584	12,283,886,385

The notes on pages 21 to 103 are an integral part of these financial statements.

The financial statements on pages 15 to 103 and the financial information prepared under the Insurance Companies Ordinance on pages 104 to 123 were approved by the Board of Directors for issue on **24 APR 2017** and were signed on its behalf by:


S.E. Harrison
CHIEF EXECUTIVE
24 APR 2017


E.M.F. Bouas-Laurent
DIRECTOR
24 APR 2017


A.M.B. Breitburd
DIRECTOR
24 APR 2017

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	Attributable to shareholders of the Company			
		Share capital US\$	Share premium US\$	Retained profits US\$	Total US\$
At 1 January 2015		175,782,800	383,257,000	612,241,572	1,171,281,372
Profit and total comprehensive income for the year		-	-	339,154,067	339,154,067
Dividends		-	-	(343,183,136)	(343,183,136)
At 31 December 2015		175,782,800	383,257,000	608,212,503	1,167,252,303
Profit and total comprehensive income for the year		-	-	318,185,950	318,185,950
Dividends	11	-	-	(25,793,000)	(25,793,000)
At 31 December 2016		175,782,800	383,257,000	900,605,453	1,459,645,253

The notes on pages 21 to 103 are an integral part of these financial statements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	<u>NOTES</u>	<u>Year ended</u> <u>31.12.2016</u> US\$	<u>Year ended</u> <u>31.12.2015</u> US\$
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		342,301,004	355,193,264
Adjustments for:			
Interest income on debt securities		(233,003,273)	(240,430,776)
Interest income on bank deposits		(9,925,700)	(10,601,248)
Interest income on policy loans		(16,171,065)	(16,526,979)
Interest income on secured mortgage and other loans		(953)	(1,420)
Interest income on amounts due from subsidiaries		-	(60)
Interest income on amount due from an immediate holding company		(1,338,949)	(1,082,365)
Net realised and unrealised gains/ (losses) on investments	8	(133,178,602)	442,311,126
Other income		(138,899,114)	(58,866,737)
Other interest income		(17,237,455)	(11,674,549)
Amortisation of intangible assets		2,885,703	2,936,662
Depreciation		114,880	60,998
Loss on disposal of intangible assets		3,222	-
Exchange difference		968	(772)
Gain on sale of discontinued operations		-	(134,629,965)
Cash flows from operations before working capital changes		(204,449,334)	326,687,179
Increase in direct premiums receivable		(45,427,925)	(40,893,805)
Decrease in debtors and prepayments		32,205,173	54,176,762
(Increase) /decrease in reinsurance assets		(65,946,664)	2,392,690
Decrease in amounts due from reinsurers and intermediaries under reinsurance contracts ceded		560	1,142,874
Decrease in amounts due from non-insurer subsidiaries		-	2,127,216
Increase in amount due from an insurer subsidiary		(17,324,569)	(115,735,701)
Decrease /(increase) in amount due from an immediate holding company		38,444	(12,715,040)
Increase in amount due from an intermediate holding company		-	(310)
(Increase) /decrease in amounts due from fellow subsidiaries		(3,715,925)	4,140,886
Increase in pledged bank deposits		(35,055,413)	(60,384,533)
Increase /(decrease) in insurance liabilities		977,307,688	(784,263,886)
Increase /(decrease) in creditors and accrued charges		113,152,926	(89,454,587)
Increase in claims payable		15,275,770	17,292,195
Increase in commissions payable		33,698,254	11,003,700
Increase in policyholders' funds on deposit		156,101,458	42,927,008
Increase in dividend payable		103,777,538	68,812,883
(Decrease) /increase in amounts due to reinsurers and intermediaries under reinsurance contracts ceded		(7,430,247)	7,838,107
(Decrease) /increase in amounts due to non-insurer subsidiaries		(2,587,944)	2,317,816
Decrease in amount due to an insurer subsidiary		-	(9,099,263)
Increase in amount due to an intermediate holding company		7,449	2,249
Increase in amounts due to fellow subsidiaries		27,467,705	5,549,903
(Decrease) /increase in financial liabilities – investment contracts		(63,572,557)	381,766,723
Net cash generated from/ (used in) operations		1,013,522,387	(184,368,934)

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

CASH FLOW STATEMENT - continued
FOR THE YEAR ENDED 31 DECEMBER 2016

	<u>NOTES</u>	Year ended <u>31.12.2016</u> US\$	Year ended <u>31.12.2015</u> US\$
Hong Kong profits tax paid		(12,724,628)	(19,613,819)
Overseas withholding tax paid		(4,711,364)	(4,036,230)
NET CASH GENERATED FROM/ (USED IN) OPERATING ACTIVITIES		<u>996,086,395</u>	<u>(208,018,983)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Interest received on debt securities		224,814,387	250,387,779
Interest received on secured mortgage and other loans		953	1,420
Interest received on bank deposits		9,812,642	10,601,248
Interest received on policy loans		16,241,036	16,526,979
Other interest income received		17,192,678	11,674,549
Increase in fixed term bank deposits		(90,450,579)	(13,932,467)
Proceeds from sale of discontinued operations		-	137,240,766
Proceeds from sale of investments in securities		7,779,209,482	6,628,823,422
Purchase of investments in securities		(8,879,021,361)	(6,321,489,915)
Purchase of derivative (net)		(65,144,009)	32,932,082
Decrease in policyholders' loans		7,076,311	4,704,417
Decrease in mortgage and other loans		25,872	316,221
Capitalisation of intangible assets		(1,841,177)	(2,838,720)
Purchase of plant and equipment		(165)	(569,877)
NET CASH (USED IN)/ GENERATED FROM INVESTING ACTIVITIES		<u>(982,083,930)</u>	<u>754,377,904</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid	11	(25,793,000)	(343,183,136)
NET CASH USED IN FINANCING ACTIVITIES		<u>(25,793,000)</u>	<u>(343,183,136)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		(11,790,535)	203,175,785
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>555,415,067</u>	<u>352,239,282</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	28	<u><u>543,624,532</u></u>	<u><u>555,415,067</u></u>

The comparative balance includes components of profit from discontinued operations.

The notes on pages 21 to 103 are an integral part of these financial statements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL

The Company is an exempted company 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 Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and principal place of business of the Company was changed from 20th Floor, AXA Centre, 151 Gloucester Road, Wan Chai, Hong Kong to 20th Floor, Vertical Square, 28 Heung Yip Road, Wong Chuk Hang, Hong Kong on 1 March 2017.

The principal activity of the Company is underwriting insurance business.

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

(a) Standards, amendments and interpretations effective in 2016

Accounting for acquisitions of interests in joint operations – Amendments to HKFRS 11.

Clarification of acceptable methods of depreciation and amortisation – Amendments to HKAS 16 and HKAS 38.

Annual improvements to HKFRSs 2012 – 2014 cycle, on HKFRS5, 'Non-current assets held for sale and discontinued operations', HKFRS 7, 'Financial instruments: Disclosures', HKAS 19, 'Employee benefits' and HKAS 34, 'Interim financial reporting'.

Disclosure initiative - amendments to HKAS 1.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2016 are not material to the Company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

- (b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2016 and not early adopted

HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

On 17 January 2017, the HKICPA issued amendments to HKFRS 4, Insurance Contracts, Applying HKFRS 9 Financial Instruments with HKFRS 4, which provides two alternative measures to address the different effective dates of HKFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of HKFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied. The Company will evaluate available alternatives in determining the adoption date of the relevant standard. Based on the amendments to HKFRS 4, the Company is eligible for electing the temporary option to defer the effective date of HKFRS 9. The Company is yet to assess HKFRS 9's full impact.

HKFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company is assessing the impact of HKFRS 15.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

- (b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2016 and not early adopted - continued

HKFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 'Leases', and related interpretations. The Company is assessing the impact of HKFRS 16.

HKAS 12, 'Income taxes', the standard is amended to clarify the recognition of deferred tax assets related to debt instruments measured at fair value. The amendment is effective for annual periods beginning on or after 1 January 2017. The Company is assessing the impact of the amendment.

HKAS 7, 'Statement of cash flows', the standard is amended to introduce additional disclosure in relation to the changes in liabilities arising from financing activities. The amendment is effective for annual periods beginning on or after 1 January 2017. The Company is assessing the impact of the amendment.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES

The 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 financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Companies Act 1981 of Bermuda.

The financial information of the Company have been prepared in accordance with all the applicable HKFRS and the provision of the Hong Kong Insurance Companies Ordinance (the “ICO”).

Basis of preparation

The Company 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 principal accounting policies adopted are as follows:

3.1 Revenue recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.1 Revenue recognition – continued

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 balance sheet date 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 and retirement business in the ordinary course of the Company's activities.

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company 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 comprehensive income.

3.2 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Company has control. The Company controls an entity when the Company 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 over the entity.

Investments in subsidiaries other than unit trusts are stated at cost as reduced by any identified impairment loss. Investments in unit trusts are classified as financial assets and are stated at fair value through profit or loss.

Income from the subsidiaries is accounted for by the Company on the basis of dividends received or receivable during the year. Dividends are receivable when the right to receive has been established.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the financial statements exceeds the net asset value of the investee's financial statements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.3 Associates

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

In the Company's balance sheet, investments in associates other than unit trusts are stated at cost, as reduced by any identified impairment loss. Results of the associates are accounted for by the Company on the basis of dividends received or receivable during the year.

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

3.4 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 Company 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 comprehensive income during the financial period in which they are incurred.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives to the Company 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	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 comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.5 Financial assets

(a) Classification

The Company classifies its financial assets in the following categories: 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 Company 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 Company 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 comprehensive income 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.5 Financial assets - continued

(b) Recognition and measurement

Regular-way purchases and sales of financial assets are recognised on trade-date - the date on which the Company 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 comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company 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 Company 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.

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 comprehensive income as 'net realised and unrealised gains / (loss) on investments' in the period in which they arise.

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

Interest on loans and receivables calculated using the effective interest rate method is recognised in the statement of comprehensive income as part of 'Investment income'.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.5 Financial assets - continued

(c) Impairment of financial assets

The Company assesses at each balance sheet 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 Company 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 collateral; and
- Downgrading to below investment grade level.

The Company 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 Company 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 comprehensive income.

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 comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.6 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 comprehensive income.

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 comprehensive income.

3.7 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into 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 comprehensive income in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.8 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.

3.9 Provisions

Provisions are recognised when the Company 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.

3.10 Insurance and investment contracts – classification

The Company 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 Company 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 Company; 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 Company; or
 - (iii) the profit or loss of the Company, fund or other entity that issues the contract.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.11 Insurance contracts and investment contracts with DPF

(a) Recognition and measurement

The insurance liabilities in respect of long term business are determined by the Company's appointed actuary in accordance with the requirements of the Hong Kong Insurance Companies (Determination of Long Term Liabilities) Regulation. At each balance sheet date, the Company 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 comprehensive income.

According to section 15 of the Hong Kong Insurance Companies 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.

(i) Short-term insurance contracts

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

Casualty insurance contracts protect the Company'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 Company'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 Company'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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.11 Insurance contracts and investment contracts with DPF - continued

(a) Recognition and measurement - continued

(i) Short-term insurance contracts - continued

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 balance sheet date 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 comprehensive income 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 balance sheet date even if they have not yet been reported to the Company. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.11 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 Company 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 Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company 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 Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company 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 Company assesses its reinsurance assets for impairment at each balance sheet date. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of comprehensive income. The Company 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.11 Insurance contracts and investment contracts with DPF - continued

(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 Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of comprehensive income. The Company 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.

(e) Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The Company 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 end of the reporting period, 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.

3.12 Investment contracts without DPF

Investment contracts without DPF are recognised as financial liabilities on the balance sheet when the Company 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.12 Investment contracts without DPF - continued

Valuation techniques are used to establish the fair value at inception and each reporting date. The Company'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 Company's unitised investments funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the balance sheet date.

This product group includes retirement business contracts, as well as the unit-linked contracts that does not have significant mortality risk.

3.13 Dividend distribution

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

3.14 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company 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 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 balance sheet date 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.14 Current and deferred income tax - continued

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.

3.15 Foreign currency translation

(a) Functional and presentation currency

The financial information is presented in United States dollars, which is the same as the functional currency of the Company.

(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.

3.16 Employee benefits

(a) Pension obligations

The Company 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 Company pays fixed contributions into a separate entity. The Company 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.16 Employee benefits - continued

(b) Bonus plans

The Company recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company 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 Company 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 comprehensive income 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.

3.17 Cash and cash equivalents

In the cash flow statement, 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.

3.18 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.

3.19 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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES - continued

3.19 Fair value of financial instruments - continued

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 Company 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.

3.20 Business combination under common control

Business combinations under common control are accounted for in the financial statements of the Company prospectively from the date the business is acquired. In relation to common control business combination, from the controlling party's perspective no acquisition is deemed to have occurred and there is a continuation of risks and benefits to the controlling party. The consideration transferred in a business combination is measured at fair value. The consideration will include any asset or liability resulting from a contingent consideration arrangement. Asset and liabilities assumed are initially recognised at their carrying amounts, which is equivalent to their existing book values. There is no recognition of goodwill. Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognised directly in equity.

Acquisition-related costs are expensed as incurred.

3.21 Non-current assets (or disposal groups) held-for-sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets except for certain assets as explained below (or disposal groups), are stated at the lower of carrying amount and fair value less costs to sell. Insurance contracts, deferred tax assets, assets arising from employee benefits, and financial assets (other than investments in subsidiaries and associates), which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in this note.

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company 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.

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 Company. Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Company'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 Company has significant exposure to mortality and morbidity risk. Details are set out in note 20 to the financial statements.

Valuation mortality and interest rate assumptions

The Company 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 or other assets carried at amortised cost, 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 comprehensive income. As a practical approach, the Company 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS

Insurance and financial risk management objectives and policies

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks, including other market risks, that the Company 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 Company 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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.1 Insurance risk - continued

(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 Company 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 Company's capacity.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, to impose deductibles and to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (ie, subrogation). Furthermore, the Company limits employers' liability contracts to a maximum cover of HK\$100 million (about US\$13 million) for employers with less than 200 workers or HK\$200 million (about US\$26 million) for employers with more than 200 workers. For property insurance, underwriters will consider their retention table for different industry so as to avoid accepting risk more than the total capacity under surplus treaties. The present total capacity is HK\$75 million (about US\$9.6 million) via fourteen lines.

The Company also has in place excess of loss treaties which ensure that any loss exceeding the retention amount will be recoverable from the reinsurers. The prevailing loss retention under the combined excess of loss treaties covering General Liabilities, Motor and Employers' Liabilities is HK\$4 million (about US\$0.5 million) for each and every loss. Under the Property Catastrophe excess of loss treaties, the loss retention is HK\$5 million (about US\$0.65 million). Under the Marine Cargo excess of loss treaties, the Company has a loss retention of HK\$2 million (about US\$0.26 million).

The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the replacement value of the properties and contents insured. The exposure of risk, maximum probable loss and claims payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm or flood damage. The Company has reinsurance cover for such damage to limit losses to HK\$5 million (about US\$0.65 million) in any one loss occurrence.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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 Company 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 Company 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 balance sheet date.

(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 insured.

For unit-linked business, the Company 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.1 Insurance risk - continued

(b) Long-term insurance contracts - continued

(i) Frequency and severity of claims - continued

The Company 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 Company's underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. The Company also underwrites using geographical, nationality and occupation rating.

(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 Company uses appropriate base tables of standard mortality according to the type of contract being written. An investigation into the actual experience of the Company 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 Company under the annuities issued. To date, none of the policy holders have exercised this option and hence the Company 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 Company estimates the cost of this option to be insignificant under the current economic environment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.1 Insurance risk - continued

(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 Company 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 Company, 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.

5.2 Financial risk

The Company 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 Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Company 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.2 Financial risk - continued

The Risk Committee of the Company identifies the risk appetite of the Company and assesses the Company's risk exposure regularly. The Company has a Management Investment Committee that determines the investment strategy accordingly. A set of the Company's investment mandate is then distributed to the Company'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 Company will encounter difficulty in meeting its obligations associated with its financial liabilities due to shortage of liquid funds. In particular to the Company, the risk that the Company's financial assets are insufficient to fund the guaranteed benefit payments required under its insurance and investment contracts when they fall due.

The Company 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 Company 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 Company'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. Asset balances under no stated maturity equal their carrying balances, as the impact of discounting is not significant. 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.3 Liquidity risk – continued

At 31.12.2016

	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 subsidiaries	932,091	932,091	-	-	-
Investments in associates	53,953	53,953	-	-	-
Listed debt securities:					
- Fixed rate	6,322,142	-	252,275	1,408,951	8,450,584
- Floating rate	12,324	-	746	2,986	16,626
Unlisted debt securities:					
- Fixed rate	384,183	-	64,800	73,440	370,002
- Floating rate	94,907	-	1,883	101,371	-
Listed equity securities	783,033	783,033	-	-	-
Unlisted unit trust investments	2,658,031	2,658,031	-	-	-
Private companies	281,930	281,930	-	-	-
Private company debentures	6,079	-	-	6,079	-
Loans	212,631	-	212,624	7	-
Direct premiums receivable	180,335	-	180,335	-	-
Debtors and prepayments, unsecured	125,002	-	125,002	-	-
Reinsurance assets	579,318	-	94,177	100,676	504,256
Amounts due from reinsurers and intermediaries under reinsurance contracts ceded	607	-	607	-	-
Amounts due from non-insurer subsidiaries	-	-	-	-	-
Amount due from an insurer subsidiary	133,060	-	133,060	-	-
Amount due from immediate holding company	61,975	-	61,975	-	-
Amount due from intermediate holding company	-	-	-	-	-
Amounts due from fellow subsidiaries	8,386	-	8,386	-	-
Derivative financial instruments:					
- Forward currency options	9,435	-	9,127	308	-
- Equity options	5,594	-	-	5,594	-
- Step up swap	-	-	-	-	-
- Interest rate swap	11,377	-	5	6,861	4,511
Pledged bank deposits	358,078	-	205,771	152,307	-
Fixed term bank deposits	130,451	-	111,451	19,000	-
Cash and cash equivalents	543,625	-	543,625	-	-
Current tax assets	-	-	-	-	-
	<u>13,888,547</u>	<u>4,709,038</u>	<u>2,005,849</u>	<u>1,877,580</u>	<u>9,345,979</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.3 Liquidity risk - continued

At 31.12.2016 - 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	6,468,543	-	(376,196)	(875,420)	22,588,568
Insurance contract without DPF	2,074,469	-	1,436,951	227,501	833,869
Investment contract with DPF	150,625	-	(23,485)	(82,910)	784,673
Short-term insurance contracts	147	-	147	-	-
Financial liabilities in investment contracts	1,723,716	-	1,686,682	(5,608)	87,568
Creditors and accrued charges	200,418	-	200,418	-	-
Claims payable	107,624	-	107,624	-	-
Commissions payable	150,779	-	150,779	-	-
Policyholders' fund on deposit	269,395	-	269,395	-	-
Dividend payable	1,199,087	-	1,199,087	-	-
Amounts due to reinsurers and intermediaries under reinsurance contracts ceded	20,403	-	20,403	-	-
Amounts due to non-insurer subsidiaries	-	-	-	-	-
Amount due to an insurer subsidiary	-	-	-	-	-
Amount due to an immediate holding company	-	-	-	-	-
Amount due to intermediate holding company	2,987	-	2,987	-	-
Amounts due to fellow subsidiaries	48,181	-	48,181	-	-
Derivative financial instruments:					
- Forward currency contracts	6,476	-	3,671	2,805	-
- Equity options	-	-	-	-	-
- Step up swap	-	-	-	-	-
- Interest rate swap	2,875	-	105	1,348	1,422
Current tax payable	2,985	-	2,985	-	-
	<u>12,428,710</u>	<u>-</u>	<u>4,729,734</u>	<u>(732,284)</u>	<u>24,296,100</u>
Net expected cash inflow/(outflows)		<u>4,709,038</u>	<u>(2,723,885)</u>	<u>2,609,864</u>	<u>(14,950,121)</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.3 Liquidity risk - continued

At 31.12.2015

	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 assets:					
Investments in subsidiaries	738,956	738,956	-	-	-
Investments in associates	51,525	51,525	-	-	-
Listed debt securities:					
- Fixed rate	5,002,081	-	275,576	1,135,651	6,873,335
- Floating rate	431	-	36	145	2,256
Unlisted debt securities:					
- Fixed rate	815,702	-	43,805	188,226	1,093,143
- Floating rate	94,965	-	95,435	-	-
Listed equity securities	578,626	578,626	-	-	-
Unlisted unit trust investments	2,558,780	2,558,780	-	-	-
Private companies	291,234	291,234	-	-	-
Private company debentures	7,054	-	7,054	-	-
Loans	219,734	-	219,711	23	-
Direct premiums receivable	134,908	-	134,908	-	-
Debtors and prepayments, unsecured	148,931	-	148,931	-	-
Reinsurance assets	513,372	-	36,551	148,407	508,433
Amounts due from reinsurers and intermediaries under reinsurance contracts ceded	607	-	607	-	-
Amounts due from non-insurer subsidiaries	-	-	-	-	-
Amount due from an insurer subsidiary	115,736	-	115,736	-	-
Amount due from immediate holding company	60,675	-	60,675	-	-
Amount due from intermediate holding company	-	-	-	-	-
Amounts due from fellow subsidiaries	4,670	-	4,670	-	-
Derivative financial instruments:					
- Forward currency options	3,456	-	3,454	2	-
- Equity options	5,136	-	37	5,099	-
- Step up swap	-	-	939	21,034	3,560
- Interest rate swap	14,206	-	12	3,620	10,574
Pledged bank deposits	323,023	-	159,069	163,954	-
Fixed term bank deposits	40,000	-	40,000	-	-
Cash and cash equivalents	555,415	-	555,415	-	-
Current tax assets	191	-	191	-	-
	<u>12,279,414</u>	<u>4,219,121</u>	<u>1,902,812</u>	<u>1,666,161</u>	<u>8,491,301</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.3 Liquidity risk - continued

At 31.12.2015 - 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	5,851,724	-	(174,261)	(245,408)	16,063,874
Insurance contract without DPF	1,760,023	-	1,081,648	269,729	729,471
Investment contract with DPF	96,309	-	(16,819)	(76,387)	701,796
Short-term insurance contracts	8,421	-	8,421	-	-
Financial liabilities in investment contracts	1,787,289	-	1,738,224	4,855	69,009
Creditors and accrued charges	87,265	-	87,265	-	-
Claims payable	92,349	-	92,349	-	-
Commissions payable	117,081	-	117,081	-	-
Policyholders' fund on deposit	113,293	-	113,293	-	-
Dividend payable	1,095,310	-	1,095,310	-	-
Amounts due to reinsurers and intermediaries under reinsurance contracts ceded	27,833	-	27,833	-	-
Amounts due to non-insurer subsidiaries	2,588	-	2,588	-	-
Amount due to an insurer subsidiary	-	-	-	-	-
Amount due to an immediate holding company	-	-	-	-	-
Amount due to intermediate holding company	2,979	-	2,979	-	-
Amounts due to fellow subsidiaries	20,714	-	20,714	-	-
Derivative financial instruments:					
- Forward currency contracts	4,136	-	905	3,231	-
- Equity options	137	-	137	-	-
- Step up swap	47,151	-	10,768	54,419	61,982
- Interest rate swap	2,032	-	370	625	1,037
Current tax payable	-	-	-	-	-
	<u>11,116,634</u>	<u>-</u>	<u>4,208,805</u>	<u>11,064</u>	<u>17,627,169</u>
Net expected cash inflow/(outflows)		<u>4,219,121</u>	<u>(2,305,993)</u>	<u>1,655,097</u>	<u>(9,135,868)</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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 Company'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 Company's expectations of future investment returns.

The Company 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 Company as these are discretionary benefits.

(b) Investment contracts without DPF

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

The Company'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 Company 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 Company 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 which are classified as fair value through profit and loss, and which may differ from corresponding changes, if any, in the value of the liabilities. The company mitigates interest rate risk through its asset liability management process.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.5 Credit risk

The Company 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 Company 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 and equity securities,
- counterparty risk with respect to derivative transactions, and
- bank balances.

The Company 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 Company's liability as a primary insurer. If a reinsurer fails to pay a claim for any reason, the Company 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.

The maximum credit risk for financial assets recognised on the balance sheet is the carrying amount less, where applicable, any provision for doubtful debts.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.5 Credit risk - continued

(i) Analysis of underlying credit exposure:

	Issue Credit ratings per Standard & Poor's						Not rated	Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-		
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
As at 31 December 2016:								
Debt securities	1,516,869	1,083,551	2,637,050	1,424,519	9,213	1,682	146,751	6,819,635
Loans and receivables	-	-	-	-	-	-	721,998	721,998
Reinsurance assets	-	-	-	-	-	-	579,318	579,318
Derivative financial instruments	-	-	-	-	-	-	26,406	26,406
Pledged bank deposits	-	-	-	-	-	-	358,078	358,078
Fixed term bank deposits	-	-	-	-	-	-	130,451	130,451
Cash and cash equivalents	-	-	-	-	-	-	543,625	543,625
Total assets bearing credit risk	1,516,869	1,083,551	2,637,050	1,424,519	9,213	1,682	2,506,627	9,179,511
As at 31 December 2015:								
Debt securities	1,652,363	884,999	2,362,842	900,560	12,708	239	106,521	5,920,232
Loans and receivables	-	-	-	-	-	-	685,260	685,260
Reinsurance assets	-	-	-	-	-	-	513,372	513,372
Derivative financial instruments	-	-	-	-	-	-	22,798	22,798
Pledged bank deposits	-	-	-	-	-	-	323,023	323,023
Fixed term bank deposits	-	-	-	-	-	-	40,000	40,000
Cash and cash equivalents	-	-	-	-	-	-	555,415	555,415
Total assets bearing credit risk	1,652,363	884,999	2,362,842	900,560	12,708	239	2,246,389	8,060,100

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.5 Credit risk - continued

(ii) Collateral

	<u>At 31.12.2016</u> US\$'000	<u>At 31.12.2015</u> US\$'000
Fair value of collateral held:		
Under repurchase agreement	99,407	-
Cash for derivative		
- Collar	4,824	471
- Forward currency contracts	3,166	-
- Interest rate swap	7,300	12,600
	<u>114,697</u>	<u>13,071</u>

Repo

The Company entered into a Global Master Repurchase Agreement ("GMRA") with a financial institution 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 Company authorizes 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 Company agrees to pay the agent a fee based on the notional amount of the repurchase transaction. For the balance outstanding as at 31 December 2016 is US\$99,406,857, 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.5 Credit risk - continued

(ii) Collateral - continued

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.

5.6 Price risk

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

5.7 Currency risk

The Company 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 Company operates in Hong Kong and issues Hong Kong dollar and United States dollar denominated policies. The Company'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 Company's foreign currency exchange rate risk. As at 31 December 2016, the majority of the Company'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 Company.

Within the constraints of the investment mandates, the Company 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 Company'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 Company, 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\$3,009,286,969 (2015: US\$2,828,035,065).

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.7 Currency risk – continued

As at 31 December 2016

	HK Dollars	US Dollars	Other currencies	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Financial Assets	838,052	9,506,404	534,805	10,879,261
Insurance and financial liabilities	(3,248,128)	(5,931,647)	(239,650)	(9,419,425)
Net on-balance sheet position	(2,410,076)	3,574,757	295,155	1,459,836
Off-balance sheet net notional position*	1,095,070	(881,339)	(210,772)	2,959
	<u>(1,315,006)</u>	<u>2,693,418</u>	<u>84,383</u>	<u>1,462,795</u>

As at 31 December 2015

	HK Dollars	US Dollars	Other currencies	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Financial Assets	327,898	8,676,997	446,482	9,451,377
Insurance and financial liabilities	(1,833,013)	(6,206,687)	(248,900)	(8,288,600)
Net on-balance sheet position	(1,505,115)	2,470,310	197,582	1,162,777
Off-balance sheet net notional position*	834,686	(703,480)	(131,886)	(680)
	<u>(670,429)</u>	<u>1,766,830</u>	<u>65,696</u>	<u>1,162,097</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 Company's exposure to currency movements.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.8 Sensitivity analysis

The Company 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 Company'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) in profit</u> <u>and shareholders' equity</u>	
	<u>Year ended</u> <u>31.12.2016</u> US\$'000	<u>Year ended</u> <u>31.12.2015</u> US\$'000
Assumed future return on debt securities + 0.5%	(184,210)	(103,906)
Assumed future return on debt securities - 0.5%	21,279	(212,213)
Assumed future equity securities return rate + 5%	34,183	27,014
Assumed future equity securities return rate - 5%	(31,588)	(26,272)
Assumed mortality assumption +10%	(88,851)	(33,279)
Assumed morbidity assumption +10%	(25,952)	(55,020)

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS - continued

5.9 Capital management

The Company'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 Companies 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 Company may adjust the amount of dividends paid to shareholders or return capital to shareholders.

Consistent with other entities in the industry, the Company and the parent entity monitor capital on the basis of the solvency ratio. This ratio is calculated as total capital and surplus divided by minimum solvency margin.

	<u>At 31.12.2016</u>	<u>At 31.12.2015</u>
	US\$'000	US\$'000
Capital and surplus (including unassigned surplus)	1,459,622	1,166,185
Minimum solvency margin	392,286	346,817
Solvency ratio	<u>372%</u>	<u>336%</u>

The solvency ratio is 372% (2015: 336%) which is above the regulatory requirement of 100%.

Investigations have been carried out into the extent of adequacy of assets to cover liabilities valued under different investment conditions. The test is done on an individual entity basis and US\$195,881,598 (2015: US\$139,304,497) of resilience reserve is held in the Company.

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), 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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 balance sheet date across the above three levels of the fair value measurements hierarchy is presented in the following tables:

At 31.12.2016	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Recurring fair value measurement				
ASSETS				
Investment in subsidiaries				
-unlisted unit trusts	148,753	511,035	-	659,788
Investment in associates				
-unlisted unit trusts	-	53,953	-	53,953
Financial assets at fair value through profit or loss:				
Listed debt securities				
- Fixed rate	3,514,808	2,807,334	-	6,322,142
- Floating rate	509	11,815	-	12,324
Unlisted debt securities				
- Fixed rate	80,178	304,005	-	384,183
- Floating rate	-	94,907	-	94,907
Listed equity securities	722,492	60,541	-	783,033
Unlisted unit trust investments and others	1,868,044	211,580	578,407	2,658,031
Private companies	-	-	281,930	281,930
Private company debentures	-	-	6,079	6,079
	<u>6,334,784</u>	<u>4,055,170</u>	<u>866,416</u>	<u>11,256,370</u>
Derivative financial instruments:				
-Forward currency contracts	9,435	-	-	9,435
-Equity options	-	5,594	-	5,594
-Interest rate swap	-	11,377	-	11,377
	<u>9,435</u>	<u>16,971</u>	<u>-</u>	<u>26,406</u>
LIABILITIES				
Financial liabilities				
-investment contracts	1,128,455	22,264	572,997	1,723,716
Derivative financial instruments:				
-Forward currency contracts	6,476	-	-	6,476
- Equity options	-	-	-	-
-Step up swap	-	-	-	-
-Interest rate swap	-	2,875	-	2,875
	<u>1,134,931</u>	<u>25,139</u>	<u>572,997</u>	<u>1,733,067</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

6.1 Fair value hierarchy - continued

At 31.12.2015	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Recurring fair value measurement				
ASSETS				
Investment in subsidiaries				
-unlisted unit trusts	124,430	342,223	-	466,653
Investment in associates				
-unlisted unit trusts	-	51,525	-	51,525
Financial assets at fair value through profit or loss:				
Listed debt securities				
- Fixed rate	2,330,132	2,671,949	-	5,002,081
- Floating rate	-	431	-	431
Unlisted debt securities				
- Fixed rate	513,687	302,014	-	815,701
- Floating rate	-	94,965	-	94,965
Listed equity securities	566,589	12,036	-	578,625
Unlisted unit trust investments and others	1,850,453	230,263	478,065	2,558,781
Private companies	-	-	291,234	291,234
Private company debentures	-	-	7,054	7,054
	<u>5,385,291</u>	<u>3,705,406</u>	<u>776,353</u>	<u>9,867,050</u>
Derivative financial instruments:				
-Forward currency contracts	3,456	-	-	3,456
-Equity options	-	5,136	-	5,136
-Interest rate swap	-	14,206	-	14,206
	<u>3,456</u>	<u>19,342</u>	<u>-</u>	<u>22,798</u>
LIABILITIES				
Financial liabilities				
-investment contracts	1,169,644	16,383	601,262	1,787,289
Derivative financial instruments:				
-Forward currency contracts	4,136	-	-	4,136
- Equity options	-	137	-	137
-Step up swap	-	47,151	-	47,151
-Interest rate swap	-	2,032	-	2,032
	<u>1,173,780</u>	<u>65,703</u>	<u>601,262</u>	<u>1,840,745</u>

As at 31 December 2016, there were US\$395,200,550 (2015: US\$152,419,382) transfers from Level 2 to Level 1 due to the market for identical bonds becoming active. There were US\$132,964,821 (2015: US\$514,718,433) transfers from Level 1 to Level 2 due to the market for identical bonds becoming inactive. The company'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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

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 balance sheet date. 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 Company 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.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

6.4 Financial instrument in Level 3

<u>Description</u>	<u>Fair value as at 31.12.2016</u> US\$000	<u>Valuation technique(s)</u>	<u>Unobservable input</u>	<u>Range (Weighted average)</u>
Unlisted unit trust investments and others:				
Unlisted unit trust	578,407	Net asset value	n/a	n/a
Private companies	281,930	Net asset value	n/a	n/a
Private company debentures	6,079	Discounted cash flow	n/a	n/a

The company 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.

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 Company'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 Company has carried out certain additional procedures to assess a relevant fair valuation as at 31 December 2016.

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 very 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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>	Financial assets at fair value through profit or loss US\$'000
At 1 January 2015	498,674
Payment for purchases	428,223
Proceeds from sales	(83,282)
Transfer into level 3 during the year	-
Transfer from level 3 to level 2 during the year	(51,917)
Net total losses for the period recognised in comprehensive income	
- Included in net realised and unrealised gains on investments	(15,345)
At 31 December 2015	776,353
Payment for purchases	187,486
Proceeds from sales	(93,967)
Transfer into level 3 during the year	-
Transfer from level 3 to level 2 during the year	-
Net total losses for the period recognised in comprehensive income	
- Included in net realised and unrealised gains on investments	(3,456)
At 31 December 2016	866,416
Change in unrealised losses for 2016 recognised in comprehensive income	
-Included in net realised and unrealised gains on investments	(3,456)

As at 31 December 2016, there was US\$Nil transfer from level 3 to level 2 because most subscriptions of the fund would be invested in the underlying investments and those investments whose fair value is based on quoted market prices, involving valuation techniques where all the model inputs are observable in the market. As at 31 December 2015, there was US\$51,916,397 transfer from level 3 to level 2.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

6.4 Information about Level 3 fair value measurement – continued

<u>Financial liabilities</u>	Financial liabilities at fair value through <u>profit or loss</u> US\$'000
At 1 January 2015	340,626
Net movement in investment contract liabilities from contributions and releases	265,739
Transfer into level 3 during the year	-
Transfer from level 3 to level 2 during the year	(5,103)
	<hr/>
At 31 December 2015	601,262
Net movement in investment contract liabilities from contributions and releases	(28,265)
Transfer into level 3 during the year	-
Transfer from level 3 to level 2 during the year	-
	<hr/>
At 31 December 2016	572,997
	<hr/>
Change in unrealised gains /(losses) for the period included in comprehensive income at 31 December 2016	-

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

7. INSURANCE PREMIUM REVENUE

Insurance premium revenue represents gross insurance premiums written from direct and reinsurance accepted businesses, including contributions in respect of retirement business during the year, as follows:

	Gross Premium	Reinsurance Premium Accepted	Reinsurance Premium Ceded	Net Insurance Premium Revenue
	US\$	US\$	US\$	US\$
<u>Year ended 31.12.2016</u>				
Long term business	2,028,850,750	35,047,182	(279,907,057)	1,783,990,875
General business	18,548,173	172,504	(57,092)	18,663,585
Retirement business	-	-	-	-
	<u>2,047,398,923</u>	<u>35,219,686</u>	<u>(279,964,149)</u>	<u>1,802,654,460</u>
<u>Year ended 31.12.2015</u>				
Long term business	1,581,303,278	36,575,104	(140,592,158)	1,477,286,224
General business	14,736,563	143,682	(2,610,990)	12,269,255
Retirement business	78,599,346	-	-	78,599,346
	<u>1,674,639,187</u>	<u>36,718,786</u>	<u>(143,203,148)</u>	<u>1,568,154,825</u>

The comparative balance includes the insurance premium revenue from discontinued operations.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

8. INVESTMENT INCOME AND NET REALISED AND UNREALISED GAINS ON INVESTMENTS

	Year ended 31.12.2016 US\$	Year ended 31.12.2015 US\$
Investment income		
Interest income on debt securities	233,003,273	240,430,776
Interest income on bank deposits	9,925,700	10,601,248
Interest income on policy loans	16,171,065	16,526,979
Other interest income	18,577,357	12,758,334
Exchange gains/ (losses)	(1,252,059)	(556,077)
Total interest income	276,425,336	279,761,260
Dividend from subsidiaries	70,922,443	172,581,530
Dividend from equity securities	34,647,904	30,301,118
Other investment income	22,677,766	21,925,405
Total investment income	404,673,449	504,569,313
Net realised gains/ (losses)		
Financial assets designed at fair value through profit or loss	141,320,749	284,154,293
Derivative financial instruments	(65,515,157)	34,547,757
	75,805,592	318,702,050
Net unrealised gains/ (losses)		
Financial assets designed at fair value through profit or loss	9,307,224	(758,603,160)
Derivative financial instruments	48,065,786	(2,410,016)
	57,373,010	(761,013,176)
Total net realised and unrealised gains on investments	133,178,602	(442,311,126)
TOTAL	537,852,051	62,258,187

The comparative balance includes the investment income and net realised and unrealised gains on investments from discontinued operations.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

9. PROFIT BEFORE TAXATION

	Year ended 31.12.2016 US\$	Year ended 31.12.2015 US\$
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	969,131	969,719
Directors' remuneration	10,000	10,000
Depreciation	114,880	60,998
Amortisation of intangible asset	2,885,703	2,936,662
Loss on disposal of intangible assets	3,222	-
Staff costs (note)	-	-
Pension costs – defined contribution plans (note)	-	-
and after crediting:		
Interest income on debt securities		
- listed	220,656,910	222,852,611
- unlisted	12,346,363	17,578,165
Dividend income from subsidiaries	70,922,443	172,581,530
Dividend income		
- listed	19,996,977	16,165,870
- unlisted	14,650,927	14,135,248
Interest income on policy loans	16,171,065	16,526,979
Interest income on secured mortgage and other loans	953	1,420
Interest income on bank deposits	9,925,700	10,601,248
Interest income from subsidiaries	-	60
Interest income from immediate holding company	1,338,949	1,082,365
Other interest income	17,237,455	11,674,549
Exchange losses	(8,820,734)	(27,036,313)

The comparative balance has included the components of profit before tax from discontinued operations.

Note: Staff costs and pension costs for the current and prior year were borne and recharged to the Company by an insurer subsidiary. The directors received unapportioned remuneration of US\$2,792,227 (2015: US\$2,559,744) from the Company'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\$2,802,227 (2015: US\$2,559,744). 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

10. TAXATION

	Year ended 31.12.2016 US\$	Year ended 31.12.2015 US\$
The charge/(credit) comprises:		
Current tax:		
Hong Kong Profits Tax		
- Current tax on profits for the year	15,990,891	13,828,326
- Adjustments in respect of prior years	-	-
Overseas		
- Current tax on profits for the year	-	-
- Adjustments in respect of prior years	(88,989)	89,042
- Overseas withholding tax	4,711,364	4,036,230
Total current tax	20,613,266	17,953,598
Deferred taxation (note 18):		
Origination and reversal of temporary differences	496,723	(1,829,673)
Release of deferred tax assets previously recognized	3,005,065	-
Adjustments in respect of prior years	-	(84,728)
Total deferred tax	3,501,788	(1,914,401)
Taxation	24,115,054	16,039,197

The comparative balance includes the taxation of discontinued operations of US\$799,006.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

10. TAXATION - continued

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

	Year ended 31.12.2016 US\$	Year ended 31.12.2015 US\$
Profit before taxation	342,301,004	355,193,264
Adjustments:		
Profit from long term life business (note)	(341,876,372)	(348,900,054)
Profit before tax for overseas branch included in profit from long term life business	(7,957,697)	(16,337,275)
Adjusted profit before tax	<u>(7,533,065)</u>	<u>(10,044,065)</u>
Tax at the Hong Kong Profits Tax rate of 16.5% (2015: 16.5%)	(1,242,956)	(1,657,270)
Tax on life insurance business in Hong Kong (note)	15,314,976	13,971,000
Tax effect of non-taxable income	(24,953)	(1,242,884)
Tax effect of non-deductible expenses	812,667	235,478
Tax losses - not recognised	1,310,369	-
Effect of different tax rate of the branch operating in other jurisdictions	317,511	692,328
Under / (Over) provision in prior year	(88,989)	4,315
Release of deferred tax assets previously recognized	3,005,065	-
Overseas withholding tax	4,711,364	4,036,230
Taxation	<u>24,115,054</u>	<u>16,039,197</u>

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% (2015: 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 31.12.2016 US\$	Year ended 31.12.2015 US\$
Ordinary shares		
Interim, paid – US\$0.15 (2015: US\$0.34) per share	25,793,000	59,314,000
Extraordinary, paid – US\$Nil (2015: US\$1.61) per share	-	283,869,136
	<u>25,793,000</u>	<u>343,183,136</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

12. INTANGIBLE ASSETS

	Career and Production bonus	Deferred commission	Total
	US\$	US\$	US\$
COST			
At 1 January 2015	789,437	2,765,998	3,555,435
Exchange difference	-	1,802	1,802
Additions	-	2,838,720	2,838,720
Disposal	-	(2,767,801)	(2,767,801)
At 31 December 2015	789,437	2,838,719	3,628,156
Exchange difference	-	(1,720)	(1,720)
Additions	-	1,841,177	1,841,177
Disposal	(3,222)	(2,837,000)	(2,840,222)
At 31 December 2016	786,215	1,841,176	2,627,391
AMORTISATION			
At 1 January 2015	657,634	1,729,123	2,386,757
Exchange difference	(86)	1,126	1,040
Charged for the year	127,271	2,809,391	2,936,662
Eliminated on disposals	-	(2,767,801)	(2,767,801)
At 31 December 2015	784,819	1,771,839	2,556,658
Exchange difference	3	(1,073)	(1,070)
Charged for the year	1,393	2,884,310	2,885,703
Eliminated on disposals	-	(2,837,000)	(2,837,000)
Adjustment	-	-	-
At 31 December 2016	786,215	1,818,076	2,604,291
NET BOOK VALUES			
At 31 December 2016	-	23,100	23,100
At 31 December 2015	4,618	1,066,880	1,071,498

Career bonus and production bonus are offered under an 'Experience Hire Program' by the Company starting from 2009. The bonuses are then amortised on a straight line basis over 4 years.

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

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

13. PLANT AND EQUIPMENT

	<u>Leasehold improvements</u> US\$	<u>Furniture, fixtures and equipment</u> US\$	<u>Total</u> US\$
COST			
At 1 January 2015	5,992,531	7,741,299	13,733,830
Exchange difference	760	174	934
Additions	483,208	86,669	569,877
At 31 December 2015	6,476,499	7,828,142	14,304,641
Exchange difference	(1,000)	(215)	(1,215)
Additions	-	165	165
At 31 December 2016	6,475,499	7,828,092	14,303,591
DEPRECIATION			
At 1 January 2015	5,983,734	7,734,820	13,718,554
Exchange difference	754	170	924
Provided for the year	49,071	11,927	60,998
At 31 December 2015	6,033,559	7,746,917	13,780,476
Exchange difference	(732)	(165)	(897)
Provided for the year	96,583	18,297	114,880
At 31 December 2016	6,129,410	7,765,049	13,894,459
NET BOOK VALUE			
At 31 December 2016	<u>346,089</u>	<u>63,043</u>	<u>409,132</u>
At 31 December 2015	<u>442,940</u>	<u>81,225</u>	<u>524,165</u>

14. INVESTMENTS IN SUBSIDIARIES

	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
Unlisted shares, at cost	272,302,947	272,302,947
Unlisted unit trusts, at fair value	659,788,054	466,652,863
	<u>932,091,001</u>	<u>738,955,810</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

14. INVESTMENTS IN SUBSIDIARIES - continued

Details of the subsidiaries as at 31 December 2016 are as follows:

<u>Name of company</u>	<u>Place of incorporation</u>	<u>Class of shares held</u>	<u>Proportion of nominal value of issued capital held by the Company</u>		<u>Number of shares held</u>	<u>Number of issued shares</u>	<u>Principal activities</u>
			Directly	Indirectly			
AXA China Region Insurance Company Limited	Hong Kong	Ordinary	100%	-	19,940,000 ordinary	19,940,000 ordinary	Insurance underwriter
AXA Financial Planning (Hong Kong) Limited	Hong Kong	Ordinary	100%	-	1,034,000 ordinary	1,034,000 ordinary	Unit trust management services
AXA China Region Investment Services Limited	Hong Kong	Ordinary	100%	-	5,000 ordinary	5,000 ordinary	Distribution of securities services
AXA Partners Limited	Hong Kong	Ordinary	100%	-	4,410,000 ordinary	4,410,000 ordinary	Nominee services
AXA Financial Services Trustees Limited	Hong Kong	Ordinary	20%	40%	6,000,000 ordinary 12,000,000 ordinary (indirectly)	30,000,000 ordinary	Trustee services

<u>Name of unit trusts</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>
Negative Basis Trades Fund	France	Class "A"	78.46%	440,745	561,772	Unit trust
AXA Unit Trusts – Pacific Fund Trust	Hong Kong	Class "A"	78.88%	2,417,592	3,065,002	Unit trust
AXA Unit Trusts – Currency & Bond Fund	Hong Kong	Ordinary	79.67%	402,706	505,473	Unit trust

The financial statements of the subsidiaries have not been consolidated as the Company is a subsidiary of AXA, which is incorporated in France and prepares consolidated financial statements available for public use which comply with International Financial Reporting Standards. These financial statements are obtainable at www.axa.com.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

15. INVESTMENTS IN ASSOCIATES

	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
Unlisted unit trust, at fair value	<u>53,953,211</u>	<u>51,524,766</u>

Particulars of the Company's associates as at 31 December 2016 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>
AB Multi-Manager Hedge Fund	Cayman Island	Class "2"	27.89%	431,053	1,545,527	Unit trust
AB Fund of Hedged Fund	Luxembourg	Class "A"	39.22%	116,441	296,897	Unit trust

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

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

	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
Net assets	<u>186,746,965</u>	<u>130,455,974</u>
	<u>Year ended</u> <u>31.12.2016</u> US\$	<u>Year ended</u> <u>31.12.2015</u> US\$
Profit for the year	<u>549,094</u>	<u>16,179,781</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

16. INVESTMENTS IN SECURITIES

(a) The Company manages certain investment portfolios on behalf of its group entities. Please refer to note 30 for details. The following represents the Company's own share in the investment portfolios.

	At fair value through profit or loss	
	<u>At 31.12.2016</u>	<u>At 31.12.2015</u>
	US\$	US\$
Fixed interest debt investments		
Government		
- listed	1,459,934,931	1,058,583,693
- unlisted	77,818,156	488,546,245
Others		
- listed	4,862,206,577	3,943,497,384
- unlisted	306,364,293	327,155,422
Floating interest debt investments		
Others		
- Listed	12,324,062	431,110
- Unlisted	94,907,124	94,964,679
Other interest investments		
Listed equity shares	783,033,330	578,625,267
Unlisted unit trust investments	2,658,031,412	2,558,780,784
Private companies	281,929,748	291,233,617
Private company debentures	6,079,390	7,054,074
	<u>10,542,629,023</u>	<u>9,348,872,275</u>
Total		
- listed	7,117,498,900	5,581,137,454
- unlisted	<u>3,425,130,123</u>	<u>3,767,734,821</u>
	<u>10,542,629,023</u>	<u>9,348,872,275</u>
Analysed as:		
Current assets	71,484,246	107,534,825
Non-current assets	10,471,144,777	9,241,337,450

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

The Company 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, organized as limited partnerships and limited liability companies. These Other Entities are not sponsored by the Company. The Company’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 Company generates from these Other Entities is recorded in investment income and net realised and unrealised gains/ (losses) on investments. The Company 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 Company 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 Company does not bear the risk associated with these assets.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

17. LOANS

	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
Policy loans	196,153,427	203,229,738
Secured mortgage loans	147,498	163,384
Loan to a fellow subsidiary	16,318,601	16,328,496
Other unsecured loans	11,953	12,044
	<u>212,631,479</u>	<u>219,733,662</u>
Current	212,624,555	219,710,457
Non-current	6,924	23,205

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 (2015: 8% per annum). The secured loans bear an interest at market rate. The unsecured loans are interest free.

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

18. DEFERRED TAXATION

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

	<u>Unrealised investment gains/losses</u> US\$	<u>Tax losses</u> US\$	<u>Deferred origination costs</u> US\$
At 1 January 2015	872,677	(1,818,898)	-
Charge/(credit) for the year (note 10)	(725,496)	(1,186,804)	-
Exchange difference	569	(1,186)	-
At 31 December 2015	<u>147,750</u>	<u>(3,006,888)</u>	-
Charge/(credit) for the year (note 10)	496,723	3,005,065	-
Exchange difference	(90)	1,823	-
At 31 December 2016	<u>644,383</u>	<u>-</u>	-

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

18. DEFERRED TAXATION - continued

	Accelerated tax <u>depreciation</u> US\$	<u>Provisions</u> US\$	<u>Total</u> US\$
At 1 January 2015	(6,633)	(10,686)	(963,540)
Charge/(credit) for the year (note 10)	(614)	(1,487)	(1,914,401)
Exchange difference	(4)	(7)	(628)
At 31 December 2015	(7,251)	(12,180)	(2,878,569)
Charge/(credit) for the year (note 10)	-	-	3,501,788
Exchange difference	4	7	1,744
At 31 December 2016	<u>(7,247)</u>	<u>(12,173)</u>	<u>624,963</u>

19. SHARE CAPITAL

	Number of shares	Share capital US\$
Ordinary shares of US\$1 each:		
Authorised:		
Balance at 1 January 2015	244,000,000	244,000,000
Increase of shares	-	-
Balance at 31 December 2015	244,000,000	244,000,000
Increase of shares	-	-
Balance at 31 December 2016	<u>244,000,000</u>	<u>244,000,000</u>
Issued and fully paid:		
Balance at 1 January 2015	175,782,800	175,782,800
New issues during the year	-	-
Balance at 31 December 2015	175,782,800	175,782,800
New issues during the year	-	-
Balance at 31 December 2016	<u>175,782,800</u>	<u>175,782,800</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT CONTRACTS

Insurance liabilities and reinsurance assets

	<u>At 31.12.2016</u> US\$	<u>At 31.12. 2015</u> US\$
Gross:		
Short-term insurance contracts		
- unearned premiums	147,066	6,963,912
- unexpired risk provision	29	1,457,030
Life insurance contracts		
- with DPF	6,468,543,347	5,851,724,293
- without DPF	2,074,468,815	1,760,023,001
Investment contracts with DPF	150,625,185	96,308,518
Total insurance liabilities, gross	<u>8,693,784,442</u>	<u>7,716,476,754</u>
	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
Recoverable from reinsurers:		
Short-term insurance contracts		
- unearned premiums	198	1,047,257
- unexpired risk provision	-	-
Life insurance contracts		
- with DPF	383,226,341	309,437,422
- without DPF	144,616,939	168,587,912
Total reinsurer's share of liabilities (included in reinsurance assets)	<u>527,843,478</u>	<u>479,072,591</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT
CONTRACTS - continued

	<u>At 31.12.2016</u>	<u>At 31.12.2015</u>
	US\$	US\$
Net:		
Short-term insurance contracts		
- unearned premiums	146,868	5,916,655
- unexpired risk provision	29	1,457,030
Life insurance contracts		
- with DPF	6,085,317,006	5,542,286,871
- without DPF	1,929,851,876	1,591,435,089
Investment contracts with DPF	150,625,185	96,308,518
Total insurance liabilities, net	<u>8,165,940,964</u>	<u>7,237,404,163</u>

Financial liabilities – investment contracts and reinsurance assets

	<u>At 31.12.2016</u>	<u>At 31.12.2015</u>
	US\$	US\$
Gross:		
Investment contracts without DPF	<u>1,723,716,048</u>	<u>1,787,288,605</u>
Recoverable from reinsurers:		
Investment contracts without DPF	<u>-</u>	<u>-</u>
Net:		
Investment contracts without DPF	<u>1,723,716,048</u>	<u>1,787,288,605</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. 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 Company's experience is chosen depending on the type of contract. A margin for prudence is then added to these assumptions. For ACRIB policies not transferred from AXA (Hong Kong) Company Limited (formerly known as AXA (Hong Kong) Life Insurance Company Limited), the mortality assumption currently used is 110% (2015: 115%). For ACRIB policies transferred from AXA (Hong Kong) Company Limited in 2012, the mortality assumption currently used is 110% (2015: 115%)

- Morbidity

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. 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

• Valuation interest rate

The regulatory maximum interest rate is determined for each product group. This is the weighted average of the yield on long term government bonds for the 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 product grouping of the valuation interest rates was reviewed and implemented in 2016, 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:

Valuation Interest Rate as at 12.31.2016

CRIB (HK) Non-HKD	VIR
Group 1	3.39%
Group 2	3.29%
Group 3	3.09%
Group 4	2.94%
Group 5	2.11%

CRIB (HK) HKD	VIR
Group 1	3.22%
Group 2	2.82%
Group 3	2.76%
Group 4	2.62%
Group 5	2.20%

CRIB (MA)	VIR
Group 1	3.05%
Group 2	3.04%
Group 3	3.04%
Group 4	2.72%
Group 5	2.11%

CRIB (HSR)	VIR
	0.96%

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. **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

Valuation Interest Rate as at 31.12.2015

CRIB (HK) Non-HKD	VIR
Group 1	4.03%
Group 2	3.86%
Group 3	3.44%
Group 4	2.47%
Group 5	1.76%

CRIB (HK) HKD	VIR
Group 1	2.78%
Group 2	2.78%
Group 3	2.78%
Group 4	2.23%
Group 5	1.56%

CRIB (MA)	VIR
Group 1	3.26%
Group 2	3.44%
Group 3	2.83%
Group 4	2.51%
Group 5	1.73%

CRIB (HSR)	VIR
	0.96%

The policy reserves adopted for HKFRS are the same as those determined in accordance with the requirements of the HKICO. 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 HKICO specifies that all reserves must be prudent.

Change in assumptions

The valuation mortality rate updated to 110% (2015: 115%) of best estimate mortality rate during the year. The best estimate mortality rate in respect of the National Life business is 69% of HKA01 (adjusted) (2015: 69% of HKA01) for female and 65% of HKA01 (adjusted) (2015: 69% of HKA01) for male during the year. The best estimate mortality rate in respect of the business transferred from AXA (Hong Kong) Company Limited is 70% of HKA01 (adjusted) (2015: 75% of HKA01) for female and 60% of HKA01 (adjusted) (2015: 65% of HKA01) for male during the year. The best estimate mortality rate in respect of other life business is 60% of HKA01 (adjusted) (2015: 60% of HKA01) for female and 50% of HKA01 (adjusted) (2015: 60% of HKA01) for male during the year. The impact of this change was a US\$70 million decrease in reserves at 31 December 2016.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. 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 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\$21 million increase in reserves at 31 December 2016.

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.

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

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. 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

Assumed market return on debt securities + 0.5%

Valuation Interest Rate as at 31.12.2016

CRIB (HK) Non-HKD	VIR
Group 1	3.69%
Group 2	3.62%
Group 3	3.48%
Group 4	3.20%
Group 5	2.61%

CRIB (HK) HKD	VIR
Group 1	3.43%
Group 2	3.05%
Group 3	3.01%
Group 4	2.82%
Group 5	2.59%

CRIB (MA)	VIR
Group 1	3.29%
Group 2	3.30%
Group 3	3.34%
Group 4	3.14%
Group 5	2.50%

Valuation Interest Rate as at 31.12.2015

CRIB (HK) Non-HKD	VIR
Group 1	4.30%
Group 2	4.23%
Group 3	3.79%
Group 4	2.95%
Group 5	2.14%

CRIB (HK) HKD	VIR
Group 1	3.00%
Group 2	3.01%
Group 3	3.14%
Group 4	2.72%
Group 5	1.92%

CRIB (MA)	VIR
Group 1	3.50%
Group 2	3.73%
Group 3	3.29%
Group 4	3.00%
Group 5	2.12%

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. 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

Assumed market return on debt securities – 0.5%

Valuation Interest Rate as at 31.12.2016

CRIB (HK) Non-HKD	VIR
Group 1	3.09%
Group 2	2.96%
Group 3	2.66%
Group 4	2.46%
Group 5	1.72%

CRIB (HK) HKD	VIR
Group 1	2.97%
Group 2	2.58%
Group 3	2.51%
Group 4	2.17%
Group 5	1.81%

CRIB (MA)	VIR
Group 1	2.81%
Group 2	2.76%
Group 3	2.65%
Group 4	2.23%
Group 5	1.72%

Valuation Interest Rate as at 31.12.2015

CRIB (HK) Non-HKD	VIR
Group 1	3.76%
Group 2	3.50%
Group 3	3.04%
Group 4	1.99%
Group 5	1.37%

CRIB (HK) HKD	VIR
Group 1	2.54%
Group 2	2.54%
Group 3	2.13%
Group 4	1.75%
Group 5	0.97%

CRIB (MA)	VIR
Group 1	3.03%
Group 2	3.16%
Group 3	2.30%
Group 4	2.03%
Group 5	1.33%

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. 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

Assumed equity securities market value + 5%

Valuation Interest Rate as at 31.12.2016

CRIB (HK) Non-HKD	VIR
Group 1	3.39%
Group 2	3.29%
Group 3	3.09%
Group 4	2.94%
Group 5	2.11%

CRIB (HK) HKD	VIR
Group 1	3.22%
Group 2	2.82%
Group 3	2.76%
Group 4	2.62%
Group 5	2.20%

CRIB (MA)	VIR
Group 1	3.05%
Group 2	3.04%
Group 3	3.04%
Group 4	2.72%
Group 5	2.11%

Valuation Interest Rate as at 31.12.2015

CRIB (HK) Non-HKD	VIR
Group 1	4.03%
Group 2	3.86%
Group 3	3.44%
Group 4	2.47%
Group 5	1.76%

CRIB (HK) HKD	VIR
Group 1	2.78%
Group 2	2.78%
Group 3	2.78%
Group 4	2.23%
Group 5	1.56%

CRIB (MA)	VIR
Group 1	3.26%
Group 2	3.44%
Group 3	2.83%
Group 4	2.51%
Group 5	1.73%

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. 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

Assumed equity securities market value –5%

Valuation Interest Rate as at 31.12.2016

CRIB (HK) Non-HKD	VIR
Group 1	3.39%
Group 2	3.29%
Group 3	3.09%
Group 4	2.94%
Group 5	2.11%

CRIB (HK) HKD	VIR
Group 1	3.22%
Group 2	2.82%
Group 3	2.76%
Group 4	2.62%
Group 5	2.20%

CRIB (MA)	VIR
Group 1	3.05%
Group 2	3.04%
Group 3	3.04%
Group 4	2.72%
Group 5	2.11%

Valuation Interest Rate as at 31.12.2015

CRIB (HK) Non-HKD	VIR
Group 1	4.03%
Group 2	3.86%
Group 3	3.44%
Group 4	2.47%
Group 5	1.76%

CRIB (HK) HKD	VIR
Group 1	2.78%
Group 2	2.78%
Group 3	2.78%
Group 4	2.23%
Group 5	1.56%

CRIB (MA)	VIR
Group 1	3.26%
Group 2	3.44%
Group 3	2.83%
Group 4	2.51%
Group 5	1.73%

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. 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

Short term insurance contracts (gross)

	Year ended 31.12.2016 US\$	Year ended 31.12.2015 US\$
At beginning of year	8,420,942	8,516,619
Premiums written during the year	489,756	16,139,219
Premiums earned during the year	(7,306,602)	(16,235,845)
(Decrease)/increase in unexpired risk provision	(1,457,001)	949
At end of year	<u>147,095</u>	<u>8,420,942</u>

Long term insurance contracts with DPF (gross)

	Year ended 31.12.2016 US\$	Year ended 31.12.2015 US\$
At beginning of year	5,851,724,293	5,615,696,986
Valuation premiums received	699,501,667	627,994,464
Interest credited	172,483,284	159,480,490
Impact of change in assumptions	18,190,165	(167,803,289)
Impact of change in methodology	-	-
Change in resilience reserve	45,573,316	(51,462,530)
Release in reserve on claims, surrenders and maturities	(318,929,378)	(332,181,828)
At end of year	<u>6,468,543,347</u>	<u>5,851,724,293</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT
CONTRACTS - continued

(b) Movement in insurance liabilities – continued

Long term insurance contracts without DPF (gross)

	Year ended 31.12.2016 US\$	Year ended 31.12.2015 US\$
At beginning of year	1,760,023,001	1,629,099,942
Valuation premiums received	456,786,898	373,725,918
Premiums written during the year	153,518,423	109,051,391
Premiums earned during the year	(156,772,210)	(110,011,863)
Interest credited	14,628,365	13,866,932
Impact of change in assumptions	(29,975,162)	19,796,947
Impact of change in methodology	-	-
Change in resilience reserve	11,002,367	(25,648,652)
Release in reserve on claims, surrenders and maturities and unit appreciation/depreciation	(134,742,867)	(249,857,614)
At end of year	<u>2,074,468,815</u>	<u>1,760,023,001</u>

Investment contract liabilities with DPF (gross)

	Year ended 31.12.2016 US\$	Year ended 31.12.2015 US\$
At beginning of year	96,308,518	1,247,427,093
Divestiture of MPF/ORSO businesses	-	(1,143,138,485)
Valuation premiums/contributions received	35,145,523	109,094,664
Interest credited	3,024,867	2,006,321
Impact of change in assumptions	6,061,780	(1,697,413)
Impact of change in methodology	-	-
Change in resilience reserve	8,270,483	(10,290,181)
Change in reserve provision in excess of account balance for Class G of long term business	-	(61,220,796)
Release in reserve on claims, surrenders and maturities, and unit appreciation/depreciation	1,814,014	(45,872,685)
At end of year	<u>150,625,185</u>	<u>96,308,518</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT
CONTRACTS - continued

(b) Movement in insurance liabilities – continued

Investment contract liabilities without DPF (gross)

	Year ended <u>31.12.2016</u> US\$	Year ended <u>31.12.2015</u> US\$
At beginning of year	1,787,288,605	1,405,521,882
Divestiture of MPF/ORSO businesses	-	(75,785,516)
Premiums/contributions received	236,591,895	635,216,566
Interest credited	-	-
Impact of change in assumptions	(104,487)	14,476,258
Impact of change in methodology	-	-
Change in resilience reserve	727,803	1,133,683
Release in reserve on claims, surrenders and maturities, and unit appreciation/depreciation	<u>(300,787,768)</u>	<u>(193,274,268)</u>
At end of year	<u>1,723,716,048</u>	<u>1,787,288,605</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

20. INSURANCE LIABILITIES AND FINANCIAL LIABILITIES FOR INVESTMENT
CONTRACTS - continued

(c) Movement in recoverable from reinsurers

Short term insurance contracts

	Year ended 31.12.2016 US\$	Year ended 31.12.2015 US\$
At beginning of year	1,047,257	1,045,503
Increase in period	34,094	2,610,990
Release in period	(1,081,153)	(2,609,236)
At end of year	<u>198</u>	<u>1,047,257</u>

Long term insurance contracts

	Year ended 31.12.2016 US\$	Year ended 31.12.2015 US\$
At beginning of year	478,025,334	488,429,644
Interest credited	9,570,184	9,152,208
Impact of change in assumptions	43,618,928	(40,523,603)
Impact of change in methodology	-	-
Impact of change in reinsurance arrangements	21,167,230	21,180,066
Change due to claims, surrenders, maturities and others	(24,538,396)	(212,981)
At end of year	<u>527,843,280</u>	<u>478,025,334</u>

Investment contracts without DPF

	Year ended 31.12.2016 US\$	Year ended 31.12.2015 US\$
At beginning of year	-	-
Premiums/contributions ceded	-	-
Interest credited	-	-
Change due to claims, surrenders and maturities	-	-
At end of year	<u>-</u>	<u>-</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

21. CLAIMS PAYABLE

	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
Gross:		
<u>Long term business</u>		
Claims admitted but not paid - life and annuity business	37,166,399	31,534,782
Claims incurred but not reported	30,388,636	21,959,244
<u>General business</u>		
Claims reported but not paid	9,369,044	11,154,842
Claims incurred but not reported	30,700,402	27,699,843
	<u>107,624,481</u>	<u>92,348,711</u>
Current	107,624,481	92,348,711
Non-current	-	-
	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
Net:		
<u>Long term business</u>		
Claims admitted but not paid - life and annuity business	(11,072,511)	26,078
Claims incurred but not reported	30,388,636	21,959,244
<u>General business</u>		
Claims reported but not paid	7,409,213	9,486,041
Claims incurred but not reported	29,424,168	26,578,150
	<u>56,149,506</u>	<u>58,049,513</u>
Current	56,149,506	58,049,513
Non-current	-	-

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

22. 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 balance sheet date. The fair values, determined based on the fair value of underlying financial assets and derivatives at the balance sheet date, approximate to the corresponding carrying amounts.

Financial liabilities – investment contracts of US\$1,723,716,048 (2015: US\$1,787,288,605) are current liabilities.

23. PENSIONS – DEFINED CONTRIBUTION PLANS

The pensions-defined contribution plans for the current and prior years were borne by an insurer subsidiary.

24. 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 insurance receivables, debtors and amounts due from group companies at the balance sheet date are stated at amortised cost using the effective interest rate method, as reduced by appropriate allowances for estimated irrecoveries.

All of these balances are classified as current assets.

None of these financial assets is either past due or impaired.

Other financial liabilities

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

The insurance payables, creditors and amounts due to group companies are subsequently measured at amortised cost using the effective interest method.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

25. EQUITY COMPENSATION BENEFITS

AXA SA STOCK OPTION PLAN

Certain eligible employees of the Group have been granted options to subscribe for shares at fixed prices in AXA SA, the ultimate holding company of the Company, 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 three 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 Stoxx Insurance Index (SXIP) 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.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

25. EQUITY COMPENSATION BENEFITS - continued

AXA SHAREPLAN

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 prices.

INTERNATIONAL PERFORMANCE SHARES PLANS

Since 2013, the Performance Unit Plan is replaced by International Performance Share Plan granted by AXA SA.

Under International Performance Share Plan, selected officers are initially granted a certain number of performance shares at the beginning of the 3-year vesting period. The rate of achievement of the performance targets as assessed by AXA at the end of the performance period is used to determine the number of AXA shares acquired in respect of the Performance Shares (the "Performance Shares Conversion Rate"). The Performance Shares Conversion Rate shall be determined according to the rate of performance target achievement:

- 0 performance shares conversion rate if targets achievement 0%
- 1 performance shares conversion rate if targets achievement 100%
- 1.3 performance shares conversion rate if targets achievement > or = 130%

Shares will be delivered at settlement. The number of acquired AXA shares will be equal to the number of Performance Shares definitively vested.

Since 2014 grant until 2016 grant, International Performance Shares have a 4-year vesting period consisting of a 3-year performance period and 1-year deferral period before effective acquisition of the AXA shares that can be sold immediately.

Only 2014 International Performance Shares grant is specific as the 2014 plan has been split in two as follows:

- 50% of the grant under the 3-year vesting period
- 50% under the 4 year vesting period

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

25. EQUITY COMPENSATION BENEFITS - continued

AXA MILES

In 2007, the AXA SA Group announced a worldwide initiative as part of the Ambition 2012 strategy, known as AXA Miles, which aims to make every AXA employee a shareholder. Every eligible employee was awarded 50 AXA Miles in July 2007, which convert into shares in the global AXA Group in July 2011. AXA Miles are a gift to employees that reflect our confidence that employees will do their best to contribute towards achieving the goals of Ambition 2012 and our desire for employees to share in the success of the Company.

As at 1 July 2007, there were 892 eligible employees providing services to the Company and other group companies, resulting in a total grant of 44,600 AXA Miles. In July 2011, all granted AXA Miles in 2007 were vested by eligible employees and have been converted to shares.

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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

25. EQUITY COMPENSATION BENEFITS - continued

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

	<u>Number of units per plan type</u>		
	<u>AXA SA Stock Option Plan</u>	<u>AXA - Performance Unit Plan</u>	<u>AXA Miles</u>
Outstanding at 1 January 2015	487,183	221,533	100
Granted during the year	47,271	42,793	-
Increase due to new appointments	175,393	18,100	-
Adjustment (due to performance Conditions / other reason)	-	5,111	-
Exercised during the year	(96,230)	(34,184)	-
Decrease due to resignation/withdrawal (forefeited)	(299,625)	(111,649)	-
Outstanding at 31 December 2015	313,992	141,704	100
Granted during the year	53,276	35,835	-
Increase due to new appointments	-	-	-
Adjustment (due to performance Conditions / other reason)	(82,915)	(45,796)	-
Exercised during the year	(10,500)	(31,876)	(100)
Decrease due to resignation/withdrawal (forefeited)	-	-	-
Outstanding at 31 December 2016	<u>273,853</u>	<u>99,867</u>	<u>-</u>

The expenses arising from equity-settled and cash-settled share-based payments during the year relate to options granted to certain eligible employees for services provided to the Company 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 2016 of US\$2,758,151 (2015: US\$1,927,072), was absorbed by an intermediate holding company.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

26. CAPITAL COMMITMENTS

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

	<u>At 31.12.2016</u>	<u>At 31.12.2015</u>
	US\$	US\$
Unlisted unit trust investments	<u>123,750,959</u>	<u>164,881,497</u>

27. LEASE COMMITMENTS

At the balance sheet date, the Branch had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<u>At 31.12.2016</u>	<u>At 31.12.2015</u>
	US\$	US\$
Within one year	1,019,718	262,566
In the second to fifth year inclusive	<u>169,020</u>	<u>5,784</u>
	<u>1,188,738</u>	<u>268,350</u>

Operating lease payments represent rentals payable by the Branch for certain of its office premises. Leases are negotiated on a two-year term.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

28. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
Deposits with banks		
Fixed term	488,528,507	363,022,515
Current accounts	543,620,085	555,410,617
Cash	4,447	4,450
	<u>1,032,153,039</u>	<u>918,437,582</u>
Less:		
Pledged bank deposits (note 31)	(358,077,928)	(323,022,515)
Fixed term bank deposits with maturity over three months	<u>(130,450,579)</u>	<u>(40,000,000)</u>
	<u><u>543,624,532</u></u>	<u><u>555,415,067</u></u>

Deposits with banks represent cash at current accounts with banks and deposits placed with various banks with terms up to 3 years with interest rate up to 3.30% per annum (2015: 3.855% 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 Company 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 financial statements.

(c) Derivatives

The Company 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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

29. DERIVATIVE FINANCIAL INSTRUMENTS - continued

	<u>At 31 December 2016</u>	
	<u>Assets</u>	<u>Liabilities</u>
	US\$	US\$
Forward currency contracts	9,435,264	6,476,168
Interest rate swap	11,376,690	2,874,982
Equity options	5,594,425	-
Step up swap	-	-
	<u>26,406,379</u>	<u>9,351,150</u>

	<u>At 31 December 2015</u>	
	<u>Assets</u>	<u>Liabilities</u>
	US\$	US\$
Forward currency contracts	3,456,148	4,136,419
Interest rate swap	14,206,699	2,032,130
Equity options	5,135,574	137,309
Step up swap	-	47,150,554
	<u>22,798,421</u>	<u>53,456,412</u>

	<u>Contractual or notional amounts</u>	
	<u>At 31.12.2016</u>	<u>At 31.12.2015</u>
	US\$	US\$
Forward currency contracts - bought	2,008,883,125	1,581,726,768
- sold	(2,005,924,029)	(1,582,407,039)
Equity options - long	329,085,669	296,747,460
- short	-	(17,694,553)
Step up swaps - long	-	300,000,000
Interest rate swaps - long	204,100,000	298,900,000
- short	(349,500,000)	(289,900,000)

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

29. DERIVATIVE FINANCIAL INSTRUMENTS - continued

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 Company 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. NET ASSETS HELD ON BEHALF OF FELLOW SUBSIDIARIES OF THE COMPANY

The Company manages a combined non-linked investment portfolio of approximately US\$8,796,411,701 (2015: US\$7,550,994,991) which are recorded in the name of the Company in accordance with the deed of trust dated 13 July 2009 entered with three of its subsidiaries. Included in this portfolio are investments (net of derivative liabilities) held on behalf and for the benefit of several Hong Kong-based insurers namely AXA Wealth Management (HK) Limited (an aggregate amount of 2016:US\$23,061,560, 2015:US\$21,737,906) and AXA China Region Insurance Company Limited (an aggregate amount of 2016: US\$321,758,648, 2015: US\$232,188,785) in the AXA China Region Group. The financial statements disclose the remaining balance of US\$8,451,591,493 (2015: US\$7,297,068,300) which is held for the benefit of the Company.

31. PLEDGE OF ASSETS

The Company's Macau Branch has pledged its bank deposits of US\$358 million (2015: US\$323 million) to Autoridade Monetária e Cambial de Macau as a guarantee in respect of the required technical reserves.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

32. RELATED PARTY TRANSACTIONS

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

	Notes	Year ended <u>31.12.2016</u> US\$	Year ended <u>31.12.2015</u> US\$
Reinsurance premiums to fellow subsidiaries	a	(276,385,271)	(495,422,733)
Reinsurance recoveries from fellow subsidiaries	a	22,713,980	120,000,793
Reinsurance commissions from fellow subsidiaries	a	15,742,939	13,484,781
Reinsurance premiums from fellow subsidiaries	b	35,047,182	36,575,104
Reinsurance commissions to a fellow subsidiaries	b	(2,156,028)	(2,254,974)
Reinsurance recoveries to fellow subsidiaries	b	(4,805,748)	(1,180,255)
Investment charges paid to a fellow subsidiary	c	(10,490,580)	(10,098,797)
Interest income from subsidiaries	d	-	60
Interest income from immediate holding company	e	1,338,949	1,082,365
Allocation of management expenses from a subsidiary	f	<u>(126,837,648)</u>	<u>(130,746,923)</u>

- (a) The amounts relate to a reinsurance ceded arrangement made with fellow subsidiaries 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 a fellow subsidiary for the provision of the investment services throughout the year based on the size of the investment portfolios.
- (d) The loan granted to the nominee services subsidiary bears interest at Hong Kong prime rate calculated on a daily basis.
- (e) The floating rate of a debenture of HK\$400 million and the floating rate of a debenture of HK\$336 million transferred from AXA (Hong Kong) Company Limited on 31 December 2012, issued by the immediate holding company were unsecured and bearing interest at the rate of 0.96% (on or before 7 June 2016: 0.75%) per annum above HIBOR. The debenture will be fully redeemed on or before 6 June 2021.
- (f) Certain overhead costs borne by the group companies were allocated to the Company for sharing the common services and facilities on time spent basis.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

32. RELATED PARTY TRANSACTIONS - continued

- (g) Details of loan to a fellow subsidiary are set out in note 17 to the financial statements.
- (h) Details of the Company's balances with related parties are set out in the balance sheet and note 24 to the financial statements.
- (i) The Company manages a combined non-linked investment portfolio on behalf of a subsidiary and fellow subsidiaries, which are held by an investment custodian in the name of the Company, as described in note 30.
- (j) During the year, the Company obtained key management personnel services from its fellow subsidiary, AXA China Region Insurance Company Limited. The key management personnel received unapportioned remuneration of US\$5,674,065 (2015: US\$6,211,436).

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

33. PROFIT AND LOSS ACCOUNT PRESENTED UNDER THE THIRD SCHEDULE OF THE
HONG KONG INSURANCE COMPANIES ORDINANCE

	<u>Notes</u>	Year ended <u>31.12.2016</u> US\$	Year ended <u>31.12.2015</u> US\$
Insurance premium revenue		<u>1,989,111,367</u>	<u>1,883,953,100</u>
Transfer from/(to) revenue accounts			
Long term business		25,793,000	412,148,676
General business		<u>3,864,427</u>	<u>(4,040,794)</u>
		<u>29,657,427</u>	<u>408,107,882</u>
Income			
Investment income			
- listed		104,363	167,121
- unlisted		95,300	478,005
Net realised and unrealised gains / (losses) on investments		(102,089)	50,170
Other income		<u>(483,504)</u>	<u>13,015,585</u>
		<u>(385,930)</u>	<u>13,710,881</u>
Expenses			
Loss on sale of investment in subsidiaries		-	(632,467)
Commission		-	(1,864,392)
Investment expenses		(52,775)	(64,897)
Management and other expenses		<u>(3,379,092)</u>	<u>(12,045,921)</u>
Profit before taxation		25,839,630	407,211,086
Tax credit /(expense)		<u>(675,914)</u>	<u>848,607</u>
Profit for the year		<u>25,163,716</u>	<u>408,059,693</u>
Dividends		<u>(25,793,000)</u>	<u>(343,183,136)</u>

The comparative balance includes the profit and loss from ORSO and MPF business sold.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

34. BALANCE SHEET PRESENTED UNDER THE THIRD SCHEDULE OF THE HONG KONG
INSURANCE COMPANIES ORDINANCE

	<u>Notes</u>	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
<u>ASSETS</u>			
INTANGIBLE ASSETS	12	23,100	1,071,498
Adjustments under the Valuation Regulation	36	(23,100)	(1,066,880)
		-	4,618
PLANT AND EQUIPMENT	13	409,132	524,165
INVESTMENTS IN SUBSIDIARIES	14	932,091,001	738,955,810
INVESTMENTS IN ASSOCIATES	15	53,953,211	51,524,766
INVESTMENTS IN SECURITIES	16	10,542,629,023	9,348,872,275
LOANS	17	212,631,479	219,733,662
DEFERRED TAX ASSETS	18	-	2,878,569
OTHER ASSETS			
Direct premiums receivable	24	180,335,472	134,907,547
Debtors and prepayments, unsecured	24	125,002,440	148,930,863
Reinsurance assets	20,21	579,318,453	513,371,789
Amounts due from reinsurers and intermediaries under reinsurance contracts ceded	24	606,506	607,066
Amounts due from an insurer subsidiary	24	133,060,270	115,735,701
Amount due from an immediate holding company	24	61,975,471	60,674,966
Amount due from an intermediate holding company	24	310	310
Amounts due from fellow subsidiaries	24	8,386,298	4,670,373
Derivative financial instruments	29	26,406,379	22,798,421
Current tax assets		-	191,022
Deposits with banks			
Fixed term	28	491,107,505	394,891,942
Current accounts	28	541,041,087	523,541,190
Cash	28	4,447	4,450
		2,147,244,638	1,920,325,640
Adjustments under the Valuation Regulation		-	-
		2,147,244,638	1,920,325,640
TOTAL ASSETS		13,888,958,484	12,282,819,505

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

34. BALANCE SHEET PRESENTED UNDER THE THIRD SCHEDULE OF THE HONG KONG
INSURANCE COMPANIES ORDINANCE - continued

	Notes	At 31.12.2016 US\$	At 31.12.2015 US\$
<u>CAPITAL SURPLUS AND LIABILITIES</u>			
CAPITAL AND RESERVES			
Share capital	19	175,782,800	175,782,800
Reserves	35	521,428,695	522,057,979
Adjustments under the Valuation Regulation	36	(23,100)	(1,066,880)
		521,405,595	520,991,099
		697,188,395	696,773,899
INSURANCE FUNDS			
Insurance liabilities	37	10,417,500,490	9,503,765,359
Unassigned surplus	37	762,433,758	469,411,524
Adjustment under the Valuation Regulation	36	-	-
		11,179,934,248	9,973,176,883
RETIREMENT FUNDS	37	-	-
DEFERRED TAX LIABILITIES		624,963	-
OTHER LIABILITIES			
Creditors and accrued charges	24	200,418,251	87,265,325
Claims payable	21	107,624,481	92,348,711
Commissions payable	24	150,779,355	117,081,101
Policyholders' funds on deposit	24	269,394,850	113,293,392
Dividend payable	24	1,199,087,649	1,095,310,111
Amounts due to reinsurers and intermediaries under reinsurance contracts ceded	24	20,402,543	27,832,790
Amounts due to non-insurer subsidiaries	24	19	2,587,963
Amount due to an insurer subsidiary	24	-	-
Amount due to an intermediate holding company	24	2,986,757	2,979,308
Amounts due to fellow subsidiaries	24	48,181,315	20,713,610
Derivative financial instruments	29	9,351,150	53,456,412
Current tax payables		2,984,508	-
		2,011,210,878	1,612,868,723
TOTAL CAPITAL SURPLUS AND LIABILITIES		13,888,958,484	12,282,819,505

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

35. RESERVES

Under HKICO basis

	Share <u>premium</u> US\$	Retained profits and <u>valuation adjustments</u> US\$	<u>Total</u> US\$
At 1 January 2015	383,257,000	73,924,422	457,181,422
Profit for the year	-	408,059,693	408,059,693
Dividends (note 11)	-	(343,183,136)	(343,183,136)
At 31 December 2015	383,257,000	138,800,979	522,057,979
Profit for the year	-	25,163,716	25,163,716
Dividends (note 11)	-	(25,793,000)	(25,793,000)
At 31 December 2016	<u>383,257,000</u>	<u>138,171,695</u>	<u>521,428,695</u>

36. ADJUSTMENTS UNDER THE HONG KONG INSURANCE COMPANIES (GENERAL BUSINESS) (VALUATION) REGULATION

Under HKICO basis

	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
Investments in securities -		
Adjustment under section 4 of the Valuation Regulation	-	-
Adjustment under section 8 of the Valuation Regulation	-	-
Adjustment under section 14 of the Valuation Regulation	-	-
	-	-
Other assets -		
Adjustment under section 14 of the Valuation Regulation	-	-
Insurance funds -		
Adjustment under section 10 of the Valuation Regulation	23,100	1,066,880
	<u>23,100</u>	<u>1,066,880</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

37. INSURANCE LIABILITIES/FUNDS AND RETIREMENT FUND

Under HKICO basis

	<u>At 31.12.2016</u>	<u>At 31.12.2015</u>
	US\$	US\$
Policy reserves, net		
Individual life and annuity business	6,657,752,476	6,019,768,080
Linked long term business	3,231,757,368	2,997,551,003
Group life business	271	-
General insurance business	146,897	7,373,685
Reinsurance assets	527,843,478	479,072,591
Insurance liabilities, gross	<u>10,417,500,490</u>	<u>9,503,765,359</u>
Unassigned surplus		
Individual life and annuity business and linked long term business	762,433,758	469,411,524
Retirement business management category I	-	-
Retirement business management category II	-	-
Unassigned surplus	<u>762,433,758</u>	<u>469,411,524</u>
Adjustment under the Valuation Regulation	-	-
Insurance funds	<u>11,179,934,248</u>	<u>9,973,176,883</u>
Policy reserves		
Retirement business management category I	-	-
Retirement business management category II	-	-
Retirement fund	<u>-</u>	<u>-</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

38. LONG TERM AND RETIREMENT BUSINESSES REVENUE ACCOUNT PRESENTED UNDER THE THIRD SCHEDULE OF THE HONG KONG INSURANCE COMPANIES ORDINANCE

	2016					2015						
	Individual life and annuity US\$	Linked long term US\$	Group life US\$	Retirement business management category I US\$	Retirement business management category II US\$	Total US\$	Individual life and annuity US\$	Linked long term US\$	Group life US\$	Retirement business management category I US\$	Retirement business management category II US\$	Total US\$
Fund brought forward												
Policy reserves	6,019,768,080	2,997,551,003	-	-	-9,017,319,083	5,716,287,345	2,442,596,695	-	-	1,171,423,650	79,008,569	9,409,316,259
Unassigned surplus	693,274,697	(223,863,251)	78	-	-469,411,524	699,809,164	(220,025,760)	-	-	57,137,651	1,396,095	538,317,150
	<u>6,713,042,777</u>	<u>2,773,687,752</u>	<u>78</u>	<u>-</u>	<u>-9,486,730,607</u>	<u>6,416,096,509</u>	<u>2,222,570,935</u>	<u>-</u>	<u>-</u>	<u>-1,228,561,301</u>	<u>80,404,664</u>	<u>9,947,633,409</u>
Gross premiums												
- first year	459,827,478	59,465,736	905,004	-	-520,198,218	335,058,480	111,331,047	-	-	-	-	-446,389,527
- renewal	1,104,860,862	385,074,036	-	-	-1,489,934,898	893,356,118	458,196,284	-	-	-	-	-1,351,552,402
- single	10,540,248	258,218,206	-	-	-268,758,454	187,590	497,683,234	-	-	-	-	-497,870,824
Reinsurance premiums												
Accepted												
- first year	-	-	-	-	-	-	-	-	-	-	-	-
- renewal	35,047,182	-	-	-	-35,047,182	36,575,104	-	-	-	-	-	-36,575,104
Reinsurance regular premiums ceded												
- first year	(56,473,873)	(23,331)	(58,631)	-	-(56,555,835)	(41,206,461)	(29,624)	-	-	-	-	-(41,236,085)
- renewal	(49,155,420)	(1,651,831)	(7,598)	-	-(50,814,849)	(36,945,449)	(1,600,527)	-	-	-	-	-(38,545,976)
- single	(231,151)	(235,889,135)	-	-	-(236,120,286)	(75,024)	(467,561,486)	-	-	-	-	-(467,636,510)
	<u>1,504,415,326</u>	<u>465,193,681</u>	<u>838,775</u>	<u>-</u>	<u>-1,970,447,782</u>	<u>1,186,950,358</u>	<u>598,018,928</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-1,784,969,286</u>
Contributions												
Investment income												
- listed	237,345,832	3,203,691	-	-	-240,549,523	213,961,818	2,905,834	-	-	21,983,709	-	238,851,361
- unlisted	124,824,430	39,099,833	-	-	-163,924,263	230,787,937	33,674,808	-	-	610,081	-	265,072,826
Net realised and unrealised gains/(losses) on investments	81,980,861	51,299,830	-	-	-133,280,691	(278,378,134)	(135,105,206)	-	-	(27,146,798)	(1,731,158)	(442,361,296)
Gain on disposal of subsidiaries	-	-	-	-	-	135,262,432	-	-	-	-	-	135,262,432
Other income	29,662,215	11,353,459	-	-	-41,015,674	18,474,577	475,957,595	-	-	766,614	96,889	495,295,675
	<u>8,691,271,441</u>	<u>3,343,838,246</u>	<u>838,853</u>	<u>-</u>	<u>-12,035,948,540</u>	<u>7,923,155,497</u>	<u>3,198,022,894</u>	<u>-</u>	<u>-</u>	<u>-1,303,374,253</u>	<u>86,885,608</u>	<u>12,511,438,252</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

38. LONG TERM AND RETIREMENT BUSINESSES REVENUE ACCOUNT PRESENTED UNDER THE THIRD SCHEDULE OF THE HONG KONG INSURANCE COMPANIES ORDINANCE - continued

	2016					2015						
	Individual life and annuity US\$	Linked long term US\$	Group life US\$	Retirement business management category I US\$	Retirement business management category II US\$	Total US\$	Individual life and annuity US\$	Linked long term US\$	Group life US\$	Retirement business management category I US\$	Retirement business management category II US\$	Total US\$
Claims and other benefits												
- Death and disability claims	149,040,087	12,377,152	692,270	-	-	162,109,509	136,857,278	10,113,531	-	-	-	146,970,809
- Surrenders	126,165,298	409,957,226	-	-	-	536,122,524	120,776,832	339,439,365	-	-	-	460,216,197
- Maturities	22,564,304	-	-	-	-	22,564,304	20,718,244	-	-	-	-	20,718,244
- Dividends	212,773,114	10,954,491	-	-	-	223,727,605	172,971,494	9,920,955	-	-	-	182,892,449
- Withdrawals	-	-	-	-	-	-	-	-	-	85,171,308	9,145,840	94,317,148
Reinsurance claims accepted	4,805,748	-	-	-	-	4,805,748	1,180,255	-	-	-	-	1,180,255
Claims and other benefits recoverable												
- Death and disability claims	(37,682,957)	(420,341)	(292,095)	-	-	(38,395,393)	(28,662,258)	(470,631)	-	-	-	(29,132,889)
- Surrenders	-	(224,797,342)	-	-	-	(224,797,342)	-	(108,618,913)	-	-	-	(108,618,913)
Net claims and other benefits	477,665,594	208,071,186	400,175	-	-	686,136,955	423,841,845	250,384,307	-	85,171,308	9,145,840	768,543,300
Direct commissions												
- first year	383,354,337	41,022,937	59,330	-	-	424,436,604	303,047,286	86,404,921	-	492,433	140,195	390,084,835
- renewal	61,601,860	6,396,742	(41)	-	-	67,998,561	50,081,468	4,875,157	-	94,851	(114,665)	54,936,811
- single	1,261,048	7,952,163	-	-	-	9,213,211	37,114	6,820,255	-	-	-	6,857,369
Reinsurance commissions on premiums accepted												
- first year	2,156,028	-	-	-	-	2,156,028	2,254,974	-	-	-	-	2,254,974
- renewal	-	-	-	-	-	-	-	-	-	-	-	-
- single	-	-	-	-	-	-	-	-	-	-	-	-
Reinsurance commissions on regular premiums ceded												
- first year	(14,136,914)	(2,755)	-	-	-	(14,139,669)	(34,734,551)	(5,392)	-	-	-	(34,739,943)
- renewal	(7,745,385)	(132,251)	-	-	-	(7,877,636)	(6,013,368)	(176,055)	-	-	-	(6,189,423)
- single	-	(8,374,505)	-	-	-	(8,374,505)	-	(7,213,495)	-	-	-	(7,213,495)
Net commissions	426,490,974	46,862,331	59,289	-	-	473,412,594	314,672,923	90,705,391	-	587,284	25,530	405,991,128

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

38. LONG TERM AND RETIREMENT BUSINESSES REVENUE ACCOUNT PRESENTED UNDER THE THIRD SCHEDULE OF THE HONG KONG
INSURANCE COMPANIES ORDINANCE - continued

	2016				2015						
	Individual life and annuity US\$	Linked long term US\$	Group life US\$	Retirement business management category I US\$	Retirement business management category II US\$	Individual life and annuity US\$	Linked long term US\$	Group life US\$	Retirement business management category I US\$	Retirement business management category II US\$	Total US\$
Management and other expenses	91,914,164	50,511,099	1,038	-	-	90,357,740	73,262,365	-	4,221,212	474,264	168,315,581
Investment expenses	23,144,541	8,313,666	-	-	-	21,891,168	8,398,248	-	1,915,019	30,857	32,235,292
Taxation charge/(credit)	16,782,604	6,611,176	45,360	-	-	14,503,967	1,584,831	-	346,314	452,692	16,887,804
Increase/(decrease) in policy reserves	1,338,470	-	-	-	-	1,661,863	-	-	-	-	1,661,863
Transfer to profit and loss account	25,793,000	-	-	-	-	343,183,136	-	-	67,994,631	970,909	412,148,676
Transfer of Policy Reserve	-	-	-	-	-	-	-	-	1,143,138,485	75,785,516	1,218,924,001
Fund carried forward											
Policy reserves	6,657,752,476	3,231,757,368	271	-	-	6,019,768,080	2,997,551,003	-	-	-	9,017,319,083
Unassigned surplus	970,389,618	(208,288,580)	332,720	-	-	693,274,775	(223,863,251)	-	-	-	469,411,524
	7,628,142,094	3,023,468,788	332,991	-	-	6,713,042,855	2,773,687,752	-	-	-	9,486,730,607
	8,691,271,441	3,343,838,246	838,853	-	-	7,923,155,497	3,198,022,894	-	1,303,374,253	86,885,608	12,511,438,252

The comparative balance includes the cost of disposal of investment under "Individual life and annuity" and the contribution of ORSO and MPF business sold under "Retirement business management category I & II".

Transfer of Policy Reserve refers to liability transfer after the sale of discontinued operation.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

39. GENERAL BUSINESS REVENUE ACCOUNT PRESENTED UNDER THE THIRD SCHEDULE OF THE HONG KONG INSURANCE COMPANIES ORDINANCE

	2016						2015							
	Accident and health US\$	Motor vehicles US\$	General liability US\$	Pecuniary loss US\$	Goods in transit US\$	Property damage US\$	Total US\$	Accident and health US\$	Motor vehicles US\$	General liability US\$	Pecuniary loss US\$	Goods in transit US\$	Property damage US\$	Total US\$
Premiums														
- direct underwriting	18,300,770	31,349	39,235	2,667	119,852	54,300	18,548,173	1,196,009	1,534,485	7,562,144	93,599	810,522	3,539,804	14,736,563
- reinsurance accepted	15,941	49,621	87,683	-	3,773	15,486	172,504	15,586	40,639	70,925	-	3,921	12,611	143,682
Reinsurance premiums ceded														
- direct underwriting	(26,889)	(16,430)	(648)	(116)	(2,999)	(4,407)	(51,489)	(254,805)	(758,392)	(499,744)	(13,466)	(35,025)	(1,044,513)	(2,605,945)
- reinsurance accepted	(86)	(1,156)	(2,043)	-	(100)	(2,218)	(5,603)	(226)	(1,089)	(1,901)	-	(169)	(1,660)	(5,045)
Change in unearned premium	438,958	410,655	3,513,832	41,181	32,797	1,332,364	5,769,787	(92,623)	(24,332)	221,137	10,887	(865)	(15,824)	98,380
	18,728,694	474,039	3,638,059	43,732	153,323	1,395,525	24,433,372	863,941	791,311	7,352,561	91,020	778,384	2,490,418	12,367,635
Gross claims														
- direct underwriting	16,306,390	769,686	2,750,149	(8,896)	(218,691)	863,685	20,462,323	413,059	1,217,981	6,151,090	7,286	87,905	1,204,849	9,082,170
- reinsurance accepted	2,068	-	2,503	-	-	34	4,605	6,023	62,558	12,964	-	-	226	81,771
Claims recoverable														
- direct underwriting	(44,234)	(410,211)	(818,505)	-	17	(768,619)	(2,041,552)	(126,552)	(1,157,200)	(164,865)	3,157	3	(516,122)	(1,961,579)
- reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net claims	16,264,224	359,475	1,934,147	(8,896)	(218,674)	95,100	18,425,376	292,530	123,339	5,999,189	10,443	87,908	688,953	7,202,362
Commissions														
- direct underwriting	1,337,661	71,689	650,615	8,444	38,492	301,018	2,407,919	229,167	317,147	1,517,646	22,989	196,986	837,830	3,121,765
- reinsurance accepted	1,701	5,130	8,784	-	377	1,571	17,563	1,669	4,204	7,236	-	392	1,279	14,780
Reinsurance commissions ceded														
- direct underwriting	622	(1,681)	(205)	2	-	296	(966)	(1,255)	(196,733)	(85,096)	(422)	-	(56,588)	(340,094)
- reinsurance accepted	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net commissions	1,339,984	75,138	659,194	8,446	38,869	302,885	2,424,516	229,581	124,618	1,439,786	22,567	197,378	782,521	2,796,451
Change in unexpired risk	-	-	(1,457,001)	-	-	-	(1,457,001)	-	-	-	-	-	-	-
Management and other expenses	1,066,142	21,544	36,063	722	32,570	19,013	1,176,054	442,508	687,851	3,331,464	40,861	355,766	1,551,166	6,409,616
Underwriting result	58,344	17,882	2,465,656	43,460	300,558	978,527	3,864,427	(100,678)	(144,497)	(3,417,878)	17,149	137,332	(532,222)	(4,040,794)

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

**FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016**

40. ADJUSTMENTS UNDER THE HONG KONG INSURANCE COMPANIES ORDINANCE

(a) Statement of comprehensive income

		2016			2015		
	Notes	HKFRS basis US\$	Adjustments US\$	HKICO basis US\$	HKFRS basis US\$	Adjustments US\$	HKICO basis US\$
INSURANCE PREMIUM REVENUE	40(c)	1,802,654,460	186,456,907	1,989,111,367	1,489,555,479	394,397,621	1,883,953,100
Gross premiums and contributions	40(c)	2,047,398,923	250,040,820	2,297,439,743	1,596,039,841	801,224,034	2,397,263,875
Reinsurance premiums accepted		35,219,686	-	35,219,686	36,718,786	-	36,718,786
Reinsurance premiums ceded		(279,964,149)	(63,583,913)	(343,548,062)	(143,203,148)	(406,826,413)	(550,029,561)
Investment income		404,473,786	-	404,473,786	481,330,397	22,593,790	503,924,187
Net realised and unrealised gains / (losses) on investments	40(c)	133,280,691	-	133,280,691	(413,483,340)	(28,877,956)	(442,361,296)
Other income	40(c)	244,406,234	(203,390,560)	41,015,674	131,833,620	363,462,055	495,295,675
Gross claims		(182,571,831)	-	(182,571,831)	(156,052,979)	-	(156,052,979)
Reinsurance claims accepted		(4,810,354)	-	(4,810,354)	(1,262,026)	-	(1,262,026)
Claims recoverable		40,436,945	-	40,436,945	31,094,468	-	31,094,468
Surrenders, maturities, dividends and withdrawals	40(c)	(489,708,962)	(67,908,129)	(557,617,091)	(457,931,506)	(191,593,619)	(649,525,125)
Gross commissions		(504,056,295)	-	(504,056,295)	(452,523,574)	(2,477,206)	(455,000,780)
Commissions on reinsurance accepted		(2,173,591)	-	(2,173,591)	(2,269,754)	-	(2,269,754)
Commissions on reinsurance ceded		30,392,776	-	30,392,776	48,482,955	-	48,482,955
Management and other expenses		(143,602,355)	-	(143,602,355)	(145,411,213)	(29,313,984)	(174,725,197)
Change in unexpired risk		1,457,001	-	1,457,001	-	-	-
Investment expenses		(31,458,207)	-	(31,458,207)	(30,289,416)	(1,945,876)	(32,235,292)
Increase in insurance liabilities	40(c), (d)	(980,103,159)	63,572,557	(916,530,602)	(389,251,089)	(428,836,663)	(818,087,752)
Increase in reinsurance assets		48,770,887	-	48,770,887	(10,402,556)	-	(10,402,556)
Decrease in deferred origination costs	40(d)	-	-	-	-	-	-
(Increase)/ decrease in investment liabilities		(21,269,225)	21,269,225	-	99,834,962	(99,834,962)	-
INSURANCE PROFIT		346,118,801		346,118,801	223,254,428		220,827,628

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

40. ADJUSTMENTS UNDER THE HONG KONG INSURANCE COMPANIES ORDINANCE - continued

(a) Statement of comprehensive income - continued

		2016			2015		
	Notes	HKFRS basis US\$	Adjustments US\$	HKICO basis US\$	HKFRS basis US\$	Adjustments US\$	HKICO basis US\$
OTHER REVENUES AND EXPENSES							
Investment income		199,663	-	199,663	645,126	-	645,126
Net realised and unrealised losses on investments		(102,089)	-	(102,089)	50,170	-	50,170
Other income		(483,504)	-	(483,504)	13,015,585	-	13,015,585
Commission		-	-	-	(1,864,392)	-	(1,864,392)
Investment expenses		(52,775)	-	(52,775)	(64,897)	-	(64,897)
Management and other expenses		(3,379,092)	-	(3,379,092)	(12,045,921)	-	(12,045,921)
PROFIT BEFORE TAXATION		342,301,004		342,301,004	222,990,099		220,563,299
TAXATION	40(e)	(24,115,054)	-	(24,115,054)	(15,240,191)	(799,006)	(16,039,197)
RESULT FROM DISCONTINUED OPERATION NET OF TAX		-	-	-	131,404,159	3,225,806	134,629,965
PROFIT FOR THE YEAR		318,185,950		318,185,950	339,154,067		339,154,067
TRANSFER FROM/ (TO) UNASSIGNED SURPLUS	40(g)	-	(293,022,234)	(293,022,234)	-	68,905,626	68,905,626
PROFIT AFTER TRANSFER		318,185,950		25,163,716	339,154,067		408,059,693

The comparative balance includes components of profit from discontinued operations.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

40. ADJUSTMENTS UNDER THE HONG KONG INSURANCE COMPANIES ORDINANCE - continued

(b) Balance Sheet

	Notes	2016			2015		
		HKFRS basis US\$	Adjustments US\$	HKICO basis US\$	HKFRS basis US\$	Adjustments US\$	HKICO basis US\$
<u>ASSETS</u>							
Intangible assets		23,100	-	23,100	1,071,498	-	1,071,498
Adjustments under the Valuation Regulations		-	(23,100)	(23,100)	-	(1,066,880)	(1,066,880)
		23,100		-	1,071,498		4,618
Plant and equipment		409,132	-	409,132	524,165	-	524,165
Investments in subsidiaries		932,091,001	-	932,091,001	738,955,810	-	738,955,810
Investments in associates		53,953,211	-	53,953,211	51,524,766	-	51,524,766
Investments in securities		10,542,629,023	-	10,542,629,023	9,348,872,275	-	9,348,872,275
Adjustments under the Valuation Regulation	40(f)	-	-	-	-	-	-
		10,542,629,023		10,542,629,023	9,348,872,275		9,348,872,275
Loans		212,631,479	-	212,631,479	219,733,662	-	219,733,662
Deferred tax asset	40(e)	-	-	-	2,878,569	-	2,878,569
Deferred origination costs	40(d)	-	-	-	-	-	-

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

40. ADJUSTMENTS UNDER THE HONG KONG INSURANCE COMPANIES ORDINANCE - continued

(b) Balance Sheet - continued

	2016			2015		
Notes	HKFRS basis US\$	Adjustments US\$	HKICO basis US\$	HKFRS basis US\$	Adjustments US\$	HKICO basis US\$
<u>ASSETS</u>						
Other assets						
Direct premiums receivable	180,335,472	-	180,335,472	134,907,547	-	134,907,547
Debtors and prepayments	125,002,440	-	125,002,440	148,930,863	-	148,930,863
Reinsurance assets	579,318,453	-	579,318,453	513,371,789	-	513,371,789
Amounts due from reinsurers						
and intermediaries under reinsurance						
contracts ceded	606,506	-	606,506	607,066	-	607,066
Amounts due from non-insurer subsidiaries	-	-	-	-	-	-
Amount due from an insurer subsidiary	133,060,270	-	133,060,270	115,735,701	-	115,735,701
Amount due from immediate holding company	61,975,471	-	61,975,471	60,674,966	-	60,674,966
Amount due from an intermediate						
holding company	310	-	310	310	-	310
Amounts due from fellow subsidiaries	8,386,298	-	8,386,298	4,670,373	-	4,670,373
Derivative financial instruments	26,406,379	-	26,406,379	22,798,421	-	22,798,421
Assets of disposal group						
held for sale	-	-	-	-	-	-
Current tax assets	-	-	-	191,022	-	191,022
Pledged bank deposits	358,077,928	-	358,077,928	323,022,515	-	323,022,515
Fixed term bank deposits	130,450,579	2,578,998	133,029,577	40,000,000	31,869,427	71,869,427
Cash and cash equivalents	543,624,532	(2,578,998)	541,045,534	555,415,067	(31,869,427)	523,545,640
Adjustment under the Valuation Regulation 40(f)	-	-	-	-	-	-
	2,147,244,638		2,147,244,638	1,920,325,640		1,920,325,640
Total assets	13,888,981,584		13,888,958,484	12,283,886,385		12,282,819,505

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

**FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016**

40. ADJUSTMENTS UNDER THE HONG KONG INSURANCE COMPANIES ORDINANCE - continued

(b) Balance Sheet - continued

		2016			2015		
	Notes	HKFRS basis US\$	Adjustments US\$	HKICO basis US\$	HKFRS basis US\$	Adjustments US\$	HKICO basis US\$
<u>EQUITY AND LIABILITIES</u>							
Capital and reserves							
Share capital		175,782,800	-	175,782,800	175,782,800	-	175,782,800
Reserves	40(g)	1,283,862,453	(762,433,758)	521,428,695	991,469,503	(469,411,524)	522,057,979
Adjustments under the Valuation Regulation	40(f)	-	(23,100)	(23,100)	-	(1,066,880)	(1,066,880)
		1,283,862,453		521,405,595	991,469,503		520,991,099
		1,459,645,253		697,188,395	1,167,252,303		696,773,899
Insurance liabilities/funds and retirement fund	40(c), (g)	8,693,784,442	2,486,149,806	11,179,934,248	7,716,476,754	2,256,700,129	9,973,176,883
Adjustment under the Valuation Regulation	40(f)	-	-	-	-	-	-
		8,693,784,442		11,179,934,248	7,716,476,754		9,973,176,883
Deferred tax liabilities	40(e)	624,963	-	624,963	-	-	-

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

40. ADJUSTMENTS UNDER THE HONG KONG INSURANCE COMPANIES ORDINANCE - continued

(b) Balance Sheet - continued

	Notes	2016			2015		
		HKFRS basis US\$	Adjustments US\$	HKICO basis US\$	Adjustments US\$	HKFRS basis US\$	HKICO basis US\$
Other liabilities							
Creditors and accrued charges		200,418,251	-	200,418,251	-	87,265,325	87,265,325
Claims payable		107,624,481	-	107,624,481	-	92,348,711	92,348,711
Commissions payable		150,779,355	-	150,779,355	-	117,081,101	117,081,101
Policyholders' funds on deposit		269,394,850	-	269,394,850	-	113,293,392	113,293,392
Dividend payable		1,199,087,649	-	1,199,087,649	-	1,095,310,111	1,095,310,111
Amounts due to reinsurers and intermediate under reinsurance contracts ceded		20,402,543	-	20,402,543	-	27,832,790	27,832,790
Amounts due to non-insurer subsidiaries		19	-	19	-	2,587,963	2,587,963
Amount due to an insurer subsidiary		-	-	-	-	-	-
Amount due to an intermediate holding company		2,986,757	-	2,986,757	-	2,979,308	2,979,308
Amounts due to fellow subsidiaries		48,181,315	-	48,181,315	-	20,713,610	20,713,610
Financial liabilities in investment contracts	40(c)	1,723,716,048	(1,723,716,048)	-	(1,787,288,605)	1,787,288,605	-
Derivative financial instruments		9,351,150	-	9,351,150	-	53,456,412	53,456,412
Current tax payables		2,984,508	-	2,984,508	-	-	-
		<u>3,734,926,926</u>		<u>2,011,210,878</u>		<u>3,400,157,328</u>	<u>1,612,868,723</u>
Total equity and liabilities		<u>13,888,981,584</u>		<u>13,888,958,484</u>		<u>12,283,886,385</u>	<u>12,282,819,505</u>

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

40. ADJUSTMENTS UNDER THE HONG KONG INSURANCE COMPANIES ORDINANCE -
continued

- (c) Under HKICO, deposits collected and benefit payments of investment contracts without DPF are accounted for through the statement of comprehensive income.
- (d) For products classified as investment contracts without DPF, HKAS 39 allowed origination costs to be deferred ("DOC") and reported as an intangible asset in the balance sheet. Under the HKICO, the acquisition expenses are taken into account in accordance to section 15 of the HKICO Chapter 41E – Insurance Companies (Determination of Long Term Liabilities) Regulation, which sets out the maximum annual premium to be valued not to be increased by an amount greater than 150% of the annual premium. In 2011, having regard to the nature of the product, it is more relevant to not defer origination costs.
- (e) The adjustment refers to the deferred tax impact of the recognition of the DOC under HKICO basis.
- (f) In the case of certain assets and liabilities of the general insurance business, adjustments are made to the value of the assets or liabilities to comply with the Hong Kong Insurance Companies (General Business) (Valuation) Regulation ("the Valuation Regulation").

Under the Valuation Regulation, fixed and variable interest investments held by the general and shareholders' funds, which are included in the categories of financial assets at fair value through profit and loss, are stated at 75% to 100% of the fair value at the balance sheet date. In addition, certain limits are applied to the admissible assets in accordance with the Valuation Regulation. Adjustments to the valuation of the investments and other assets at the balance sheet date to comply with the Valuation Regulation are dealt with in reserves.

Under the Valuation Regulation, deferred acquisition costs are not admissible. Adjustments to the valuation of the insurance funds at the balance sheet date to exclude such deferred acquisition costs in accordance with the Valuation Regulation are dealt with in reserves.

- (g) The adjustment represents the recognition of unassigned surplus as insurance liabilities under the HKICO basis.

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

LONG TERM BUSINESS (INCLUDING GROUP LIFE) BALANCE SHEET PRESENTED UNDER
THE THIRD SCHEDULE OF THE HONG KONG INSURANCE COMPANIES ORDINANCE

	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
<u>LONG TERM ASSETS</u>		
INTANGIBLE ASSETS	-	4,618
PLANT AND EQUIPMENT	409,132	524,165
INVESTMENTS IN SUBSIDIARIES	932,091,001	738,955,810
INVESTMENTS IN ASSOCIATES	53,953,211	51,524,766
INVESTMENTS IN SECURITIES		
Fixed interest debt investments		
Government		
- listed	1,446,399,125	1,041,013,938
- unlisted	77,818,156	488,546,245
Others		
- listed	4,862,206,577	3,943,497,384
- unlisted	306,364,293	327,155,422
Floating interest debt investments		
- listed	12,324,062	431,110
- unlisted	94,907,124	94,964,679
Variable interest investments		
Listed equity shares	783,033,330	578,625,267
Unlisted unit trust investments	2,658,031,412	2,558,780,784
Private companies	281,929,748	291,233,617
Private company debentures	6,079,390	7,054,074
	<u>10,529,093,217</u>	<u>9,331,302,520</u>
LOANS	212,631,479	219,733,662
DEFERRED TAXATION ASSETS	-	2,878,569
OTHER ASSETS		
Direct premiums receivable	173,689,689	133,982,907
Debtors and prepayments, unsecured	124,863,509	148,800,518
Reinsurance assets	576,082,190	509,534,038
Amounts due from reinsurers and intermediaries under reinsurance contracts ceded	-	-
Amounts due from non-insurer subsidiaries		
Current portion	-	-
Non-current portion	-	-
Amount due from an insurer subsidiary	135,843,828	115,972,491
Amount due from immediate holding company	61,975,471	60,674,966
Amount due from intermediate holding company	310	310
Amounts due from fellow subsidiaries	7,176,855	4,470,946
Derivative financial instruments	26,406,379	22,798,421
Deposits with banks		
Fixed term	482,077,928	383,598,579
Current accounts	525,466,569	510,126,769
Cash	4,447	4,450
	<u>2,113,587,175</u>	<u>1,889,964,395</u>
TOTAL LONG TERM ASSETS	<u>13,841,765,215</u>	<u>12,234,888,505</u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

LONG TERM BUSINESS (INCLUDING GROUP LIFE) BALANCE SHEET PRESENTED UNDER
THE THIRD SCHEDULE OF THE HONG KONG INSURANCE COMPANIES ORDINANCE –
continued

	<u>At 31.12.2016</u>	<u>At 31.12.2015</u>
	US\$	US\$
<u>LONG TERM LIABILITIES AND SURPLUS</u>		
CAPITAL AND RESERVE		
Interfund	<u>693,669,695</u>	<u>697,580,766</u>
INSURANCE FUNDS		
Insurance liabilities, gross	10,417,353,395	9,495,344,417
Unassigned surplus	<u>762,433,758</u>	<u>469,411,524</u>
	<u>11,179,787,153</u>	<u>9,964,755,941</u>
DEFERRED TAXATION LIABILITIES	<u>624,963</u>	<u>-</u>
OTHER LIABILITIES		
Creditors and accrued charges	199,087,212	86,023,230
Claims payable	67,555,035	53,494,026
Commissions payable	149,771,056	116,634,017
Policyholders' funds on deposit	269,394,245	113,291,884
Dividend payable	1,199,087,649	1,095,310,111
Amounts due to reinsurers and intermediaries under reinsurance contracts ceded	19,953,339	27,396,417
Amount due to non- insurer subsidiaries	-	2,587,963
Amount due to an insurer subsidiary	-	-
Amount due to intermediate holding company	2,986,578	2,979,308
Amounts due to fellow subsidiaries	48,188,546	20,720,845
Derivative financial instruments	9,351,150	53,456,412
Taxation	<u>2,308,594</u>	<u>657,585</u>
	<u>1,967,683,404</u>	<u>1,572,551,798</u>
TOTAL LONG TERM LIABILITIES AND SURPLUS	<u><u>13,841,765,215</u></u>	<u><u>12,234,888,505</u></u>

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

GENERAL BUSINESS (INCLUDING SHAREHOLDERS' FUNDS) BALANCE SHEET PRESENTED
UNDER THE THIRD SCHEDULE OF THE HONG KONG INSURANCE COMPANIES ORDINANCE

	<u>At 31.12.2016</u>	<u>At 31.12.2015</u>
	US\$	US\$
<u>GENERAL BUSINESS (INCLUDING SHAREHOLDERS' FUNDS) ASSETS</u>		
INTANGIBLE ASSETS	23,100	1,066,880
Adjustment under section 10 of the Valuation Regulation	(23,100)	(1,066,880)
	-	-
INVESTMENTS		
Fixed interest debt investments		
Government		
- listed	13,535,806	17,569,755
- unlisted	-	-
Others		
- listed	-	-
	13,535,806	17,569,755
Adjustment under section 4 of the Valuation Regulation	-	-
Adjustment under section 8 of the Valuation Regulation	-	-
	13,535,806	17,569,755
OTHER ASSETS		
Direct premiums receivable	6,645,783	924,640
Debtors and prepayments, unsecured	138,931	130,345
Reinsurance assets	3,236,263	3,837,751
Amounts due from reinsurers and intermediaries under reinsurance contracts ceded	606,506	607,066
Amounts due from immediate holding company	-	-
Amounts due from fellow subsidiaries	1,216,674	206,662
Tax recoverable	-	848,607
Deposits with banks		
Fixed term	9,029,577	11,293,363
Current accounts	15,574,518	13,414,421
Adjustment under section 14 of the Valuation Regulation	-	-
	36,448,252	31,262,855
TOTAL GENERAL BUSINESS (INCLUDING SHAREHOLDERS' FUNDS) ASSETS	49,984,058	48,832,610

AXA CHINA REGION INSURANCE COMPANY (BERMUDA) LIMITED

FINANCIAL INFORMATION PREPARED UNDER THE INSURANCE COMPANIES ORDINANCE
FOR THE YEAR ENDED 31 DECEMBER 2016

GENERAL BUSINESS (INCLUDING SHAREHOLDERS' FUNDS) BALANCE SHEET PRESENTED
UNDER THE THIRD SCHEDULE OF THE HONG KONG INSURANCE COMPANIES ORDINANCE
- continued

	<u>At 31.12.2016</u> US\$	<u>At 31.12.2015</u> US\$
GENERAL BUSINESS LIABILITIES AND SHAREHOLDERS' FUNDS		
CAPITAL AND RESERVES		
Share capital	175,782,800	175,782,800
Reserves	521,428,695	522,057,979
Interfund	(693,669,695)	(697,580,766)
Adjustments under sections 4, 8, 9, 10 and 14 of the Valuation Regulation	(23,100)	(1,066,880)
	<u>(172,264,100)</u>	<u>(176,589,667)</u>
	3,518,700	(806,867)
INSURANCE FUNDS		
Insurance liabilities, gross	147,095	8,420,942
Adjustment under section 10 of the Valuation Regulation	-	-
	<u>147,095</u>	<u>8,420,942</u>
OTHER LIABILITIES		
Creditors and accrued charges	1,331,039	1,242,095
Claims payable	40,069,446	38,854,685
Commissions payable	1,008,299	447,084
Policyholders' funds on deposit	605	1,508
Dividend payable	-	-
Amounts due to reinsurers and intermediaries under reinsurance contracts ceded	449,204	436,373
Amounts due to non-insurer subsidiaries	19	-
Amounts due to insurer subsidiaries	2,783,558	236,790
Amounts due to intermediate holding company	179	-
Taxation	675,914	-
	<u>46,318,263</u>	<u>41,218,535</u>
TOTAL GENERAL BUSINESS LIABILITIES AND SHAREHOLDERS' FUNDS	<u>49,984,058</u>	<u>48,832,610</u>