

AXA CHINA REGION INSURANCE COMPANY
LIMITED

Directors' Report and Financial Statements
For the year ended 31 December 2024

AXA CHINA REGION INSURANCE COMPANY LIMITED

REPORTS AND FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2024

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AXA CHINA REGION INSURANCE COMPANY LIMITED

DIRECTORS' REPORT

The directors of AXA China Region Insurance Company Limited have pleasure in presenting their annual report and audited financial statements for the year ended 31 December 2024 prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and the provisions of the Hong Kong Companies Ordinance.

PRINCIPAL ACTIVITY

The principal activity of the Company is underwriting insurance businesses.

During the year, the Company did not carry on insurance business relating to liabilities or risks in respect of which persons were required by any ordinance 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 2024 are set out in the statement of profit or loss and other comprehensive income on page 8-9 of the financial information.

During the year, no dividend was paid to the ordinary shareholder (2023: nil).

BUSINESS REVIEW

No business review is presented for 2024 as the Company has been able to claim an exemption under section 388(3) of the Companies Ordinance Cap. 622 since it is a wholly owned subsidiary of AXA SA.

SHARE ISSUED IN THE YEAR

Details of the shares issued in the year ended 31 December 2024 are set out in note 17 to the financial information.

RESERVES

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

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2024 are set out in note 13 to the financial statements.

AXA CHINA REGION INSURANCE COMPANY LIMITED

DIRECTORS' REPORT – continued

DIRECTORS

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

G.T. Watson
Y.W. Wan
C.S.H. Tong
C.J. Ryan
P.J. Fishwick

In accordance with Articles 23(4) and 24 of the Company's Articles of Association, no director will retire from the office at the forthcoming annual general meeting and be offered for re-election.

CONTROLLERS

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

AXA Assurances IARD Mutuelle
AXA SA ("AXA")
AXA ASIA SAS
AXA China Region Limited
AXA China Region Insurance Company (Bermuda) Limited
T. Buberl
Y.W. Wan
C.S.H. Tong

AXA CHINA REGION INSURANCE COMPANY LIMITED

DIRECTORS' REPORT – continued

DIRECTORS' AND CONTROLLERS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

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

No properties were transferred, loans advanced to or obligations assumed by or for a director or a controller of the Company, his nominees or associates (within the meaning of section 9 of the Insurance Ordinance) during the year. Amounts paid or payable to the directors or controllers of the Company for the year are shown in notes 9 and 27 to the financial information.

DIRECTORS' INDEMNITY AND INSURANCE

The Company's Articles of Association provide that every Director may be indemnified out of the Company's assets against any liability incurred by him or her to third parties if certain conditions are met. All Directors of the Company have the benefit of directors' and officers' liability insurance as arranged by AXA SA, the ultimate holding company of the Company. Such provisions and insurance have been in force during the financial year and remain in force.

MANAGEMENT CONTRACTS

There exists an agreement for management and administration services, in respect of which the Company, for which Mr. G.T. Watson, Ms. Y.W. Wan, Ms. C.S.H. Tong, Mr. C.J. Ryan and Mr. P.J. Fishwick were directors during the year, provides management and administration services to a subsidiary, AXA Life Insurance Company Limited.

AXA CHINA REGION INSURANCE COMPANY LIMITED

DIRECTORS' REPORT – continued

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

During the year, certain directors and 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 SA Stock Option Plan. Mr. T. Buberl partially and Mr. G.T. Watson wholly exercised their options under the AXA SA Stock Option Plan to subscribe for AXA shares.

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

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

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

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

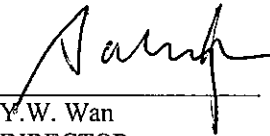
AUDITORS

During the year, Messrs. KPMG were appointed as auditors of the Company in place of Messrs. PricewaterhouseCoopers by the shareholder at the 2024 annual general meeting. The auditors, Messrs. KPMG will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.


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

On behalf of the Board

By order of the Board


Y.W. Wan
DIRECTOR

20 APR 2025


M.C. Lam
SECRETARY

20 APR 2025



AXA CHINA REGION INSURANCE COMPANY LIMITED

**Independent auditor's report to the member of
AXA China Region Insurance Company Limited**

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of AXA China Region Insurance Company Limited ("the Company") set out on pages 8 to 101, which comprise the statement of financial position as at 31 December 2024, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes, comprising material accounting policy information and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2024 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

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

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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.



AXA CHINA REGION INSURANCE COMPANY LIMITED

**Independent auditor's report to the member of
AXA China Region Insurance Company Limited**
(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the financial statements

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 the Hong Kong Companies Ordinance 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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, 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 HKSAs 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 HKSAs, we exercise professional judgement 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.



AXA CHINA REGION INSURANCE COMPANY LIMITED

**Independent auditor's report to the member of
AXA China Region Insurance Company Limited**
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements (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 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.

We communicate with the Audit Committee 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.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 APR 2025

AXA CHINA REGION INSURANCE COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2024

	<u>Note</u>	<u>Year ended</u> <u>31.12.2024</u> HK\$'000	<u>Year ended</u> <u>31.12.2023</u> HK\$'000
Insurance revenue	7	2,991,822	2,949,367
Insurance service expenses		(2,517,118)	(2,366,283)
Net expenses from reinsurance contracts held		<u>(101,621)</u>	<u>(101,706)</u>
Insurance service result		<u>373,083</u>	<u>481,378</u>
Interest revenue		1,517,400	1,339,626
Other investment return		(337,705)	388,643
Net impairment loss on financial assets		<u>(908)</u>	<u>(189)</u>
Investment return	8	<u>1,178,787</u>	<u>1,728,080</u>
Net finance expenses from insurance contracts issued	8	(160,471)	(649,704)
Net finance income from reinsurance contracts held	8	31,646	21,185
Net change in investment contract liabilities		<u>-</u>	<u>-</u>
Net financial result	8	<u>1,049,962</u>	<u>1,099,561</u>
Fee income		-	-
Other finance costs		(11,343)	(13,218)
Other (loss)/ income		(20,067)	(29,567)
Other operating expense		<u>(30,175)</u>	<u>(13,400)</u>
Profit before taxation	9	<u>1,361,460</u>	<u>1,524,754</u>
Taxation	10	<u>(74,712)</u>	<u>(45,037)</u>
Profit for the year		<u><u>1,286,748</u></u>	<u><u>1,479,717</u></u>

The notes on pages 15 to 101 are an integral part of these financial statements.

AXA CHINA REGION INSURANCE COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2024

	Year ended 31.12.2024 HK\$'000	Year ended 31.12.2023 HK\$'000
	<u>Notes</u>	
Profit for the year	1,286,748	1,479,717
<i>Items that may be reclassified subsequently to Profit or Loss</i>		
Change in fair value of financial instruments, including net movement in cash flow hedge reserve	(1,034,902)	1,099,528
Net finance income/ (expenses) from insurance contracts issued	869,990	(839,781)
Net finance income/ (expenses) from reinsurance contracts held	78,308	(118,872)
Taxation related to these items	(1,076)	(428)
<i>Items that may not be reclassified subsequently to Profit or Loss</i>		
Realized capital losses on equity instruments, without recycling in Profit or Loss	(126,451)	(1,451,943)
Change in fair value of equity instruments, without recycling in Profit or Loss	774,812	887,195
Net finance losses from insurance contracts, without recycling in Profit or Loss	(612,040)	408,462
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(51,359)	(15,839)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	1,235,389	1,463,878

Certain comparative figures have been adjusted to conform with current year presentation.

AXA CHINA REGION INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2024

	<u>Note</u>	<u>At 31.12.2024</u>	<u>At 31.12.2023</u>
		HK\$'000	HK\$'000
ASSETS			
INTANGIBLE ASSETS	11	2,708	4,398
PLANT AND EQUIPMENT	12	52,614	51,111
RIGHT-OF-USE ASSETS	23	274,732	396,952
INVESTMENTS IN SUBSIDIARIES	13	1,037,334	-
INVESTMENTS IN SECURITIES	14	50,244,413	49,888,435
INSURANCE CONTRACT ASSETS	18	1,758,394	1,833,547
REINSURANCE CONTRACT ASSETS	18	1,442,203	1,298,126
LOANS	15	7,557	8,960
DEFERRED TAX ASSETS	16	-	2,275
OTHER ASSETS			
Debtors and prepayments, unsecured	20	574,791	710,433
Amount due from the immediate holding company	20	445,805	-
Amounts due from fellow subsidiaries	20	4,087	249,778
Amounts due from intermediate holding companies	20	422,690	615,660
Amounts due from subsidiaries	20	4,165	-
Derivative financial instruments	6, 24	1,804,474	1,719,674
Fixed term bank deposits	28	262,295	222,068
Cash and cash equivalents	28	743,355	1,884,947
TOTAL ASSETS		<u>59,081,617</u>	<u>58,886,364</u>

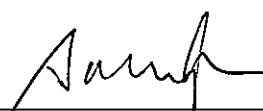
AXA CHINA REGION INSURANCE COMPANY LIMITED

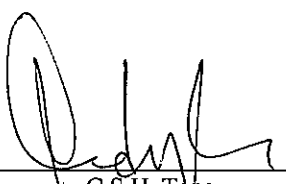
STATEMENT OF FINANCIAL POSITION - continued AT 31 DECEMBER 2024

	Note	At 31.12.2024 HK\$'000	At 31.12.2023 HK\$'000
<u>EQUITY AND LIABILITIES</u>			
CAPITAL AND RESERVES			
Share capital	17	1,995,100	1,995,100
Reserves			
Fair value reserve	17	(7,227,534)	(6,966,368)
Insurance finance reserve	17	4,676,324	4,465,294
Retained earnings		11,192,542	9,907,017
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		10,636,432	9,401,043
SUBORDINATED LOAN	30	-	250,000
INSURANCE CONTRACT LIABILITIES	18	38,140,166	39,471,398
REINSURANCE CONTRACT LIABILITIES	18	72,256	225,078
DEFERRED TAX LIABILITIES	16	34,590	-
OTHER LIABILITIES			
Derivative financial instruments	6, 24	2,026,496	2,253,109
Deferred revenue	26	96,496	99,803
Debt instruments liabilities	20	5,330,462	4,250,578
Creditors and accrued charges	20	2,356,746	2,370,530
Lease Payable	23	296,929	421,992
Amount due to the immediate holding company	20	-	37,801
Amounts due to fellow subsidiaries	20	36,188	34,610
Amounts due to subsidiaries	20	4,388	-
Current tax payable		50,468	70,422
TOTAL LIABILITIES		48,445,185	49,485,321
TOTAL EQUITY AND LIABILITIES		59,081,617	58,886,364

The notes on pages 15 to 101 are an integral part of these financial statements.

The financial statements on pages 8 to 101 were approved by the Board of Directors for issue on **28 APR 2025** and were signed on its behalf by:


Y.W. Wan
CHIEF EXECUTIVE OFFICER


C.S.H. Tong
DIRECTOR

AXA CHINA REGION INSURANCE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2024

	<u>Note</u>	<u>Attributable to shareholders of the Company</u>				<u>Total</u>
		<u>Share capital</u>	<u>Fair value reserve</u>	<u>Insurance finance reserve</u>	<u>Retained earnings</u>	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2023		1,995,100	(8,952,663)	6,170,301	8,724,427	7,937,165
Profit for the year		-	-	-	1,479,717	1,479,717
Other comprehensive income for the year		-	1,986,295	(1,705,007)	(297,127)	(15,839)
Balance at 31 December 2023		1,995,100	(6,966,368)	4,465,294	9,907,017	9,401,043
Profit for the year		-	-	-	1,286,748	1,286,748
Other comprehensive income for the year		-	(261,166)	211,030	(1,223)	(51,359)
Balance at 31 December 2024		1,995,100	(7,227,534)	4,676,324	11,192,542	10,636,432

The notes on pages 15 to 101 are an integral part of these financial statements.

AXA CHINA REGION INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2024

	Year ended 31.12.2024 HK\$'000	Year ended 31.12.2023 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	1,361,460	1,524,754
Adjustments for:		
Interest income	(1,546,922)	(1,339,626)
Net realised and unrealised losses/ (gains) on investments	428,329	(229,484)
Amortisation of intangible assets	2,532	2,638
Depreciation of plant and equipment	18,155	18,319
Loss on disposal of intangible assets	-	762
Gains from termination of lease	(227)	-
Depreciation of right-of-use assets	156,441	157,897
Expected credit loss – Impairment loss	908	189
Interest expenses on lease payable	8,530	11,006
Cash generated from operations before working capital changes	429,206	146,455
Decrease/ (increase) in debtors and prepayments	211,075	(66,479)
Decrease/ (increase) in amounts due from intermediate holding companies	203,193	(72,066)
Increase in amount due from the immediate holding company	(445,805)	-
Decrease in amounts due from fellow subsidiaries	245,691	124,445
Increase in amounts due from subsidiaries	(4,165)	-
(Decrease)/ increase in insurance and reinsurance contract	(1,216,720)	122,166
Increase/ (decrease) in debts instruments liabilities	1,079,884	(2,296,688)
Decrease in creditors and accrued charges	(13,784)	(695,433)
Decrease in amount due to the immediate holding company	(37,801)	(516,534)
Increase in amounts due to fellow subsidiaries	1,578	8,777
Increase in amounts due to subsidiaries	4,388	-
Decrease in deferred revenue	(3,307)	(2,991)
Capitalisation of intangible assets	(842)	(325)
Cash generated from/ (used in) operations	452,591	(3,248,673)
Hong Kong Profits Tax paid	(43,931)	-
Withholding tax deducted	(14,946)	(23,263)
NET CASH GENERATED FROM/ (USED IN) OPERATING ACTIVITIES	393,714	(3,271,936)

AXA CHINA REGION INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS - continued FOR THE YEAR ENDED 31 DECEMBER 2024

	Year ended 31.12.2024 HK\$'000	Year ended 31.12.2023 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments in subsidiaries	(1,037,334)	-
Interest received	1,461,266	1,237,835
(Increase)/decrease in fixed term bank deposits	(40,227)	14,956
Proceeds from sale of investments in securities	44,128,667	131,815,989
Purchase of investments in securities	(45,833,578)	(131,912,799)
Purchase of derivative (net)	221,742	1,469,098
Decrease in other loans	1,403	1,783
Decrease in subordinated loan	(250,000)	-
Purchase of plant and equipment	(19,658)	-
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(1,367,719)	2,626,862
CASH FLOWS FROM FINANCING ACTIVITIES		
Lease payments	(167,587)	(168,182)
NET CASH USED IN FINANCING ACTIVITIES	(167,587)	(168,182)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,141,592)	(813,256)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,884,947	2,698,203
CASH AND CASH EQUIVALENTS AT END OF YEAR	743,355	1,884,947

Certain comparative figures have been adjusted to conform with current year presentation.

The notes on pages 15 to 101 are an integral part of these financial statements.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

1. GENERAL

The Company is a private limited company incorporated in Hong Kong. Its parent company is AXA China Region Insurance Company (Bermuda) Limited, incorporated in Bermuda and its ultimate controlling party is AXA, incorporated in France. The address of the registered office and the principal place of business of the Company is 20th Floor, Vertical Sq, 28 Heung Yip Road, Wong Chuk Hang, Hong Kong.

The principal activity of the Company is underwriting insurance businesses.

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

(a) New and amended standards adopted by the Company

The Company has applied the following amendments for the first time for the annual reporting period commencing 1 January 2024:

- Amendments to HKAS 1 - Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants.
- Amendments to HKAS 7 - Statement of Cash Flows and HKFRS 7 - Financial Instruments: Disclosures- Supplier Finance Arrangements.
- Amendments to HKFRS 16 - Leases: Lease Liability in a Sale and Leaseback

The application of the amendments had no material impact on the Company’s financial statements

(b) New standards and interpretations not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2024 reporting periods and have not been early adopted by the Company. The Company’s assessment of these new standards and interpretations is set out below.

Amendments to HKAS 21 - The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability

The amendments to HKAS 21- The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability, will be effective for annual periods beginning on or after 1 January 2025.

The amendments clarify when a currency is considered exchangeable into another currency, and how an entity estimates a spot rate for currencies that lack exchangeability. The amendments introduce new disclosures to help financial statement users assess the impact of using an estimated exchange rate. The Company has assessed the impact on the Company’s Financial Statements and they are not expected to have a material impact.

Amendments to the Classification and Measurement Requirements for Financial Instruments in HKFRS 9 - Financial Instruments and HKFRS 7 - Financial Instruments: Disclosures

Amendments to the Classification and Measurement Requirements for Financial Instruments in HKFRS 9 - Financial Instruments and HKFRS 7 - Financial Instruments: Disclosures will be effective on 1 January 2026, with earlier application permitted.

These amendments improve the requirements in HKFRS 9 and HKFRS 7 related to settling financial liabilities using an electronic payment system as well as to assessing contractual cash flow characteristics of financial assets with contingent features, including those with environmental, social and governance (ESG)-linked features. The amendments also modify disclosure requirements relating to investments in equity instruments designated at fair value through other comprehensive income and add disclosure requirements for financial instruments with contingent features that do not relate directly to basic lending risks and costs. The assessment of their impact on the Company’s Financial Statements is in progress.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

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

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

Annual improvements to HKFRS Accounting Standards – Volume 11

The Annual Improvements contain narrow amendments to HKFRSs and accompanying guidance as part of its regular maintenance of the standards. The amendments will be effective on 1 January 2026.

The amendments to HKFRS 1 update the wordings in paragraph B6 regarding “qualifying criteria” and added cross-reference to HKFRS 9 in paragraphs B5 and B6 to improve the consistency with the requirements of HKFR 9 and understandability of HKFRS 1 related to hedge accounting.

The amendments to HKFRS 7 remove an obsolete reference to paragraph 27A and updated the wordings in paragraph B38 regarding “unobservable inputs” to be consistent with HKFRS 13. The amendments to the accompanying guidance on implementing HKFRS 7 clarifying that the guidance does not necessarily illustrate all the requirements in the reference paragraphs of HKFRS 7 regarding “fair value” consistent with other standards.

The amendments to HKFRS 9 address a conflict between HKFRS 9 and HKFRS 15 over the initial measurement of trade receivables, and how a lessee accounts for the derecognition of a lease liability under paragraph 23 of HKFRS 9.

The amendments to HKFRS 10 clarify that the relationship described in paragraph B74 is just one example of a circumstance in which judgement is required to determine whether a part is acting as a de facto agent.

The amendments to HKAS 7 replace the term “cost method” with at cost” in paragraph 37 as the definition of “cost method” has already been removed in prior years.

The assessment of its impact on the Company’s Financial Statements is in progress.

HKFRS 18 - Presentation and Disclosure in Financial Statements

HKFRS 18 - Presentation and Disclosure in Financial Statements will be effective on 1 January 2027, with earlier application permitted.

It is aimed at improving the quality and cross-industry comparability of financial reporting, notably by introducing defined subtotals in the statement of profit or loss, adding new principles for aggregation and disaggregation of information and requiring disclosures about management-defined performance measures. It will replace HKAS 1 - Presentation of Financial Statements. The assessment of its impact on the Company’s Financial Statements is in progress.

HKFRS 19, Subsidiaries without public accountability: disclosure

HKFRS 19, Subsidiaries without public accountability: disclosure will be effective for annual periods beginning on or after 1 January 2027, with earlier application permitted. HKFRS 19 simplifies financial reporting by allowing eligible subsidiaries to apply and hence assert compliance with HKFRSs with reduced disclosures. A subsidiary may elect to apply HKFRS 19 in its consolidated, separate or individual financial statements provided that, at the reporting date: it does not have public accountability and its parent produces consolidated financial statements that are available for public use under HKFRSs. A subsidiary applying HKFRS 19 is required to clearly state in its explicit and unreserved statement of compliance with HKFRSs that HKFRS 19 has been adopted. The assessment of its impact on the Company’s Financial Statements is in progress.

3. MATERIAL ACCOUNTING POLICIES INFORMATION

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

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.

As the Company is a holding company that is a wholly owned subsidiary of another body corporate, it satisfies the exemption criteria set out in section 379(3)(a) of the Hong Kong Companies Ordinance (Cap. 622), and is therefore not required to prepare consolidated financial statements.

The material accounting policies adopted are as follows:

3.1 Insurance contracts, investment contracts with discretionary participation features (DPF) and Reinsurance contracts held

Portfolios of insurance contracts and investment contracts with discretionary participation features (DPF) that are assets and those that are liabilities, and portfolios of reinsurance contracts held that are assets and those that are liabilities, are presented separately in the statement of financial position.

HKFRS 17 – Insurance Contracts applies to these contracts as detailed in this note.

Significant judgements and estimates are made by the Company in applying HKFRS 17. The judgements that have the most significant effects on the amounts recognized in the financial statements relate to the classification of contracts, their level of aggregation and their measurement.

In particular, the Company makes significant judgments regarding inputs, assumptions concerning the future and other sources of uncertainty at the reporting date and uses estimation techniques to measure the insurance contracts. These assumptions and estimates are reviewed on an ongoing basis, based on changes in facts and circumstances (including market changes), which leads to adjustments in the measurement of contracts.

The Company uses assumptions to project future cash flows and ensures to design them to adequately reflect any uncertainty underlying the cash flows. Non-market assumptions, based on latest best estimate assumptions (historical data and expert judgment), include the following information: loss ratios, best estimate schedule of lapses, policyholder behavior (e.g. dynamic lapses, election to guaranteed annuity), and management actions (e.g. discretionary benefits distribution policy).

In respect of estimation techniques used to measure the non-Life insurance contracts, different actuarial projection models are applied, based on (i) the portfolios’ main features (in terms of risk drivers, underwriting and claims policies), (ii) quality, relevance and consistency over time of available statistical data, (iii) selection of relevant actuarial assumptions and models, and (iv) ability to economically interpret and justify the projected range of results, both quantitatively and qualitatively.

In respect of estimation techniques used to measure the Life and Savings contracts, they are based on projections of the key components of statutory financial statements, namely income or expenses that relate to policyholders, beneficiary obligations and assets backing those liabilities.

The main assumptions that may generate material changes in the estimate of the future cash flows relate to (i) mortality, morbidity, and longevity rates, (ii) policyholder behavior (due to lapse and surrender), and (iii) overhead expenses.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.1 Insurance contracts, investment contracts with discretionary participation features (DPF) and Reinsurance contracts held – continued

(a) Definition and classification

An insurance contract is a contract under which an issuer accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event (an “insured event”) adversely affects this policyholder. The assessment whether a contract transfers a significant insurance risk considers all substantive rights and obligations (including those arising from law or regulation) and is based on the use of judgement. In substance, insurance contract services provided to a policyholder include the insurance coverage and may also include an investment-return service, corresponding to the generation of an investment return for the policyholder having underwritten an insurance contract without direct participation features, and an investment-related service corresponding to the management of underlying items on behalf of the policyholder having underwritten an insurance contracts with direct participation features.

Insurance contracts with direct participation features

The Company classifies as insurance contract with direct participation features (i.e. direct participating contract) a contract for which (i) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items; (ii) the Company expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and (iii) the Company expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. In addition to the transfer of significant insurance risk to the issuer, a direct participating contract is therefore based on a substantially investment-related service under which an entity promises an investment return on underlying items (the link must be enforceable), as well as on a contractually specified participation. The underlying items determine some of the amounts payable to a policyholder and can comprise any items (e.g. a reference portfolio of assets, technical items, the net assets of the entity, or a specified subset of the net assets of the entity). The Company assesses whether the conditions above are met using its expectations at inception of the contract and needs not reassess the conditions afterwards unless the contract is modified.

Insurance contracts without direct participation features

The Company classifies as insurance contract without direct participation features an insurance contract that is not an insurance contract with direct participation features, namely:

- an insurance contract with indirect participation features (i.e. indirect participating contract) because the payment to policyholders depends upon the return on underlying items, without meeting the criteria defined for insurance contracts with direct participation features; or
- an insurance contract without any participation features (i.e. non-participating contract) as the payment to policyholders does not depend upon the return on underlying items.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.1 Insurance contracts, investment contracts with discretionary participation features (DPF) and Reinsurance contracts held – continued

(a) Definition and classification – continued

Investment contracts with discretionary participation features

The Company classifies as investment contract with discretionary participation features a financial instrument that provides a particular investor with the contractual right to receive both an amount not subject to the discretion of the issuer (usually the account value or the value of the unit-linked) and an additional amount subject to the discretion of the issuer, which is expected to be a significant portion of the total contractual benefits. Even though these contracts do not meet the definition of an insurance contract (as they do not include a transfer of significant insurance risk), HKFRS 17 applies to those contracts as the Company also issues insurance contracts. Following HKFRS 17 guidance, the investment contracts with discretionary participation features issued by the Company have been assessed as meeting the criteria of insurance contracts with direct participation features.

(b) Separating components from insurance and reinsurance contracts

The following components are separated from contracts: (i) distinct embedded derivatives, if they meet certain specified criteria, (ii) distinct investment components, and (iii) distinct performance obligations to provide non-insurance goods and services. These components are accounted for separately by the Company in accordance with the related standards.

After having performed this separation, the Company applies HKFRS 17 to all remaining components of the host insurance contract. All these remaining components, including embedded derivatives, investment components and performance obligations to provide non-insurance goods and services that have not been separated from the host contract, are considered as a single insurance contract in substance.

(c) Level of aggregation

The level of aggregation of contracts is the basis for measuring the contracts and their corresponding profitability. To define the level of aggregation to be used, the Company applies the process hereafter:

- first, portfolios of contracts are identified, each of them only comprising contracts that are subject to similar risks and managed together;
- then, these portfolios are broken down by annual cohort (HKFRS 17 as issued by the HKICPA preventing contracts issued more than one year apart from being included in the same group);
- finally, a further split is performed depending on the level of profitability of contracts
 - Any contracts that are onerous on initial recognition;
 - any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
 - any remaining contracts in the portfolio

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.1 Insurance contracts, investment contracts with discretionary participation features (DPF) and Reinsurance contracts held – continued

(d) Initial recognition

The groups of insurance contracts issued are recognized from the earliest of (i) the beginning of the coverage period of the group of contracts, which is the general case, (ii) the date when the first payment from a policyholder in the group becomes due, and (iii) for a group of onerous contracts, the date when this group becomes onerous.

For investment contracts with discretionary participation features, the date of initial recognition is the date when the Company becomes party to the contract.

(e) The General Measurement Model or “BBA”

HKFRS 17 requires applying by default the General Measurement Model of insurance contracts, called the “Building Block Approach” (“BBA”) as it is based on the following building blocks:

- the Fulfilment Cash Flows (“FCF”), which comprise:
 - probability-weighted estimates of future cash flows;
 - an adjustment to reflect the time value of money (i.e. discounting) and the financial risks associated with those future cash flows; and
 - a risk adjustment for non-financial risk;
- the Contractual Service Margin (“CSM”), which is calculated at inception as the difference between the premium paid by the policyholder and the expected FCF, and corresponds to the present value of future expected profits.

The BBA mainly applies to the long-term health business, some life & savings contracts which do not qualify for the use of Variable Fee Approach (“VFA”) and long term reinsurance treaties.

(i) Insurance acquisition cash flows (“IACF”)

The insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts. When these IACF are incurred prior to the date of initial recognition of the group of insurance contracts, such IACF are recognized as an asset, which is deducted from the carrying amounts of insurance contracts. The recoverability of assets for IACF is assessed at the end of each reporting period, if facts and circumstances indicate that the asset may be impaired. If an impairment loss is identified, the carrying amount of the asset for IACF is adjusted and the impairment loss is recognized in the statement of profit or loss. When the group of insurance contract is recognized, the corresponding asset for IACF is derecognized and included in the measurement of that group.

(ii) Estimates of future cash flows

The FCF notably include all the probability-weighted estimates of future cash flows within the boundary of each contract already recognized. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums or in which the Company has a substantive obligation to provide the policyholder with services. A substantive obligation to provide services ends when:

- the Company has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Company has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio; and the pricing of the premiums for coverage up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.1 Insurance contracts, investment contracts with discretionary participation features (DPF) and Reinsurance contracts held - continued

(e) The General Measurement Model or “BBA” – continued

(ii) Estimates of future cash flows – continued

The unbiased estimate of the expected future cash flows within the boundary of insurance contracts, including the cost of options and guarantees embedded in the contract, to the extent that those options and guarantees are not separated from the insurance contract, are based on a probability-weighted mean of the full range of possible outcomes to factor the uncertainty about the timing and amounts of the cash flows, determined from the perspective of the Company, provided that the estimates are consistent with observable market prices for market variables reflecting conditions existing at the measurement date.

The cash flows attributable to the group of insurance contracts include premiums from the policyholders, claim payments (including reported, incurred claims for events that have occurred but for which claims have not been reported and all the future claims for which the Company has a substantive obligation net of recoveries from claims), profit sharing to policyholders, as well as payments arising from the policyholders exercising options, directly attributable expenses and commissions, costs related to investment activities performed for the benefit of policyholders (i.e. including investment-return services and investment-related services).

The following cash flows are not included in the contracts boundary: investment returns as they are recognized, measured and presented separately under other applicable HKFRSs, costs of investment activities performed for the benefit of shareholders, payments or receipts that arise under reinsurance contracts held (as they are accounted for separately), those that may arise from future insurance contracts, overheads that do not provide any economic benefits to fulfilling insurance contracts, income tax payments and receipts the Company does not pay or receive in a fiduciary capacity, cash flows arising from components separated from the insurance contracts and accounted for using other applicable HKFRSs.

If insurance premiums are first collected by an intermediary and then transferred to the Company at a later date, the premium receivables from the intermediary are generally accounted for as future cash flows within the boundary of insurance contracts included in the measurement of the corresponding group of insurance contracts applying HKFRS 17.

(iii) Time value of money and financial risks related to the future cash flows

The Company applies discount rates to the estimates of the future cash flows to reflect the time value of money and financial risks related to the future cash flows. The method of estimating the discount rates is detailed in Note 4.

(iv) Risk adjustment for non-financial risk (“RA”)

The measurement of the risk adjustment reflects the compensation required by the Company for bearing the uncertainty around the amount and timing of the future cash flows that arises from non-financial risk as the Company fulfils insurance contracts. The changes in the risk adjustment for non-financial risk are presented in the insurance service result (i.e. they are not disaggregated into insurance service result and insurance finance income and expenses).

The method of determining the RA is detailed in Note 4.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.1 Insurance contracts, investment contracts with discretionary participation features (DPF) and Reinsurance contracts held – continued

(e) The General Measurement Model or “BBA” – continued

(v) CSM

For a group of insurance contracts, the CSM represents the unearned profit attributable to the shareholders. At inception, the CSM is the amount that offsets the FCF, less the derecognition of assets for IACF (see above), or the value of the Company’s rights in excess of the value of its obligations under the insurance contracts. On the other hand, the CSM cannot be negative. Consequently, if the expected cash outflows exceed the expected cash inflows, the group of contracts is onerous and the loss, which corresponds to the expected net cash outflow, is expensed immediately in the statement of profit or loss.

At the end of each subsequent reporting period, the Company remeasures the liability for remaining coverage (“LRC”), which comprises the FCF related to future services and the CSM of the group of contracts at that date. Hence, the CSM is adjusted at each subsequent reporting period for changes in expected future cash flows driven by changes in technical assumptions (death, morbidity, longevity, surrenders, expenses, future premiums). Interest is also accreted on the CSM at rates locked in at initial recognition of a group of contract (i.e. discount rate used at inception to determine the present value of the estimated cash flows).

Moreover, the CSM is progressively recognized and included in insurance revenue in the statement of profit or loss over the coverage period of insurance contracts (refer to Note 3.17). The portion of the CSM to be released as part of insurance revenue for a reporting period, which reflects the performance of insurance contract services, is based on coverage units. In practice, the Company:

- identifies the total number of coverage units for each group of contracts, which is the quantity of services provided for the insurance contracts belonging to the group over the expected coverage period;
- allocates the CSM at the end of the reporting period (before having recognized any amounts in the statement of profit or loss to reflect the services provided in the period) equally to each coverage unit provided in the current reporting period and expected to be provided in the future; and
- recognizes the amount of CSM allocated to the coverage units provided in the current reporting period in the statement of profit or loss.

Given the variety of insurance contracts, the Company exercises its judgment to define coverage units, considering both the level of coverage defined within the contract (e.g. a death benefit over a fixed term, the policyholders’ account value, or a combination of guarantees) and the expected coverage duration of the contract.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.1 Insurance contracts, investment contracts with discretionary participation features (DPF) and Reinsurance contracts held - continued

(e) The General Measurement Model or “BBA” – continued

(v) CSM – continued

However, this release of the CSM is not applicable if there are adverse changes in future cash flows greater than the remaining CSM. In this case, the group of contracts becomes onerous, and the loss is immediately recognized in the statement of profit or loss.

When a group of insurance contracts is onerous, on initial recognition or subsequently, the LRC includes a loss component reflecting the loss recognized in the statement of profit or loss. As long as the group of contracts remains onerous, subsequent changes in the amount of loss component are immediately allocated to the statement of profit or loss and other comprehensive income.

(vi) Liabilities for incurred claims (“LIC”)

After initial recognition of a group of insurance contracts, the carrying amount of the group at each reporting date is the sum of two different components: the LRC, that relates to the remaining coverage (see above) and the LIC, which corresponds to the FCF related to past services allocated to the group.

The LIC reflects the Company’s obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses, as well as to pay amounts relating to other insurance contract services already provided or any investment components or other amounts that are not related to the provision of insurance contract services and that are not in the LRC.

(vii) Loss components

For contracts not measured under the premium allocation approach, the Company establishes a loss component of the liability for remaining coverage for onerous groups of insurance contracts. The loss component determines the amounts of fulfilment cash flows that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue when they occur. When the fulfilment cash flows are incurred, they are allocated between the loss component and the liability for remaining coverage excluding the loss component on a systematic basis.

The systematic basis is determined by the proportion of the loss component relative to the total estimate of the present value of the future cash outflows plus the risk adjustment for non-financial risk at the beginning of each year (or initial recognition if a group of contracts is initially recognised in the year).

Changes in fulfilment cash flows relating to future services and changes in the amount of the Company’s share of the fair value of the underlying items for direct participating contracts are allocated solely to the loss component. If the loss component is reduced to zero, then any excess over the amount allocated to the loss component creates a new CSM for the group of contracts.

(f) Premium Allocation Approach (“PAA”)

The Premium Allocation Approach is used for the Property and Casualty business and for some short-term Protection and Health businesses.

This is a simplified model permitted for the measurement of the LRC provided that the measurement of the LRC does not differ materially from the BBA or the coverage period is one year or less. On initial recognition of each group of contracts, the carrying amount of the LRC is measured as the premiums received on initial recognition minus any insurance acquisition cash flows allocated to the group at that date and adjusted for amounts arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group. The Company has elected the accounting policy choice to defer insurance acquisition cash flows through the LRC.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.1 Insurance contracts, investment contracts with discretionary participation features (DPF) and Reinsurance contracts held – continued

(f) Premium Allocation Approach ("PAA") – continued

Subsequently, the carrying amount of the liability for remaining coverage is increased by any premiums received and the amortisation of insurance acquisition cash flows recognised as expenses and decreased by the amount recognised as insurance revenue for service provided and any additional insurance acquisition cash flows allocated after initial recognition. On initial recognition of each group of contracts, the Company expects that the time gap between providing each part of the coverage and the related premium due date is not significant. Accordingly, the Company has chosen not to adjust the LRC to reflect the time value of money and the effect of financial risk.

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Company recognises a loss in profit or loss and increases the LRC to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the LRC as loss component. The fulfilment cash flows are discounted (at current rates) if the LIC is also discounted.

The Company recognises the LIC of a group of insurance contracts for the amount of the fulfilment cash flows relating to incurred claims. The Company does not apply discounting on LIC because the Company expects that the incurred claims not yet paid will be settled within 1 year.

(g) Measurement with the VFA

The VFA applies to a large part of the Life and Savings businesses (both General Account and Unit-Linked contracts). This measurement model is mandatory for insurance contracts with direct participation features and investment contracts with discretionary participation features and aims at adjusting the CSM to reflect the variable nature of the fee. The adjustment equals to the entity's share of the change in fair value of the underlying items (explained below) and financial risks other than those arising from the underlying items.

The VFA is derived from the BBA to the extent that it is also based on a building block approach. As such, the principles described here above for the BBA also apply, meaning that the liabilities are also made of FCF and a CSM. At initial recognition, there are no differences between the BBA and the VFA. However, the methodology is different for subsequent measurement since the CSM under the VFA absorbs (excluding the Company's share):

- the experience variance of the period generated by underlying items;
- the consequences of changes in both technical and financial assumptions;
- the effect of changes in financial risks not arising from underlying items (such as options and guarantees).

In order to allow an appropriate pattern of the CSM release in the statement of profit or loss over the coverage period, consistently with the HKFRS 17 definition of the investment-related service, the number of coverage units is determined by considering the expected return of underlying items resulting from Real World ("RW") deterministic assumptions. The estimation of the RW assumptions is detailed in Note 4.

The "risk mitigation" accounting option is applied to some group of contracts and allows to reduce or remove any accounting mismatch arising from the mitigation of financial risks impacting the CSM by using (i) derivatives, (ii) non-derivative financial assets measured at fair value through profit and loss, held within shareholders' fund or (iii) reinsurance contracts. Under this option, it is allowed (on a prospective basis from the transition date to HKFRS 17 as of January 1, 2022) not to adjust the CSM but instead affect the statement of profit or loss for the changes in the FCF and the entity's share in the fair value return on the underlying items that the hedged items are intended to mitigate. This option is allowed only when the Company has previously documented a risk-management objective and strategy for mitigating financial risk. In particular, an economic offset should exist between the insurance contracts and the hedging instruments, and credit risk should not dominate the economic offset. If, and only if, these conditions cease to be subsequently met, the risk mitigation option is stopped (with no restatement of previous adjustments).

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.1 Insurance contracts, investment contracts with discretionary participation features (DPF) and Reinsurance contracts held – continued

(g) Derecognition of insurance contracts

An insurance contract is derecognized from the group of contracts to which it belongs in case of extinguishment, transfer, or a modification of its terms in a such a way that a new contract is recognized in a new group. The derecognition of insurance contracts leads to eliminate their FCF and adjust the CSM of the group of contracts instead of generating a direct and immediate effect in the statement of profit or loss, unless the group of contracts becomes onerous or empty. Depending on the cause of derecognition, the CSM of the group of contracts is adjusted:

- in case of extinguishment of an insurance contract, by the same amount eliminated from the FCF;
- in case of a portfolio transfer to a third party, by the difference between the amount eliminated from the FCF and the premium charged by the third party;
- in case of a modification of insurance contracts (requiring a derecognition followed by a recognition in a new group of contracts), by the difference between the amount eliminated from the FCF and any additional premium charged to the policyholder as a result of the modification. In practice, this means that the adjustments of CSM generated by the modification is split between the initial group of contracts and the new one, depending on the hypothetical premium that the entity would have charged had it entered into a contract with equivalent terms as the new contract at the date of the contract modification.

Finally, if an insurance contract is derecognized because of its transfer to a third party or a modification, the remaining amount previously recognized in Other Comprehensive Income (“OCI”) is reclassified in the statement of profit or loss when the Building Block Approach applies but maintained in OCI when the VFA applies.

(i) Reinsurance contracts

The Company assumes and cedes reinsurance in the normal course of business. Assumed reinsurance refers to the Company’s acceptance of certain insurance risks that other companies have underwritten leading to the recognition of groups of reinsurance contracts issued. Ceded reinsurance refers to the transfer of insurance risks, along with the related premiums, to other reinsurers who will assume the risks as the Company seeks to reduce the potential amount of loss arising from claims events by reinsuring certain levels of risk underwritten, leading to the recognition of groups of reinsurance contracts held.

Both groups of reinsurance contracts issued and groups of reinsurance contracts held are subject to the BBA or the PAA described in the previous paragraphs provided that there is a transfer of significant insurance risk; in any case, they are not eligible to the VFA as they are not insurance contracts with direct participation features. As the specificities of the treaties can affect their classification, each reinsurance contract is subject to a detailed analysis by the Company in order to determine the appropriate accounting treatment.

Whereas the recognition and measurement of reinsurance contracts issued is similar to insurance contracts issued, the reinsurance contracts held have some specificities which are described hereafter.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.1 Insurance contracts, investment contracts with discretionary participation features (DPF) and Reinsurance contracts held – continued

(i) Reinsurance contracts – continued

Date of initial recognition

The recognition of groups of reinsurance contracts held depends on the type of coverage. When the reinsurance contract held provides proportionate coverage, the date of recognition of the group corresponds to the date when any underlying insurance contract is recognized by the Company. When the reinsurance contract held does not provide proportionate coverage, the group of reinsurance contracts is recognized at the earliest of the beginning of the coverage period of the group of underlying insurance contracts and the date when the entity recognizes an onerous group of underlying insurance contracts.

Boundary of contract

For reinsurance contracts held, the cash flows are within the boundary of the reinsurance contract if the Company has a substantive right to receive services from the reinsurer or a substantive obligation to pay premiums to the reinsurer. Depending on the relationship between the contract boundary of the direct insurance contracts and that of the reinsurance contracts held, in some cases, the reinsurance treaty might offer protection for underlying insurance contracts that the Company has not issued yet. However, the carrying amount of a reinsurance contract held is nil before any cash flows occur or any service is received.

Measurement

Similarly to underlying insurance contracts, PAA is used for short term reinsurance coverages with one year or less, while long term coverages are measured with the BBA.

The measurement of reinsurance contracts held follows a mirroring principle of the underlying insurance contracts leading to estimate the present value of the future cash flows of the reinsurance contract held using assumptions consistent with those used for the underlying insurance contracts. Thus, the reinsurance contract asset is derived using the same assumptions as those used by the Company for the underlying insurance contracts as these are the ones used to determine the expected reinsurance recoveries. In practice, some reinsurance contracts held by the Company provide cover for underlying contracts that are included in different groups.

However, using consistent assumptions does not imply the use of the same assumptions as those used for measuring the underlying contracts if those assumptions are not valid for the reinsurance contract held. In practice, the use of the same discount rate might not be appropriate, especially if the reinsurance contract is entered into during the coverage period of the underlying contracts. In addition, the cash flows from the reinsurance contract held include an adjustment for the effect of any risk of non-performance by the issuer of the reinsurance contract, including the effects of collateral and losses from disputes.

At inception, the reinsurance coverage, in exchange of a reinsurance premium, is measured as:

- the reinsurer's share of the expected present value of the cash flows generated under the underlying insurance contracts, including an adjustment to reflect the fact that the reinsurer might dispute coverage or fail to satisfy its obligations under the contract (risk of non-performance / counterparty risk);
- the risk adjustment for non-financial risk is the amount of risk being transferred by the Company to the reinsurer; and
- typically a "net cost" (a "net gain" can however occur in some cases), which is in substance a negative Contractual Service Margin ("CSM") corresponding to the cost paid to the reinsurer, depending on the pricing of the reinsurance contract held and assessed independently to the CSM arising from the underlying insurance contracts.

The mechanics of the measurement models are the same for the underlying insurance contracts with the difference that the concept of CSM is replaced by the concept of net cost / net gain. This net loss or net gain is deferred and released in profit or loss throughout the coverage period, in line with the provision of reinsurance services. However, if the net cost of purchasing reinsurance relates to past events, i.e. retrospective reinsurance contracts covering such as adverse development covers for incurred claims, any net cost occurring at inception is immediately recognized in the statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.1 Insurance contracts, investment contracts with discretionary participation features (DPF) and Reinsurance contracts held – continued

(i) Reinsurance contracts – continued

Measurement – continued

Subsequently, at the end of each reporting period, the carrying amount of the net deferred cost or gain for reinsurance contracts held is adjusted to reflect changes in estimates. However, if the Company recognizes losses in the statement of profit or loss on underlying contracts because of adverse changes in estimates of fulfilment cash flows, the corresponding changes in cash inflows for reinsurance contracts held are also recognized in profit or loss and therefore do not adjust the net deferred loss or gain of the group of reinsurance contracts held. As a result, there is no net effect in the profit or loss for the period to the extent that the change in the fulfilment cash flows of the underlying contracts is matched with a change in the fulfilment cash flows on the reinsurance contracts held.

Reinsurance of onerous underlying insurance contracts

The Company adjusts the CSM of the group to which a reinsurance contract held belongs and as a result recognises income when it recognises a loss on initial recognition of onerous underlying contracts, if the reinsurance contract held is entered into before or at the same time as the onerous underlying contracts are recognised. The adjustment to the CSM is determined by multiplying:

- the amount of the loss that relates to the underlying contracts; and
- the percentage of claims on the underlying contracts that the Company expects to recover from the reinsurance contracts held.

A loss recovery component is created or adjusted for the group of reinsurance contracts to depict the adjustment to the CSM, which determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts and are excluded from the allocation of reinsurance premium paid.

(j) Transition methods

The transition to HKFRS 17 involved determining the methodology to be used for measuring the insurance contracts in force at the transition date, which is the beginning of the annual reporting period immediately preceding the date of initial application, namely 1 January 2022.

Theoretically, the transition from HKFRS 4 to HKFRS 17 requires applying the new standard fully retrospectively, as if it was applied from the inception of insurance contracts in force. However, if the application of this full retrospective approach (“FRA”) is impracticable, the two following options are possible:

- either the modified retrospective approach (“MRA”), which consists in applying certain modifications of general requirements, to the extent that the full retrospective application is impracticable, but still with the objective to achieve the outcome as close as possible to the retrospective application, based on reasonable and supportable information available without undue cost and effort; or
- the fair value approach (“FVA”), which consists in repricing the contracts in the light of actuarial and financial parameters seen at the transition date by calculating the CSM as the positive difference between (i) the fair value of liabilities determined in accordance with HKFRS 13 – Fair Value Measurement, corresponding to the price that would be required by an external party to acquire the liabilities, and (ii) the fulfilment cash flows of insurance contracts.

In practice, the Company has applied the FRA only to the liabilities for remaining coverage (“LRC”) of insurance contracts measured using the Premium Allocation Approach (“PAA”) and to the liabilities for incurred claims (“LIC”) occurred since 2016.

For other groups of insurance contracts, different factors (such as the impossibility of running models since the inception of the contracts, the availability of yield curves, the lack of historical data) have made the application of the FRA impracticable. For these groups of contracts, the Company has applied the MRA or the FVA, namely:

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.1 Insurance contracts, investment contracts with discretionary participation features (DPF) and Reinsurance contracts held – continued

(j) Transition methods – continued

- for individual health contracts, the MRA was used, which mainly consisted in calculating an approximate CSM by reusing past information coming from European Embedded Value (“EEV”) or Solvency II, and the analyses of movements leading to get results close to those that would have been obtained using a FRA, whereas the FVA being applied only on a more limited basis;
- for LIC occurred before 2016 related to Property & Casualty contracts, in the absence of reasonable and supportable information (under HKFRS 4, claims reserves were generally not discounted and determining the correct locked-in discount yield curves was not possible without hindsight for periods before the adoption of Solvency II), the FVA was applied with the option taken to set the OCI to zero on transition (i.e. discounting the liabilities with the transition yield curve instead of an historical accident year yield curve);
- for the remaining contracts, the FVA was used.

3.2 Financial instruments

(a) Classification

Financial assets are classified in the three following measurement categories, based on the business model in which those financial assets are held and on the characteristics of their contractual cash flows:

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

Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

In addition to the general classification guidance above, the Company uses the following classification options:

- optional FVOCI designation for investments in equity instruments (other than those held for trading), also referred to as “FVOCI without recycling”. The Company applies this optional designation for most of equity securities held except those backing contracts where the financial risk is borne by policyholders, measured at a FVTPL basis;
- optional FVTPL designation (Fair Value Option for financial assets). The Company applies this option for some financial assets that otherwise meet the requirements to be measured at amortized cost or at FVOCI, if doing so eliminates or significantly reduces an accounting mismatch in profit or loss, for example, for some loans backing insurance contracts measured using the VFA.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.2 Financial instruments – continued

(b) Initial 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 profit or loss.

(c) Subsequent measurement

(i) Debt instruments measured at amortised cost

After initial measurement, debt instruments are measured at amortised cost, using the effective interest method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate.

(ii) Debt instruments at fair value through other comprehensive income

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

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

Financial assets at FVTPL are recorded in the statement of financial position at fair value. Net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognised in profit or loss, unless they arise from derivatives designated as hedging instruments in net investment hedges.

(iv) Equity investments at fair value through other comprehensive income

Equity investments at fair value through other comprehensive income are measured at fair value. Dividends are recognised as income in profit or loss when the Company's right to receive payment is established unless they clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

(d) Impairment

The impairment applies to financial assets measured at amortised cost and debt securities measured at FVOCI.

The Company measures ECL allowances at an amount equal to:

- 12-month ECL resulting from default events that are possible within the 12 months after the reporting date and recognized for financial instruments for which the credit risk has not increased significantly since initial recognition (it is also assumed that the credit risk has not increased significantly since initial recognition if the financial instrument has low credit risk at the reporting date); or
- lifetime ECL resulting from all possible default events over the expected life of the financial instrument and calculated for financial instruments for which there have been significant increases in credit risk since initial recognition, as well as for financial instruments for which a credit event has occurred since their initial recognition.

ECL for trade receivables and lease receivables that are within the scope of HKFRS 9, typically outstanding for a relatively short period of time, are always measured at an amount equal to lifetime ECL.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.2 Financial instruments – continued

(d) Impairment – continued

Financial instruments for which 12-month ECL are recognized referred to as “Stage 1” financial instruments. Financial instruments for which lifetime ECL are recognized but for which no credit event has occurred are referred to as “Stage 2” financial instruments. Finally, financial instruments for which a credit event has occurred since their initial recognition are referred to as credit-impaired, or “Stage 3” financial instruments.

To perform the impairment stage allocation, at each reporting date, The Company assesses, for each financial instrument within the scope of the ECL calculation:

- whether the financial instrument has low credit risk;
- whether the credit risk on the financial instrument has increased significantly since initial recognition;
- whether the credit risk on the financial instrument previously classified in Stage 2 has improved since the previous reporting date; and
- whether a credit event (default) has occurred.

The approach used by the Company to perform the impairment stage allocation includes the following components:

- the quantitative assessment designed to detect, for all financial assets within the scope of the ECL calculation, significant increases and decreases in credit risk. This quantitative assessment is based on the Company’s HKFRS 9 rating which captures all relevant information, including forward-looking information, required to identify significant changes in credit risk since initial recognition based on fact and circumstances specific to the financial asset; and
- the qualitative assessment, based on expert judgment, performed to confirm transfers between Stage 1 and Stages 2 or 3 for material exposures within the scope derived from the quantitative assessment.

ECL is defined at each financial reporting date based on the key inputs which are the probability of the default, the magnitude of the potential credit loss after any potential recovery and the exposure to the risk of default determined as the financial instrument’s gross carrying amount plus the accrued interests at the closing date.

The amount of ECL is updated at each reporting date to reflect changes in credit risk on the concerned financial instruments. Any increase in credit risk gives rise to an additional ECL allowance. Previously recognized ECL allowances are reversed when the corresponding credit risk improves. ECL allowances and reversals are recognized in profit or loss and, as a counterpart, affect:

- for the financial instruments measured at amortized cost, their carrying value in the statement of financial position;
- for the financial instruments measured at FVOCI, the amount of unrealized gains or losses on those instruments accumulated in the OCI.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.2 Financial instruments – continued

(d) Impairment – continued

The following tables explain the changes in the ECL allowances for FVOCI debts instruments.

In HK\$000	Stage 1		Stage 2		Total	
	Gross carrying amount	Related ECL allowance	Gross carrying amount	Related ECL allowance	Gross carrying amount	Related ECL allowance
Balance as at 01.01.2024	43,589,941	(10,774)	-	-	43,589,941	(10,774)
Transfer to Stage 2						
Originated or purchased	5,314,453	212	-	-	5,314,453	212
Matured or sold	(3,823,918)	941	-	-	(3,823,918)	941
Remeasurements	(274,203)	(1,120)	-	-	(274,203)	(1,120)
Balance as at 31.12.2024	44,806,273	(10,741)	-	-	44,806,273	(10,741)

In HK\$000	Stage 1		Stage 2		Total	
	Gross carrying amount	Related ECL allowance	Gross carrying amount	Related ECL allowance	Gross carrying amount	Related ECL allowance
Balance as at 01.01.2023	39,797,446	(11,093)	8,150	(345)	39,805,596	(11,438)
Transfer to Stage 2						
Originated or purchased	112,385,955	(1,105)	-	-	112,385,955	(1,105)
Matured or sold	(109,892,168)	384	(7,358)	469	(109,899,526)	853
Remeasurements and others	1,298,708	1,040	(792)	(124)	1,297,916	916
Balance as at 31.12.2023	43,589,941	(10,774)	-	-	43,589,941	(10,774)

(e) Derecognition, contract modification

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial assets expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.3 Financial liabilities

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

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

A financial liability is typically designated as at 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; or
- 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 net change in investment contract liabilities in the statement of profit or loss.

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

(ii) Other financial liabilities

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

3.4 Derivative instruments

Derivatives are initially recognized at fair value at purchase date and are subsequently re-measured at their fair value at the reporting date. Unrealized gains and losses are recognized in the statement of profit or loss unless they relate to a qualifying hedge relationship as described below.

In the statement of financial position, derivatives are presented in separate line items, as either an asset or a liability depending upon the fair value position at the reporting date, with no offsetting, regardless of whether these derivatives meet the criteria for hedge accounting.

Under hedge accounting, the Company formally documents, at inception of a designated hedging relationship, its risk management objectives and strategy for undertaking the hedge. This documentation includes (i) the identification of the hedged item and of the hedging instrument, (ii) the nature of the risk being hedged, (iii) the economic relationship between the hedged item and the hedging instrument, including whether the changes in the value of the hedged item and the hedging instrument are expected to offset each other, (iv) and how the assessment of whether the hedging relationship meets the hedge effectiveness requirements will be performed, including its analysis of the sources of hedge ineffectiveness. The hedging relationship documentation is updated on an ongoing basis.

The Company designates certain derivatives as either: (i) hedging of highly probable expected future transactions (cash flow hedge), or (ii) hedging of the fair value of recognized assets or liabilities or of a firm commitment (fair value hedge), or (iii) hedging of net investments in foreign operations.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.4 Derivative instruments - continued

(i) Cash flow hedge

A separate component of equity, referred to as cash flow hedge reserve, is adjusted through other comprehensive income (“OCI”) for the lower of the following amounts:

- gain or loss on the hedging instrument cumulated since inception of the hedge, and
- change in fair value of the hedged item cumulated since inception of the hedge (i.e. the present value of the cumulative change in the hedged expected future cash flows).

If the cumulative gain or loss on the hedging instrument exceeds the change in fair value of the hedged item (sometimes referred to as an ‘over-hedge’), the related ineffectiveness is recognized in profit or loss. If the cumulative gain or loss on the hedging instrument is lower than the change in fair value the hedged item (sometimes referred to as an ‘under-hedge’), no ineffectiveness appears.

Cumulative gain or loss in cash flow hedges reserve (included under fair value reserve) is recycled in the statement of profit or loss when the hedged underlying item impacts the profit or loss for the period (for example when the hedged future transaction is recognized.) When a hedging instrument reaches its maturity date or is sold, or when a hedge no longer qualifies for hedge accounting, the cumulative gains or losses in other comprehensive income are released in profit or loss when the initially hedged future transaction ultimately impacts the statement of profit or loss. If the hedged future cash flows are no longer expected to occur, the cumulative gains or losses are immediately reclassified from shareholders’ equity to profit or loss.

(ii) Fair value hedge

Changes in the fair value of derivatives designated and qualifying as hedging instruments in fair value hedges of equity instruments designated at FVOCI are recorded in OCI, without recycling into profit or loss, together with changes in fair value of the hedged equity instrument.

Changes in the fair value of derivatives designated and qualifying as hedging instruments in fair value hedges of other financial instruments are recorded in the statement of profit or loss, together with any changes in the fair value of the hedged asset or liability. Therefore, the gain or loss relating to any ineffective portion is directly recognized in the statement of profit or loss.

(iii) Net investment hedge

The accounting of net investments in foreign operations hedge is similar to the accounting of cash flow hedge. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income; the gain or loss relating to the ineffective portion is recognized in the statement of profit or loss. Cumulative gains and losses in reserve impact the statement of profit or loss only on disposal of the foreign operations.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.4 Derivative instruments - continued

(iv) Derivatives not qualifying for hedge accounting

Most of the derivatives used by the Company are purchased with a view to hedge, or for example to use such instruments as an alternative to gain exposure to certain asset classes through “synthetic positions”. However, given HKFRS 9 constraints, only qualifying hedges are eligible to hedge accounting provisions described above. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognized in the statement of profit or loss.

The Company holds financial investments that also include embedded derivatives. A derivative embedded in a contract where the host is a financial asset in the scope of HKFRS 9 is not separated. Instead, the hybrid financial instrument as a whole is assessed for classification applying the guidance described in paragraph 3.2. Conversely, if the host contract is a financial liability within the scope of HKFRS 9 and is not measured at FVTPL, the embedded derivative is separated from the host contract to the extent that the impact is deemed material, unless the economic characteristics and risks of both the embedded derivative and the host contract are closely related. In this case, the host contract is accounted for as a financial liability within the scope of HKFRS 9, and the separated derivative is accounted for at FVTPL.

3.5 Associate

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 statement of financial position, investments in associates 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.

3.6 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 profit or loss during the financial period in which they are incurred.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.6 Plant and equipment – continued

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

Furniture, fixtures and equipment	10%
Leasehold improvements	10%
Computer equipment	33.4%
Motor vehicle	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 as management and other expenses in the statement of profit or loss.

3.7 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 of disposal 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.

3.8 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.

3.9 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. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.10 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 reporting date in the countries where the Company and its associate operate and generate 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 reporting 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 an associate, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

3.11 Foreign currency translation

(a) Functional and presentation currency

The financial statements are presented in Hong Kong Dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

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

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.11 Foreign currency translation – continued

(b) Transactions and balances – continued

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. 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 FVTPL are reported as part of the fair value gain or loss.

3.12 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.

(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.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.12 Employee benefits – continued

(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 profit or loss is determined by reference to the fair value of the options granted:

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

3.13 Cash and cash equivalents

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

3.14 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.

3.15 Fair value of financial instruments

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

3.16 Lease

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

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

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

To determine the incremental borrowing rate, the Company:

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

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

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

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

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

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

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.17 Insurance revenue

The insurance revenue reflects the insurance contract services provided by the Company over the period, which is derived from the reduction in the LRC during the reporting period, subject to corrections (adjustment of premiums, loss components) and excluding investment components (i.e. amounts to be paid to a policyholder even if an insured event does not occur).

The way these changes are reflected in the insurance revenue differs by measurement model.

For the contracts measured under the PAA, the insurance revenue corresponds to the amount of expected insurance coverage during the period (or passage of time if not significantly different), excluding any investment components.

For the contracts measured under the BBA and the VFA, the insurance revenue corresponds to the release of the LRC, depending on the quantity of provided services, and an allocation of insurance acquisition cash flows.

In substance, the amounts related to the provision of insurance contract services include:

- the expected claims, including expenses other than insurance acquisition cash flows, but excluding those not contributing to the fulfilment of insurance contracts (i.e. non-attributable expenses);
- the release of the risk adjustment for non-financial risk;
- the allocation of the CSM to the period.

The allocation of insurance acquisition cash flows represents the portion of premiums that corresponds to the recovering of those cash flows to each reporting period in a systematic way based on the passage of time, the same amount being recognized as insurance service expenses. This mechanism enables to add back the part of the premium corresponding to the coverage of insurance acquisition cash flows. This means that insurance acquisition cash flows are not recognized in the statement of profit or loss when the acquisition cash flows occur but when the CSM is released.

3.18 Insurance service expenses

Insurance service expenses arising from groups of contracts issued by the Company are recognized in the statement of profit or loss as they are incurred, excluding amounts allocated to refunds of premiums and payment of policy loans. Symmetrically to insurance revenue, the payments relating to investment components are excluded from insurance service expenses.

All insurance service expenses correspond to actual cash outflows within the boundary of contracts identified when projecting and calculating the present value of future cash flows. These cash flows are:

- those that relate directly to the fulfilment of insurance contract; and
- those over which the Company has discretion over the amount or timing. In this respect, the change in discretionary cash flows is determined at inception of the contract (e.g. by identifying the minimum guarantees and defining its profit-sharing policy).

3.19 Net expenses from reinsurance contracts held

In the statement of profit or loss, net expenses from reinsurance contracts held (net income in some cases) are presented separately from the insurance service expenses and included in a single aggregate, corresponding to the net between reinsurance service expenses and amounts recovered from the reinsurers.

3. MATERIAL ACCOUNTING POLICIES INFORMATION – continued

3.20 Net finance income or expenses from insurance and reinsurance contracts held

The net finance income or expenses from insurance and reinsurance contracts is presented in the statement of profit or loss with a split between insurance contracts issued and reinsurance contracts held.

This aggregate comprises the changes in the carrying amount of the groups of contracts that relate to financial risk arising from both (i) the effect of the time value of money and changes in the time value of money, (ii) the effect of financial risk and changes in financial risk (i.e. effect of changes in discount rates, exchange rate, the time value of options and guarantees).

However, the option to disaggregate insurance (and reinsurance) financial income or expense between the statement of profit or loss and the OCI is applied by the Company in order to limit the volatility in profit or loss (considering that many of the supporting financial assets are measured at FVOCI under HKFRS 9).

Under this option, for contracts without direct participation features, the difference between the valuation of the liabilities at locked-in rates (used for the unwind in the finance income or expenses) and their valuation at current rates is recognized in OCI. In the same way, when changes in liabilities arise from a contractual link (indexation) between inflation and the payments to policyholders, the changes due to inflation that relate to future services shall also be considered as resulting from a financial risk and therefore are recognized through OCI with a release over the duration of the payments to the policyholders. The amount included in the statement of profit or loss is determined by a systematic allocation of the expected total insurance (and reinsurance) finance income or expenses over the duration of the group of contracts. This systematic allocation is based on the characteristics of the contracts, depending on whether the changes in assumptions relating to financial risk have a substantial effect on the amount paid to the policyholder or not:

- when the changes in financial risk assumptions do not have a substantial effect on amounts paid to the policyholders, the systematic allocation is determined using the discount rates at the date of initial recognition of the groups of contracts measured with the BBA and at the date of the incurred claims for groups of contracts applying the PAA;
- when the changes in financial risk assumptions do have a substantial effect on amounts paid to the policyholder, the systematic allocation is determined by using a rate that allocates the remaining revised expected finance income or expenses over the remaining duration of the group of contracts at a constant rate (i.e. the effective yield approach) or a crediting rate based on the amounts credited to the policyholders in the period and expected to be credited in future periods (i.e. the projected crediting approach).

The Company also applies the OCI option for direct participating contracts. It consists in recognizing in finance income or expenses (with OCI as a balance) an amount that exactly matches the income or expenses included in profit or loss on the underlying items held, resulting in the net of the separately presented items being nil.

3.21 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 other than unit trusts 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 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

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. Actual results can always differ from those estimates, possibly significantly.

Estimate of future cash flows arising from long-term insurance contracts

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company, which primarily includes the probabilities of the following events:

- Mortality and morbidity

The Company sets assumptions on mortality and morbidity with reference to historical experience and standard industry experience tables if available. Where appropriate, the Company also makes reference to other sources, including but not limited to market data and experience for similar products, to develop the best estimate expectation of the future experience.

Mortality assumptions:

Group of insured	Portfolio	Rate table	% applied (Female / Male)	
			2024	2023
Mainland Chinese Visitors	Simplified underwriting	CIRC10-13	62.5% / 43.75%	62.5% / 43.75%
	Other life business	CIRC10-13	50% / 35%	50% / 35%
Other	National Life	HKA18 (adjusted)	90% / 90%	90% / 85%
	Simplified underwriting	HKA18 (adjusted)	112.5% / 112.5%	112.5% / 106.25%
	Business formerly transferred from AXA (HK) Life Insurance Company Limited	HKA18 (adjusted)	85% / 100%	85% / 95%
	Other life business	HKA18 (adjusted)	75% / 75%	75% / 75%

Morbidity assumptions:

Portfolio	Group of insured	Rate table	% applied (Female / Male)	
			2024	2023
CI basic	Mainland Chinese Visitors	In-house CI rate table	105% / 80%	105% / 80%
	Other	In-house CI rate table	100% / 110%	95% / 105%
Accelerated CI	All	In-house CI rate table	100% / 90%	100% / 90%
Additional CI	All	In-house CI rate table	130% / 120%	135% / 125%
Business formerly transferred from AXA (HK) Life Insurance Company Limited	All	In-house CI rate table	115% / 115%	95% / 95%

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES – continued

Estimate of future cash flows arising from long-term insurance contracts – continued

- Persistency

Persistency includes various policyholders' behaviours, such as lapse, surrender, premium holiday, partial withdrawal, etc. where relevant. The Company sets assumptions on persistency with reference to historical experience. Where appropriate, the Company also makes reference to other sources, including but not limited to market data and experience for similar products, to develop the best estimate expectation of the future experience.

- Expenses

The Company regularly conducts expense analysis and projection to forecast and categorise the expenses spent into various categories. Products are grouped according to their nature of risk and expenses are allocated to the product groups. The allocated expenses are further unitised based on policy count, premium amount, etc. to form the best estimate assumption of expenses.

- Discretionary cash flows

To determine how to identify changes in discretionary cash flows for the participating business contracts, the Company generally regards its commitment to be the return implicit in the estimates of the fulfilment cash flows on initial recognition, updated to reflect current operating and financial risk assumptions.

These assumptions are reviewed on an annual basis to ensure that they remain relevant and appropriate.

Discount rate

AXA Group (refer to AXA SA together with its direct and indirect consolidated subsidiaries) has defined a Group methodology for the calibration and the generation of "HKFRS 17 yield curves" used to discount the estimate of future cash flows within the boundary of contracts, consistent with the HKFRS 17 requirements and applied homogeneously across all AXA entities. The Company applies the same HKFRS 17 yield curves for the purpose of the measurement under HKFRS 17.

A bottom-up approach is adopted as it has been widely used for many years in the EEV and Solvency II frameworks. This approach consists in using a basic Risk-Free Rate ("RFR"), based on swaps for most currencies and government bonds for others, adjusted by adding on a liquidity premium ("LP") allowance to reflect the remuneration of illiquidity observed on traded assets until the Last Liquid Point ("LLP"), meaning the longest maturity for which there are enough traded bonds. An Ultimate Forward Rate ("UFR") macro-economically defined as the sum of the average of past real interest rates and central bank's target inflation is also considered. Discount rates between the LLP and the UFR maturities are obtained by extrapolation.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES -- continued

Discount rate -- continued

The yield curves used by the Company for main currencies are summarized in the below table.

Maturity	2024		2023	
	HKD spot	USD spot	HKD spot	USD spot
1	4.1%	4.7%	4.5%	5.4%
2	4.0%	4.7%	3.9%	4.8%
3	3.9%	4.7%	3.7%	4.6%
5	3.9%	4.8%	3.5%	4.4%
7	3.9%	4.9%	3.5%	4.4%
10	3.9%	5.0%	3.5%	4.4%
15	4.0%	5.3%	3.6%	4.6%
20	3.9%	5.5%	3.6%	4.9%
25	3.9%	5.3%	3.6%	4.7%
30	3.8%	5.2%	3.6%	4.5%

The Company has chosen to apply the “OCI option” (refer to Note 3.20) to all portfolio of insurance contracts, allowing to recognize the impact of changes in discount rates through Other Comprehensive Income.

Real World (RW) deterministic assumptions

The Company sets the RW deterministic assumptions to estimate the expected return of the underlying items and determine the appropriate pattern of the CSM release. The main Real World assumptions used by the Company are summarized in the below table.

Asset class	2025	2029	2034
10-year government bond	4.4%	3.8%	3.7%
5-year single-A credit spread	0.7%	0.9%	0.9%
U.S. equities	5.3%	7.4%	6.5%
H.K. equities	4.9%	4.6%	4.2%

RW assumptions are based on AXA Group’s Chief Economist studies that rely on AXA IM’s Research and Investment Strategy team for the short term and on academic literature, international organizations (e.g. IMF, World Bank) studies and dedicated structural models for the long term. Then, RW assumptions are reviewed and validated by the Group Economic Assumptions Committee, in charge of determining economic assumptions to be used for a variety of local and Group processes. This Committee is co-chaired by the Group Chief Financial Officer and the Group Chief Risk Officer.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES – continued

Risk adjustment for non-financial risks

In respect of determining the compensation the Company requires for bearing the non-financial risks, the Company considers the 65th percentile range as the adequate level for RA.

The determination of the risk adjustment follows a value-at-risk type approach, reflecting a retained confidence level with reference to the risk drivers of reserves. The value-at-risk is the maximum loss within a certain confidence level. The implementation is slightly different between Life and Savings and Property and Casualty businesses. For Life and Savings, groups of contracts are first shocked, risk factor by risk factor, up to the retained confidence level to assess the change in the present value of future cash flows. Then, diversification benefits between risks implicit to the Company's portfolio are considered by applying correlation factors between risks. For Property and Casualty liabilities for incurred claims, a direct value-at-risk calculation, reflecting the retained confidence level, is applied to the full probability distribution of the reserves. Finally, the Company, as a member of the AXA Group, measures the compensation required taking into account the risk appetite of AXA Group, so a diversification effect between AXA entities is considered to reflect the fact that a same risk is unlikely to impact all the Group's entities at the same time.

The determination of the risk adjustment for reinsurance contracts is based on the risk adjustment associated with the direct contracts, adjusted based on the expected reinsurance recoveries in relation to the expected outgoings from its corresponding direct contracts. This approach ensures that the risk adjustment for reinsurance contracts accurately reflects the financial implications of the reinsurance arrangements in relation to their corresponding underlying direct contracts.

Asset for insurance acquisition cash flows

The Company applies judgement in determining the allocation of any insurance acquisition cash flows to groups of insurance contracts. As of the reporting date, the Company determined that there is no insurance acquisition cash flow to be allocated to any future group of insurance contracts. Therefore, the asset for insurance acquisition cash flows is nil.

Impairment of assets

The Company recognises loss allowance for ECL on debt instruments, measured at FVOCI, and financial assets measured at amortised cost. The measurement of ECL require both quantitative assessments based on AXA's HKFRS9 rating which include forward-looking information and qualitative assessment based on expert judgement. Details of the inputs, assumptions and estimation techniques used for estimating ECL are explained in note 3.2(d).

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.

Contractual service margin

- Determination of coverage units

The CSM of a group of contracts is recognised in profit or loss to reflect services provided in each year based on the number of coverage units provided in the year compared with the number of coverage units expected to be provided in future years, which is determined by considering for each contract the quantity of benefits provided and its expected coverage period. The coverage units are reviewed and updated at each reporting date. The Company determines the quantity of coverage unit as follows:

- a. Coverage unit of insurance service equals to the maximum level of coverage defined within the contract (or balance of the expected amount if the maximum level is not available) less investment component
- b. Coverage unit of investment service equals to the investment component

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES – continued

Contractual service margin - continued

- Risk mitigation option

The Company uses derivatives to mitigate the financial risk arising from guarantees in certain traditional participating contracts in accordance with its documented risk management objective and strategy for mitigating financial risk. An economic offset exists between the insurance contracts and the risk mitigating items.

The Company has chosen to recognize changes in the amount of its share of the fair value of the underlying items and changes in fulfilment cash flows due to changes in the effect of financial risk not arising from underlying items that are mitigated by the use of derivatives in profit or loss and not to adjust CSM.

Investment components

The Company identifies the investment component of a contract by determining the amount that it would be required to repay the policyholder in all scenarios with commercial substance. These include circumstances in which an insured event occurs or the contract matures or is terminated without an insured event occurring. Investment components are excluded from insurance revenue and insurance service expenses.

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 when the frequency or severity of claims and benefits is 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 could potentially aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Both experience and theory 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.

(a) Long-term insurance contracts

(i) Frequency and severity of claims

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.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.1 Insurance risk – continued

(a) Long-term insurance contracts – continued

(i) Frequency and severity of claims – continued

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

(ii) Sources of uncertainty in the estimation of future cash flows

Uncertainty in the estimation of future cash flows for long-term insurance contracts arises from the unpredictability of changes in overall levels of mortality / morbidity and the variability in persistency.

An investigation into the actual experience of the Company over the last three to five years is carried out on annual basis, and statistical methods are used to produce a best estimate of expected mortality and morbidity for the future. 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, a very small number of contract 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 2024

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.1 Insurance risk – continued

(b) 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 (borrowings), reinsurance contract assets and insurance contract 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 contracts. The most important components of such financial risks are interest rate 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.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

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 Price risk

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

5.4 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.

AXA CHINA REGION INSURANCE COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.4 Liquidity risk – continued

The following table summarises the maturity analysis of carrying value of financial assets

At 31.12.2024	Carrying value HK\$'000	Less than or equal to one year HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	3-4 years HK\$'000	4-5 years HK\$'000	Greater than five years HK\$'000	No fixed maturity HK\$'000	Total HK\$'000
Financial assets:									
Government bonds	12,843,574	193,887	1,266,588	1,155,819	184,422	73,796	9,969,062	-	12,843,574
Other debt securities	24,619,887	247,661	2,149,257	893,126	968,607	462,515	19,898,721	-	24,619,887
Equity securities	4,726,596	-	-	-	-	-	-	4,726,596	4,726,596
Unit trust investment	8,054,356	-	-	-	-	-	-	8,054,356	8,054,356
Loans	7,557	7,557	-	-	-	-	-	-	7,557
Debtors and prepayments, unsecured	531,856	531,856	-	-	-	-	-	-	531,856
Amount due from immediate holding company	445,805	445,805	-	-	-	-	-	-	445,805
Amounts due from fellow subsidiaries	4,087	4,087	-	-	-	-	-	-	4,087
Amounts due from intermediate holding companies	422,690	422,690	-	-	-	-	-	-	422,690
Amounts due from subsidiaries	4,165	4,165	-	-	-	-	-	-	4,165
Derivative financial instruments	1,804,474	460,607	13,801	12,238	11,962	434,348	871,518	-	1,804,474
Fixed term bank deposits	262,295	262,295	-	-	-	-	-	-	262,295
Cash and cash equivalents	743,355	743,355	-	-	-	-	-	-	743,355
	<u>54,470,697</u>	<u>3,323,965</u>	<u>3,429,646</u>	<u>2,061,183</u>	<u>1,164,991</u>	<u>970,659</u>	<u>30,739,301</u>	<u>12,780,952</u>	<u>54,470,697</u>

AXA CHINA REGION INSURANCE COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.4 Liquidity risk – continued

The following table summarises the maturity analysis of carrying value of financial assets – continued

At 31.12.2023	Carrying value HK\$'000	Less than or equal to one year HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	3-4 years HK\$'000	4-5 years HK\$'000	Greater than five years HK\$'000	No fixed maturity HK\$'000	Total HK\$'000
Financial assets:									
Government bonds	13,468,113	3,426,436	-	134,885	86,450	198,683	9,621,659	-	13,468,113
Other debt securities	24,014,615	63,173	273,617	2,159,652	888,094	986,171	19,643,908	-	24,014,615
Equity securities	4,351,068	-	-	-	-	-	-	4,351,068	4,351,068
Unit trust investment	8,054,639	-	-	-	-	-	-	8,054,639	8,054,639
Loans	8,960	8,960	-	-	-	-	-	-	8,960
Debtors and prepayments, unsecured	666,089	666,089	-	-	-	-	-	-	666,089
Amounts due from fellow subsidiaries	249,778	249,778	-	-	-	-	-	-	249,778
Amounts due from intermediate holding companies	615,660	615,660	-	-	-	-	-	-	615,660
Derivative financial instruments	1,719,674	253,063	7,031	33,536	22,511	27,296	1,376,237	-	1,719,674
Fixed term bank deposits	222,068	222,068	-	-	-	-	-	-	222,068
Cash and cash equivalents	1,884,947	1,884,947	-	-	-	-	-	-	1,884,947
	<u>55,255,611</u>	<u>7,390,174</u>	<u>280,648</u>	<u>2,328,073</u>	<u>997,055</u>	<u>1,212,150</u>	<u>30,641,804</u>	<u>12,405,707</u>	<u>55,255,611</u>

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.4 Liquidity risk – continued

The following table summarises the maturity analysis of contractual cash flows of financial liabilities

At 31.12.2024	Carrying value HK\$'000	Less than or equal to one year HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	3-4 years HK\$'000	4-5 years HK\$'000	Greater than five years HK\$'000	No fixed maturity HK\$'000	Total HK\$'000
Financial liabilities:									
Derivative financial instruments	2,026,496	287,969	44,737	39,547	32,403	317,432	1,304,408	-	2,026,496
Deferred revenue	96,496	96,496	-	-	-	-	-	-	96,496
Debt instruments liabilities	5,330,462	4,138,351	1,288,265	-	-	-	-	-	5,426,616
Creditors and accrued charges	2,356,746	2,356,746	-	-	-	-	-	-	2,356,746
Lease Payable	296,929	131,398	89,189	53,970	32,594	-	-	-	307,151
Amounts due to fellow subsidiaries	36,188	36,188	-	-	-	-	-	-	36,188
Amounts due to subsidiaries	4,388	4,388	-	-	-	-	-	-	4,388
Current tax payable	50,468	50,468	-	-	-	-	-	-	50,468
	10,198,173	7,102,004	1,422,191	93,517	64,997	317,432	1,304,408	-	10,304,549

AXA CHINA REGION INSURANCE COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.4 Liquidity risk – continued

The following table summarises the maturity analysis of contractual cash flows of financial liabilities – continued

At 31.12.2023	Carrying value HK\$'000	Less than or equal to one year HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	3-4 years HK\$'000	4-5 years HK\$'000	Greater than five years HK\$'000	No fixed maturity HK\$'000	Total HK\$'000
Financial liabilities:									
Derivative financial instruments	2,253,109	226,995	9,273	-	3,468	-	2,013,373	-	2,253,109
Subordinated loan	250,000	250,000	-	-	-	-	-	-	250,000
Deferred revenue	99,803	99,803	-	-	-	-	-	-	99,803
Debt instruments									
liabilities	4,250,578	1,517,946	1,527,177	1,295,006	-	-	-	-	4,340,129
Creditors and accrued charges	2,370,530	2,370,530	-	-	-	-	-	-	2,370,530
Lease Payable	421,992	167,805	128,516	85,833	52,093	32,595	-	-	466,842
Amount due to the immediate holding company	37,801	37,801	-	-	-	-	-	-	37,801
Amounts due to fellow subsidiaries	34,610	34,610	-	-	-	-	-	-	34,610
Current tax payable	70,422	70,422	-	-	-	-	-	-	70,422
	<u>9,788,845</u>	<u>4,775,912</u>	<u>1,664,966</u>	<u>1,380,839</u>	<u>55,561</u>	<u>32,595</u>	<u>2,013,373</u>	<u>-</u>	<u>9,923,246</u>

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.4 Liquidity risk – continued

The following tables provides an analysis of the remaining undiscounted net cash flows by estimated timing for the insurance contracts assets and liabilities and reinsurance contract assets and liabilities

At 31.12.2024	Carrying value HK\$'000	Less than or equal to one year HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	3-4 years HK\$'000	4-5 years HK\$'000	Greater than five years HK\$'000	No fixed maturity HK\$'000	Total HK\$'000	Amount Payable on Demand HK\$'000
Insurance contract assets	1,758,394	296,670	302,927	304,010	303,962	303,512	8,588,809	-	10,099,890	-
Reinsurance contract assets	1,442,203	599,717	29,136	31,661	25,867	26,744	1,642,772	-	2,355,897	-
	3,200,597	896,387	332,063	335,671	329,829	330,256	10,231,581	-	12,455,787	-
Insurance contract liabilities	38,140,166	964,676	1,077,691	1,159,259	1,187,109	1,249,268	82,558,205	-	88,196,208	34,160,865
Reinsurance contract liabilities	72,256	170,843	-	-	-	-	-	-	170,843	-
	38,212,422	1,135,519	1,077,691	1,159,259	1,187,109	1,249,268	82,558,205	-	88,367,051	34,160,865

At 31.12.2023	Carrying value HK\$'000	Less than or equal to one year HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	3-4 years HK\$'000	4-5 years HK\$'000	Greater than five years HK\$'000	No fixed maturity HK\$'000	Total HK\$'000	Amount Payable on Demand HK\$'000
Insurance contract assets	1,833,547	283,273	279,447	276,527	273,522	270,585	7,669,393	-	9,052,747	-
Reinsurance contract assets	1,298,126	(84,525)	12,356	15,234	21,895	14,566	2,773,544	-	2,753,070	-
	3,131,673	198,748	291,803	291,761	295,417	285,151	10,442,937	-	11,805,817	-
Insurance contract liabilities	39,471,398	770,830	731,005	829,924	969,675	1,038,201	81,686,935	-	86,026,570	32,807,890
Reinsurance contract liabilities	225,078	281,464	31,093	32,849	36,732	39,507	(65,036)	-	356,609	-
	39,696,476	1,052,294	762,098	862,773	1,006,407	1,077,708	81,621,899	-	86,383,179	32,807,890

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.5 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. In addition, the Company bears partially the financial risk in relation to the non-guaranteed benefits payable due to the profit sharing mechanism between policyholders and shareholders.

(b) 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.

(c) Interest rate swap

The Company entered into interest rate swap to obtain economic benefit and manage its duration gap.

(d) 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 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.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.6 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:

- receivables arising from direct insurance and inward reinsurance operations
- receivables arising from outward reinsurance operations
- investments in debt securities
- counterparty risk with respect to derivative transactions, and
- cash and deposits

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 relevant risk 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 statement of financial position is their carrying amount.

(i) Analysis of underlying credit exposure:

	Issuers' Credit ratings per Standard & Poor's and Fitch							Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B- or below	Not rated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2024:								
Debt securities	1,056,775	14,315,654	12,246,357	8,897,978	74,066	8,631	864,000	37,463,461
Reinsurance assets	-	94,788	1,347,415	-	-	-	-	1,442,203
Other financial assets	-	445,806	1,804,473	-	-	-	970,355	3,220,634
Cash and deposits	-	27,689	802,443	175,472	-	-	46	1,005,650
Total assets bearing credit risk	1,056,775	14,883,937	16,200,688	9,073,450	74,066	8,631	1,834,401	43,131,948
As at 31 December 2023:								
Debt securities	4,157,049	11,594,803	10,870,662	9,349,770	119,368	24,257	1,366,819	37,482,728
Reinsurance assets	-	39,697	1,258,429	-	-	-	-	1,298,126
Other financial assets	-	19,454	1,700,220	-	-	-	1,540,487	3,260,161
Cash and deposits	-	92,888	1,584,545	429,536	-	-	46	2,107,015
Total assets bearing credit risk	4,157,049	11,746,842	15,413,856	9,779,306	119,368	24,257	2,907,352	44,148,030

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.6 Credit risk – continued

(ii) Collateral under derivative transaction

At 31 December 2024, the Company had posted cash collateral of HK\$5m (2023: HK\$275m) and pledged debt securities with carrying value of HK\$2,616m (2023: HK\$3,746m) for liabilities, and held cash collateral of HK\$604m (2023: HK\$750m) and debt securities collateral with carrying value of HK\$807m (2023: HK\$1,227m) for assets in respect of derivatives transactions.

When the Company holds a group of derivative assets and derivatives liabilities entered into with a particular counterparty, the Company takes into account the arrangements that mitigate credit risk exposure in the event of default through International Swap and Derivatives Association Master agreements and Credit Support Annex that require the exchange of collateral on the basis of each party's net credit risk exposure. The fair value of the group of derivative assets and liabilities are measured on the basis of its net exposure to the credit risk of that counterparty or the counterparty's net exposure to our credit risk that reflects market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

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 2024, 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 hedges 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.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.7 Currency risk – continued

The following table analyses the Company's insurance liabilities and the financial assets backing these liabilities into relevant currency groupings based on the currency in which these insurance liabilities and financial assets are denominated in. The financial assets in the following table include amounts recoverable from reinsurers.

At 31 December 2024

	HK Dollars	US Dollars	Other currencies	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets	6,412,169	42,546,209	5,512,319	54,470,697
Financial liabilities	(2,912,004)	(7,270,623)	(15,546)	(10,198,173)
Insurance and reinsurance contract assets	2,622,796	577,801	-	3,200,597
Insurance and reinsurance contract liabilities	(38,210,467)	(1,955)	-	(38,212,422)
Net on-balance sheet position	(32,087,506)	35,851,432	5,496,773	9,260,699
Off-balance sheet Net notional position*	23,008,987	(19,192,908)	(3,546,838)	269,241
	<u>(9,078,519)</u>	<u>16,658,524</u>	<u>1,949,935</u>	<u>9,529,940</u>

At 31 December 2023

	HK Dollars	US Dollars	Other currencies	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets	6,918,349	41,858,309	6,478,953	55,255,611
Financial liabilities	(3,463,834)	(6,309,408)	(15,603)	(9,788,845)
Insurance and reinsurance contract assets	3,123,355	8,318	-	3,131,673
Insurance and reinsurance contract liabilities	(39,691,037)	(5,439)	-	(39,696,476)
Net on-balance sheet position	(33,113,167)	35,551,780	6,463,350	8,901,963
Off-balance sheet Net notional position*	19,809,185	(15,489,341)	(4,324,545)	(4,701)
	<u>(13,303,982)</u>	<u>20,062,439</u>	<u>2,138,805</u>	<u>8,897,262</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.

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.

For non-economic sensitivities, the effects of a positive or negative change in the assumptions—such as a +10% and -10% adjustment to mortality, morbidity, persistency, or expense assumptions—are relatively symmetric, demonstrating that the outcomes are affected similarly by changes in either direction.

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 5.0%, 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 5.0%.
(iii) Foreign Exchange Rate	The impact of a 10% depreciation or appreciation of the Euro against other currencies.
(iv) Mortality	The impact of a change in mortality assumption by 10.0% (e.g. current mortality rate is 5.0%, the impact of an immediate change to 5.5%).
(v) Morbidity	The impact of a change in morbidity assumption by 10.0% (e.g. current morbidity rate is 5.0%, the impact of an immediate change to 5.5%).
(vi) Persistency	The impact of a change in persistency assumption, such as lapse, surrender, premium holiday, partial withdrawal, etc. by 10% (e.g. current lapse rate is 5%, the impact of an immediate change to 5.5%).
(vii) Expenses	The impact of a change in expense assumption by 10%.

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5. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS – continued

5.8 Sensitivity analysis – continued

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

	Impact on profit after tax increase/(decrease)			
	Year ended 31.12.2024		Year ended 31.12.2023	
	in profit or loss	in shareholders' equity	in profit or loss	in shareholders' equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assumed future return on market rate of interest + 0.5%	57,604	(312,065)	233,454	(244,075)
Assumed future return on market rate of interest – 0.5%	(69,058)	327,037	(259,202)	261,668
Assumed future equity securities return rate + 5%	(42,548)	(42,327)	3,101	5,900
Assumed future equity securities return rate – 5%	42,467	42,609	(5,431)	(8,313)
Assumed EUR appreciates vs. all currencies 10%	(3,117)	8,587	(32,494)	(31,362)
Assumed EUR depreciates vs. all currencies 10%	1,875	(8,322)	25,781	24,778
Assumed mortality assumption +10%	(21,281)	(10,620)	(23,160)	(28,407)
Assumed morbidity assumption +10%	(14,774)	(27,336)	(12,825)	(52,486)
Assumed persistency assumption +10%	(15,592)	(13,386)	(28,763)	(48,631)
Assumed expense assumption +10%	(13,716)	(11,872)	(13,528)	(13,429)

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 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.

The Company monitors capital adequacy based on the Risk-based Capital rule developed by the Hong Kong Insurance Authority since the regime has come into operation on 1 July 2024. Before the implementation of Hong Kong Risk-Based Capital regime, the Company monitor capital on the basis of the solvency ratio which is above the regulatory requirement of 100%.

5. 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.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

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

6.1 Fair value hierarchy – continued

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

The table analyses the financial instruments carried at fair value by valuation method. The different levels of the fair value measurements hierarchy are presented in the following tables:

At 31.12.2024	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
ASSETS				
Investment assets at FVOCI				
Government Bonds	10,480,483	2,363,091	-	12,843,574
Other Debt Securities	13,890,433	9,865,454	-	23,755,887
Equities Securities	3,217,861	1,508,735	-	4,726,596
Investment assets at FVTPL				
Investment in associates				
- Unit Trust Investment	-	-	-	-
Government Bonds	-	-	-	-
Other Debt Securities	-	864,000	-	864,000
Unit Trust Investment	165,320	2,914,976	4,974,060	8,054,356
Derivatives financial instruments				
- Equity options	-	-	-	-
- Forward currency contracts	375,513	-	-	375,513
- Cross currency swap	-	414,478	-	414,478
- Forward interest rate swap	-	908,740	-	908,740
- Swaption	-	3,870	-	3,870
- Asset Swap	-	15,113	-	15,113
- Equity Forward	-	86,760	-	86,760
	<u>28,129,610</u>	<u>18,945,217</u>	<u>4,974,060</u>	<u>52,048,887</u>
LIABILITIES				
Derivatives financial instruments				
- Forward currency contracts	106,272	-	-	106,272
- Equity forward	-	81,221	-	81,221
- Cross currency swap	-	11,089	-	11,089
- Asset swap	-	944,855	-	944,855
- Forward interest rate swap	-	664,177	-	664,177
- Swaption	-	1,720	-	1,720
- Bond forward	-	213,938	-	213,938
- Credit default swap	3,224	-	-	3,224
- Debt instrument liabilities	-	5,330,462	-	5,330,462
	<u>109,496</u>	<u>7,247,462</u>	<u>-</u>	<u>7,356,958</u>

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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5. FINANCIAL INSTRUMENTS IN THREE LEVEL FAIR VALUE HIERARCHY – continued

6.1 Fair value hierarchy – continued

At 31.12.2023	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
ASSETS				
Investment assets at FVOCI				
Government Bonds	12,030,507	1,437,606	-	13,468,113
Other Debt Securities	13,334,522	9,816,093	-	23,150,615
Equities Securities	3,224,262	1,126,806	-	4,351,068
Investment assets at FVTPL				
Investment in associates				
- Unit Trust Investment	-	-	-	-
Government Bonds	-	-	-	-
Other Debt Securities	-	864,000	-	864,000
Unit Trust Investment	135,671	3,065,844	4,853,124	8,054,639
Derivatives financial instruments				
- Equity options	-	59,085	-	59,085
- Forward currency contracts	131,249	-	-	131,249
- Cross currency swap	-	438,038	-	438,038
- Forward interest rate swap	-	967,329	-	967,329
- Swaption	-	2,798	-	2,798
- Asset Swap	-	11,854	-	11,854
- Bond Forward	-	109,321	-	109,321
	<u>28,856,211</u>	<u>17,898,774</u>	<u>4,853,124</u>	<u>51,608,109</u>
LIABILITIES				
Derivatives financial instruments				
- Forward currency contracts	134,495	-	-	134,495
- Equity forward	-	70,736	-	70,736
- Cross currency swap	-	31,903	-	31,903
- Asset swap	-	1,068,723	-	1,068,723
- Forward interest rate swap	-	901,856	-	901,856
- Swaption	-	10,891	-	10,891
- Bond forward	-	31,037	-	31,037
- Credit default swap	3,468	-	-	3,468
- Debt instrument liabilities	-	4,250,578	-	4,250,578
	<u>137,963</u>	<u>6,365,724</u>	<u>-</u>	<u>6,503,687</u>

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

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

6.1 Fair value hierarchy – continued

As at 31 December 2024, there was HK\$2,386,342,042 (2023: HK\$7,210,253,116) transfers from Level 2 into Level 1 due to the market for identical bonds becoming active. There was HK\$1,630,977,140 (2023: HK\$320,270,426) 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.

6.2 Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting 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.

6.3 Financial instruments 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
- Derived from model based on current market parameter such as observable yield curve.

6.4 Financial instrument in Level 3

<u>Description</u>	<u>Fair value as at 31.12.2024</u>	<u>Valuation technique(s)</u>
Unlisted unit trust investments	HK\$4,974,060,000	Net asset value
<u>Description</u>	<u>Fair value as at 31.12.2023</u>	<u>Valuation technique(s)</u>
Unlisted unit trust investments	HK\$4,853,124,000	Net asset value

The Company has determined that the reported net asset value represents fair value of unlisted unit trust investments at the end of the reporting period. Given the different nature of valuation in respect of each unit trust and private company, it is not practical to quote a range of key unobservable inputs.

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

Under +1% change of the valuation technique(s) and keep other constant, the impact is as below:

		<u>Profit or loss (HK\$'000)</u>
As at 31 Dec 2024	Unlisted unit trust investments	49,741
As at 31 Dec 2023	Unlisted unit trust investments	48,531

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

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 <u>profit or loss</u> HK\$'000
At 1 January 2023	4,075,011
Payment for purchases	1,281,293
Net total gains for the period recognised in profit or loss	
- Included in net realised and unrealised gains on investments	96,437
Proceeds from sales	(599,617)
At 31 December 2023	4,853,124
Payment for purchases	790,106
Net total losses for the period recognised in profit or loss	
- Included in net realised and unrealised losses on investments	(304,246)
Proceeds from sales	(1,886,478)
Transfer from level 2 to level 3 during the year	1,521,554
At 31 December 2024	4,974,060
Change in unrealised losses for the period included in profit or loss at 31 December 2024 (2023: HK\$96,437)	(304,246)

As at 31 December 2024, there was HK\$1,521,554,000 transfer from level 2 to level 3 (2023: Nil transfer to level 3) due to the change of levelling classification of commercial real estate which was classified as level 2 in 2023 but level 3 in 2024.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

7. INSURANCE REVENUE

The table below presents an analysis of the total insurance revenue recognised in the period:

	Year ended 31.12.2024 HK\$'000	Year ended 31.12.2023 HK\$'000
Contracts not measured under the PAA		
Amounts relating to the changes in the LRC		
Expected incurred claims and other expenses after loss component allocation	942,934	962,008
Change in the RA for non-financial risk for the risk expired after loss component allocation	20,354	24,390
CSM recognized in profit or loss for the services provided	420,496	488,307
Experience adjustment	-	-
Insurance acquisition cash flows recovery	146,440	155,156
Insurance revenue from contracts not measured under the PAA	1,530,224	1,629,861
Insurance revenue from contracts measured under the PAA	1,461,598	1,319,506
Total insurance revenue	2,991,822	2,949,367

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

8. NET FINANCIAL RESULT

(a) Company's net financial result in profit or loss and other comprehensive income

	Year ended 31.12.2024 HK\$'000	Year ended 31.12.2023 HK\$'000
Investment return		
Interest revenue on financial assets	1,517,400	1,339,626
Other investment return	(337,705)	388,643
Net impairment loss on financial assets	(908)	(189)
Amounts recognised in profit or loss	1,178,787	1,728,080
Amounts recognised in other comprehensive income	(386,541)	534,780
Total investment return	792,246	2,262,860
Net finance income / (expenses) from insurance contracts		
Changes in fair value of underlying items of contracts with direct participation features	(151,564)	(1,492,602)
Effect of risk mitigation option	185,877	107,849
Interest accreted	48,609	54,730
Effect of measuring changes in estimates at current rates and adjusting the CSM at the rates on initial recognition	(95,492)	154,770
Net foreign exchange gains	727	808
Other	109,322	93,422
Total net finance income / (expenses) from insurance contracts	97,479	(1,081,023)
Net finance income / (expenses) from reinsurance contracts held		
Interest accreted	32,163	21,715
Effect of changes in FCF at current rates when CSM is unlocked at locked-in rates	78,308	(118,872)
Net foreign exchange losses	(517)	(530)
Total net finance income / (expenses) from reinsurance contracts held	109,954	(97,687)
Net financial result	999,679	1,084,150
Net financial result is represented by:		
Amounts recognised in profit or loss	1,049,962	1,099,561
Amounts recognised in other comprehensive income	(50,283)	(15,411)
Net financial result	999,679	1,084,150
Net finance income / (expenses) from insurance contracts are represented by:		
Amounts recognised in profit or loss	(160,471)	(649,704)
Amounts recognised in other comprehensive income	257,950	(431,319)
Total net finance (expenses)/income from insurance contracts	97,479	(1,081,023)
Net finance income / (expenses) from reinsurance contracts held are represented by:		
Amounts recognised in profit or loss	31,646	21,185
Amounts recognised in other comprehensive income	78,308	(118,872)
Total net finance income / (expenses) from reinsurance contracts held	109,954	(97,687)

Included in investment return, there are interest revenue calculated using the effective interest method of HK\$1,517,400,000 (2023: HK\$ 1,318,756,000).

AXA CHINA REGION INSURANCE COMPANY LIMITED

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8. NET FINANCIAL RESULT - CONTINUED

(b) Other investment return

2024	FVOCI	FVTPL		Total
	Mandatory HK\$'000	Mandatory HK\$'000	Designated HK\$'000	HK\$'000
Other investment return				
Dividend income	120,980	188,468	-	309,448
Net loss of FVTPL investments and other interest income	-	(105,750)	-	(105,750)
Net loss as derecognition at FVOCI investments	(37,517)	-	-	(37,517)
Net foreign exchange losses	(294,699)	(209,187)	-	(503,886)
Amount recognized in Profit and Loss	(211,236)	(126,469)	-	(337,705)
Amount recognized in OCI	(386,541)	-	-	(386,541)
2023	FVOCI	FVTPL		Total
	Mandatory HK\$'000	Mandatory HK\$'000	Designated HK\$'000	HK\$'000
Other investment return				
Dividend income	237,096	220,962	-	458,058
Net gains of FVTPL investments and other interest income	-	67,515	112,943	180,458
Net losses as derecognition at FVOCI investments	(447,442)	-	-	(447,442)
Net foreign exchange gains/(losses)	(91,646)	286,360	2,855	197,569
Amount recognized in Profit and Loss	(301,992)	574,837	115,798	388,643
Amount recognized in OCI	534,780	-	-	534,780

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

9. PROFIT BEFORE TAXATION

	Year ended 31.12.2024 HK\$'000	Year ended 31.12.2023 HK\$'000
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	1,935	2,103
Directors' remuneration (note a):		
Fees for services as directors of the Company	373	364
<i>Remuneration in connection with the management of the affairs of the companies -</i>		
Pensions	499	482
Other emoluments	16,724	13,481
Amortisation of intangible assets	2,532	2,638
Depreciation of plant and equipment	18,155	18,600
Loss on disposal of intangible assets	-	112
Staff costs (note b)	963,411	890,910
Pension costs – defined contribution plans (note b below and note 19)	53,214	55,196
Exchange losses	20,067	29,567

Notes:

- (a) Staff costs and pension costs for the current and prior year were borne and recharged by the Company to certain companies in the AXA China Region Limited and its subsidiaries (the "Group"). The directors received unapportioned remuneration of HK\$17,223,000 (2023: HK\$13,963,000) from the Company's holding companies, fellow subsidiaries, associates or any other company for the directors' services. Aggregated and unapportioned amount of top three highest-paid directors' emoluments is HK\$17,223,000 (2023: HK\$13,963,000). 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.
- (b) Staff costs and pension costs for the year include the amount of HK\$845,436,000 and HK\$46,699,000, respectively (2023: HK\$781,409,000 and HK\$48,411,000), which were reimbursed by group companies.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

10. TAXATION

	Year ended 31.12.2024 HK\$'000	Year ended 31.12.2023 HK\$'000
The charge comprises:		
Current Tax - Hong Kong Profits Tax		
Provision for the year	23,977	23,095
Adjustments in respect of prior years	-	(196)
Overseas withholding tax	14,946	23,263
Total current tax	38,923	46,162
Deferred taxation (note 16):		
Origination and reversal of temporary differences	35,789	(1,125)
Total deferred tax	35,789	(1,125)
Taxation	74,712	45,037

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

	Year ended 31.12.2024 HK\$'000	Year ended 31.12.2023 HK\$'000
Profit before taxation	1,361,460	1,524,754
Adjustment:		
Profit from long term life business (note)	(1,315,188)	(1,513,126)
Adjusted profit before tax	46,272	11,628
Tax at the Hong Kong Profits Tax rate of 16.5% (2023: 16.5%)	7,635	1,919
Tax on life insurance business (note)	18,806	21,430
Tax effect of non-taxable income	(11,543)	(1,769)
Tax effect of non-deductible expenses for tax purposes	2,062	1,536
Tax effect of tax allowances	(800)	(742)
Tax effect of difference in accounting standards	-	(404)
Adjustment due to RBC adoption	42,190	-
Tax effect of non-life long term insurance business (note)	1,416	-
Over provision for prior year	-	(196)
Overseas withholding tax	14,946	23,263
Taxation	74,712	45,037

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. In addition, assessable profits from non-life long term insurance business are ascertained using the adjusted surplus basis upon the implementation of RBC regime.

Hong Kong Profits Tax is calculated at 16.5% (2023: 16.5%) of the estimated assessable profits for the year.

Provisions for uncertain tax positions relate to situations where the Company's interpretation of the relevant law or regulation may differ from that of the tax authorities. Provisions are recognised based on management's judgement and best estimate in relation to the probability or likelihood of different outcomes arising, which is subject to periodic re-assessment. Due to the uncertainty associated with the item, there remains a possibility that the final outcomes may differ on conclusion of the relevant tax matters at a future date.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

11. INTANGIBLE ASSETS

	Career and production bonus	Capitalisation of project expenditures	Total
	HK\$'000	HK\$'000	HK\$'000
COST			
At 1 January 2023	95,477	62,602	158,079
Additions	325	-	325
Disposal	(112)	-	(112)
At 31 December 2023	95,690	62,602	158,292
Additions	842	-	842
Disposal	-	-	-
At 31 December 2024	96,532	62,602	159,134
AMORTISATION			
At 1 January 2023	88,654	62,602	151,256
Provided for the year	2,638	-	2,638
Eliminated on disposals	-	-	-
At 31 December 2023	91,292	62,602	153,894
Provided for the year	2,532	-	2,532
Eliminated on disposals	-	-	-
At 31 December 2024	93,824	62,602	156,426
NET BOOK VALUES			
At 31 December 2024	2,708	-	2,708
At 31 December 2023	4,398	-	4,398

Career bonus and production bonus are intangible assets under a 'Experience Hire Program' of the Company starting from 2010. The intangible is then amortised on a straight-line basis over 36 to 62 months. The intangible asset net of accumulated amortisation is subjected to an annual impairment assessment.

Project expenditures are intangible assets of life product development and pension business transformation of the Company starting from 2011. The intangible is then amortised on a straight-line basis over 5 years. The intangible asset net of accumulated amortisation is subjected to an annual impairment assessment.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

12. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment	Leasehold improvements	Computer equipment	Motor vehicle	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST					
At 1 January 2023	46,343	221,159	15,352	650	283,504
Additions	-	-	-	-	-
Disposals	-	-	-	(650)	(650)
At 31 December 2023	46,343	221,159	15,352	-	282,854
Additions	-	19,658	-	-	19,658
Disposals	-	-	-	-	-
At 31 December 2024	46,343	240,817	15,352	-	302,512
DEPRECIATION					
At 1 January 2023	34,320	169,967	8,964	173	213,424
Provided for the year	2,982	12,634	2,876	108	18,600
Eliminated on disposals	-	-	-	(281)	(281)
At 31 December 2023	37,302	182,601	11,840	-	231,743
Provided for the year	2,720	13,150	2,285	-	18,155
Eliminated on disposals	-	-	-	-	-
At 31 December 2024	40,022	195,751	14,125	-	249,898
NET BOOK VALUE					
At 31 December 2024	6,321	45,066	1,227	-	52,614
At 31 December 2023	9,041	38,558	3,512	-	51,111

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

13. INVESTMENTS IN SUBSIDIARIES

	<u>At 31.12.2024</u> HK\$'000	<u>At 31.12.2023</u> HK\$'000
Unlisted shares, at cost	1,037,334	-
Accumulated impairment loss	-	-
	-	-
Unlisted unit trusts, at fair value	-	-
	1,037,334	-

Details of the subsidiaries as at 31 December 2024 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</u>		<u>Number of shares held</u>	<u>Number of issued shares</u>	<u>Principal activities</u>
			Directly	Indirectly			
AXA Wealth Management (HK) Limited (note b)	Hong Kong	Ordinary	100%	-	200,000,000	200,000,000	Insurance underwriter Running off the long term and general insurance business written in prior years
AXA Life Insurance Company Limited (note c)	Hong Kong	Ordinary	100%	-	600,000	600,000	

- (a) 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.
- (b) All of the shares in AXA Wealth Management (HK) Limited was transferred from AXA China Region Limited to the Company on 24 June 2024.
- (c) All of the shares in AXA Life Insurance Company Limited was transferred from AXA ASIA SA to the Company on 2 July 2024.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

14. INVESTMENTS IN SECURITIES

(a) The following represents the Company's own share in investment portfolios.

31 December 2024	AC	FVOCI	FVTPL		Total
	HK\$'000	HK\$'000	Designated HK\$'000	Mandatory HK\$'000	HK\$'000
Investments in securities					
Government bonds	-	12,843,574	-	-	12,843,574
Other debt securities	-	23,755,887	-	864,000	24,619,887
Equities securities	-	4,726,596	-	-	4,726,596
Unit trust investment	-	-	-	8,054,356	8,054,356
Total Investments in securities	-	41,326,057	-	8,918,356	50,244,413

31 December 2023	AC	FVOCI	FVTPL		Total
	HK\$'000	HK\$'000	Designated HK\$'000	Mandatory HK\$'000	HK\$'000
Investments in securities					
Government bonds	-	13,468,113	-	-	13,468,113
Other debt securities	-	23,150,615	-	864,000	24,014,615
Equities securities	-	4,351,068	-	-	4,351,068
Unit trust investment	-	-	-	8,054,639	8,054,639
Total Investments in securities	-	40,969,796	-	8,918,639	49,888,435

(b) The company has designated the following equity investments as at FVOCI.

31 December 2024	Financial HK\$'000	Consumer goods and Services HK\$'000	Energy HK\$'000	Communication HK\$'000	Industrial HK\$'000	Basic Materials HK\$'000	Technology HK\$'000	Others HK\$'000	Total HK\$'000
Fair Value	824,827	1,230,360	6,524	1,221,494	392,309	101,652	904,600	44,830	4,726,596
Dividend	35,395	35,777	670	16,944	13,505	3,766	13,854	1,069	120,980

31 December 2023	Financial HK\$'000	Consumer goods and Services HK\$'000	Energy HK\$'000	Communication HK\$'000	Industrial HK\$'000	Basic Materials HK\$'000	Technology HK\$'000	Others HK\$'000	Total HK\$'000
Fair Value	1,038,152	1,236,016	15,721	658,663	412,701	204,367	736,707	48,741	4,351,068
Dividend	96,159	49,050	2,609	11,844	39,983	12,648	14,896	9,907	237,096

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

14. INVESTMENTS IN SECURITIES - continued

(c) The fair value of underlying items under Direct participating contracts are as below:

31 December 2024	Direct participating contracts HK\$'000
Debt securities	32,689,404
Equities securities	4,293,945
Unit trust investment	7,071,849
Derivative financial instrument	(917,310)
Other receivable	320,193
Cash and cash equivalents	376,477
Repurchase obligations and debts instruments liabilities	(3,968,890)
Reinsurance asset	88,368
Total	<u>39,954,036</u>

31 December 2023	Direct participating contracts HK\$'000
Debt securities	30,328,262
Equities securities	4,722,256
Unit trust investment	6,446,352
Derivative financial instrument	(760,887)
Other receivable	348,559
Cash and cash equivalents	225,351
Repurchase obligations and debts instruments liabilities	(4,608,100)
Reinsurance asset	(150,813)
Total	<u>36,550,980</u>

(d) 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 power and infrastructure, private equity and real estate, organised as limited partnerships and limited liability companies. These Other Entities are not sponsored by the Company. The Company believes that its relationships with these Other Entities are not individually significant and therefore the Company does not distinguish here whether each is a SE. 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 (loss)/gain on investments. The Company provides no guarantees to other investors in these Other Entities against the risk of financial loss.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

15. LOANS

	At 31.12.2024 HK\$'000	At 31.12.2023 HK\$'000
Other unsecured loans to agents	7,557	8,960
Current	7,557	8,960
Non-current	-	-

The policyholders' 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 (2023: 8% per annum).

The unsecured loans made to agents are interest free and are repayable on demand.

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

16. DEFERRED TAXATION

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

	Difference in accounting standards HK\$'000	RBC tax one- off adjustment HK\$'000	Total HK\$'000
At 1 January 2023	74	-	74
Credit / (charged) for the year (note 10)	1,125	-	1,125
At 31 December 2023	1,199	-	1,199
Credit / (charged) for the year (note 10)	(7,380)	(28,409)	(35,789)
At 31 December 2024	(6,181)	(28,409)	(34,590)

The deferred income tax assets / (liabilities) of other comprehensive income is as follows:

	OCI Assets HK\$'000
At 1 January 2023	1,504
Credited/(charged) to other comprehensive income for the year	(428)
At 31 December 2023	1,076
Credited/(charged) to other comprehensive income for the year	(1,076)
At 31 December 2024	-

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

17. SHARE CAPITAL AND RESERVES

Share Capital:

	<u>Number of shares</u>		<u>Share capital</u>	
	<u>At 31.12.2024</u>	<u>At 31.12.2023</u>	<u>At 31.12.2024</u>	<u>At 31.12.2023</u>
			HK\$'000	HK\$'000
Issued and fully paid:				
Ordinary shares				
Balance at 1 January and 31 December	19,940,000	19,940,000	1,995,100	1,995,100
Total	<u>19,940,000</u>	<u>19,940,000</u>	<u>1,995,100</u>	<u>1,995,100</u>

Reserves:

Fair value reserve

The fair value reserve comprises:

- The cumulative net change in the fair value of debt securities measured at fair value through other comprehensive income held at the end of the reporting period plus the related loss allowance recognised in profit or loss until the assets are derecognised or reclassified;
- The cumulative net change in the fair value of equity securities measured at FVOCI.
- Cash flow hedge reserve which comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss or directly included in the initial cost of other carrying amount of a non-financial asset or non financial liability.

Insurance finance reserve

The insurance finance reserve comprises the cumulative insurance finance income or expenses recognised in other comprehensive income.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

18. INSURANCE AND REINSURANCE CONTRACTS

18.1 Reconciliation with the statement of financial position

The reconciliation of amounts presented in the statement of financial position with the carrying amount of insurance contracts and investment contracts with DPF, as disclosed below in note 18.2 to note 18.3, is formalised as follows:

Reconciliation from the Statement of financial position to the Notes to the Financial Statements - Insurance

	At 31.12.2024 HK\$'000	At 31.12.2023 HK\$'000
Insurance contract liabilities	38,140,166	39,471,398
Insurance contract assets	(1,758,394)	(1,833,547)
Net position	<u>36,381,772</u>	<u>37,637,851</u>
Receivables arising from direct insurance and inward reinsurance operations	732,010	641,932
Payables arising from direct insurance and inward reinsurance operations	(637,758)	(770,321)
Assets relating to insurance acquisition cash flows		
Carrying amount of insurance contracts and investment contracts with discretionary participation features, as disclosed in notes to the financial statements	<u>36,476,024</u>	<u>37,509,462</u>

Reconciliation from the Statement of financial position to the Notes to the Financial Statements – Reinsurance

	At 31.12.2024 HK\$'000	At 31.12.2023 HK\$'000
Reinsurance contract assets	1,442,203	1,298,126
Reinsurance contract liabilities	(72,256)	(225,078)
Net position	<u>1,369,947</u>	<u>1,073,048</u>
Payables arising from outward reinsurance operations	342,133	655,223
Receivables arising from outward reinsurance operations	(741,353)	(308,276)
Carrying amount of reinsurance contracts held, as disclosed in notes to the financial statements	<u>970,727</u>	<u>1,419,995</u>

AXA CHINA REGION INSURANCE COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024**

18. INSURANCE AND REINSURANCE CONTRACTS – continued

18.2 Movements in the carrying amount of insurance contracts and investment contracts with DPF

(a) Analysis by remaining coverage and incurred claims

	Remaining coverage component		Incurred claims component			
	Note	Excluding loss component HK\$'000	Loss component HK\$'000	Contracts not under PAA HK\$'000	Present value of future cash flows HK\$'000	Risk adjustment HK\$'000
						Total HK\$'000
Opening assets						(1,833,547)
Opening liabilities		(2,198,807)	111	365,149	-	39,343,009
Net balance as at 1 January 2024		38,987,725	-	72,447	271,062	11,775
Insurance revenue		36,788,918	111	437,596	271,062	11,775
		(2,991,822)	-	-	-	-
Insurance service expenses						
Incurred claims and other directly attributable expenses		-	(11)	1,028,520	1,295,496	(2,794)
Adjustments to liabilities for incurred claims		-	-	(28,647)	(54,724)	-
Losses on onerous contracts and reversal of those losses		-	87	-	-	-
Insurance acquisition cash flows amortisation		279,191	-	-	-	87
Total insurance service expenses		279,191	76	999,873	1,240,772	(2,794)
Investment components		(1,977,253)	-	1,977,253	-	-
Insurance service result		(4,689,884)	76	2,977,126	1,240,772	(2,794)
Net finance expenses from insurance contracts		(73,560)	5	-	-	-
Total changes in the statement of profit or loss and other comprehensive income		(4,763,444)	81	2,977,126	1,240,772	(2,794)
Cash flows						
Premiums received		3,986,806	-	-	-	3,986,806
Claims and other directly attributable expenses paid, including investment components		-	-	(3,006,848)	(1,295,494)	(4,302,342)
Insurance acquisition cash flows paid		(169,643)	-	-	-	(169,643)
Total cash flows		3,817,163	-	(3,006,848)	(1,295,494)	(485,179)
Net balance as at 31 December 2024		35,842,637	192	407,874	216,340	36,476,024
Closing assets		(2,092,441)	192	333,855	-	(1,758,394)
Closing liabilities		37,935,078	-	74,019	216,340	38,234,418
Net balance as at 31 December 2024		35,842,637	192	407,874	216,340	36,476,024

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

18. INSURANCE AND REINSURANCE CONTRACTS – continued

18.2 Movements in the carrying amount of insurance contracts and investment contract contracts with DPF – continued

(a) Analysis by remaining coverage and incurred claims – continued

	Remaining coverage component			Incurred claims component		
	Note	Excluding loss component HK\$'000	Loss component HK\$'000	Contracts not under PAA HK\$'000	Present value of future cash flows HK\$'000	Risk adjustment HK\$'000
Opening assets						Total HK\$'000
Opening liabilities		(2,001,645)	111	351,911	-	(1,649,623)
Net balance as at 1 January 2023		38,764,011	18	42,232	260,628	39,077,831
Insurance revenue		36,762,366	129	394,143	260,628	37,428,208
Insurance service expenses		(2,949,367)	-	-	-	(2,949,367)
Incurred claims and other directly attributable expenses		-	(4)	920,920	1,106,955	2,028,704
Adjustments to liabilities for incurred claims		-	-	41,121	10,434	51,555
Losses on onerous contracts and reversal of those losses		-	(19)	-	-	(19)
Insurance acquisition cash flows amortisation		286,043	-	-	-	286,043
Total insurance service expenses		286,043	(23)	962,041	1,117,389	2,366,283
Investment components		(2,178,825)	-	2,178,825	-	-
Insurance service result		(4,842,149)	(23)	3,140,866	1,117,389	(583,084)
Net finance expenses from insurance contracts		1,103,141	5	-	-	1,103,146
Total changes in the statement of profit or loss and other comprehensive income		(3,739,008)	(18)	3,140,866	1,117,389	520,062
Cash flows						
Premiums received		3,943,805	-	-	-	3,943,805
Claims and other directly attributable expenses paid, including investment components		-	-	(3,097,413)	(1,106,955)	(4,204,368)
Insurance acquisition cash flows paid		(178,245)	-	-	-	(178,245)
Total cash flows		3,765,560	-	(3,097,413)	(1,106,955)	(438,808)
Net balance as at 31 December 2023		36,788,918	111	437,596	271,062	37,509,462
Closing assets		(2,198,807)	111	365,149	-	(1,833,547)
Closing liabilities		38,987,725	-	72,447	271,062	39,343,009
Net balance as at 31 December 2023		36,788,918	111	437,596	271,062	37,509,462

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

18. INSURANCE AND REINSURANCE CONTRACTS – continued

18.2 Movements in the carrying amount of insurance contracts and investment contract contracts with DPF – continued

(b) Analysis by measurement components – Contracts not measured under the PAA

	Note	Estimates present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Contractual service margin (CSM) HK\$'000	Total carrying amount HK\$'000
Opening assets					
Opening liabilities		(4,358,661)	245,858	2,279,256	(1,833,547)
Net balance as at 1 January 2024		34,423,069	439,297	3,962,615	38,824,981
Changes that relate to current service		30,064,408	685,155	6,241,871	36,991,434
CSM recognised in profit or loss for the services provided		-	-	(420,496)	(420,496)
Change in the risk adjustment for non-financial risk for the risk expired		-	(21,427)	-	(21,427)
Experience adjustments		86,650	-	-	86,650
Changes that relate to future service					
Changes in estimates that adjust the CSM		435,377	(90,928)	(344,449)	-
Changes in estimates that result in onerous contract losses or reversal of losses		85	2	-	87
Contracts initially recognised in the period		(42)	(3)	45	-
Changes that relate to past service		(28,647)	-	-	(28,647)
Insurance service result		493,423	(112,356)	(764,900)	(383,833)
Net finance expenses from insurance contracts		(152,625)	-	79,070	(73,555)
Total changes in the statement of profit or loss and other comprehensive income		340,798	(112,356)	(685,830)	(457,388)
Cash flows					
Premiums received		2,512,201	-	-	2,512,201
Claims and other directly attributable expenses paid, including investment components		(3,006,848)	-	-	(3,006,848)
Insurance acquisition cash flows paid		(37,753)	-	-	(37,753)
Total cash flows		(532,400)	-	-	(532,400)
Net balance as at 31 December 2024		29,872,806	572,799	5,556,041	36,001,646
Closing assets					
Closing liabilities		(4,656,122)	322,019	2,575,709	(1,758,394)
Net balance as at 31 December 2024		34,528,928	250,780	2,980,332	37,760,040
		29,872,806	572,799	5,556,041	36,001,646

AXA CHINA REGION INSURANCE COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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18. INSURANCE AND REINSURANCE CONTRACTS – continued

18.2 Movements in the carrying amount of insurance contracts and investment contract contracts with DPF – continued

(b) Analysis by measurement components – Contracts not measured under the PAA - continued

	Note	Estimates present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Contractual service margin (CSM) HK\$'000	Total carrying amount HK\$'000
Opening assets					
Opening liabilities		(4,381,478)	257,652	2,474,203	(1,649,623)
Net balance as at 1 January 2023		33,534,303	238,035	4,760,998	38,533,336
Changes that relate to current service		29,152,825	495,687	7,235,201	36,883,713
CSM recognised in profit or loss for the services provided		-	-	(488,307)	(488,307)
Change in the risk adjustment for non-financial risk for the risk expired		-	(22,060)	-	(24,390)
Experience adjustments		(43,422)	-	-	(41,092)
Changes that relate to future service					
Changes in estimates that adjust the CSM		381,288	211,526	(592,814)	-
Changes in estimates that result in onerous contract losses or reversal of losses		(48)	9	-	(39)
Contracts initially recognised in the period		27	(7)	-	20
Changes that relate to past service		41,121	-	-	41,121
Insurance service result		378,966	189,468	(1,081,121)	(512,687)
Net finance expenses from insurance contracts		1,015,355	-	87,791	1,103,146
Total changes in the statement of profit or loss and other comprehensive income		1,394,321	189,468	(993,330)	590,459
Cash flows					
Premiums received		2,663,096	-	-	2,663,096
Claims and other directly attributable expenses paid, including investment components		(3,097,413)	-	-	(3,097,413)
Insurance acquisition cash flows paid		(48,421)	-	-	(48,421)
Total cash flows		(482,738)	-	-	(482,738)
Net balance as at 31 December 2023		30,064,408	685,155	6,241,871	36,991,434
Closing assets					
Closing liabilities		(4,358,661)	245,858	2,279,256	(1,833,547)
Net balance as at 31 December 2023		34,423,069	439,297	3,962,615	38,824,981
		30,064,408	685,155	6,241,871	36,991,434

AXA CHINA REGION INSURANCE COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024**

18. INSURANCE AND REINSURANCE CONTRACTS – continued

18.3 Movements in the carrying amount of reinsurance contracts held

(a) Analysis by remaining coverage and incurred claims

		Remaining coverage component		Incurred claims component		
	Note	Excluding loss recovery component HK\$'000	Loss recovery component HK\$'000	Contracts not under PAA HK\$'000	Present value of future cash flows HK\$'000	Risk adjustment HK\$'000
						Total HK\$'000
Opening liabilities		15,362	-	-	10,825	570
Opening assets		1,343,381	-	-	47,846	2,011
Net balance as at 1 January 2024		1,358,743	-	-	58,671	2,581
Expenses from reinsurance contracts		(707,636)	-	-	-	-
Claims recovered		-	-	116,386	492,650	(1,176)
Changes in estimates that relate to losses and reversal of losses on underlying onerous contracts		-	-	-	-	-
Effect of changes in the risk of reinsurers non-performance		(1,845)	-	-	-	-
Net income / (expenses) from reinsurance contracts held		(709,481)	-	116,386	492,650	(1,176)
Investment components		(629,680)	-	629,680	-	-
Net finance income or expenses from reinsurance contracts		109,954	-	-	-	-
Total changes in the statement of profit or loss and other comprehensive income		(1,229,207)	-	746,066	492,650	(1,176)
Cash flows						
Premiums paid net of ceding commissions		806,141	-	-	-	-
Recoveries from reinsurance net of commission related to claims		-	-	(746,066)	(517,676)	-
Total cash flows		806,141	-	(746,066)	(517,676)	-
Net balance as at 31 December 2024		935,677		-	33,645	1,405
Closing liabilities		64,655	-	-	32,573	1,359
Closing assets		871,022	-	-	1,072	46
Net balance as at 31 December 2024		935,677	-	-	33,645	1,405

AXA CHINA REGION INSURANCE COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024**

18. INSURANCE AND REINSURANCE CONTRACTS – continued

18.3 Movements in the carrying amount of reinsurance contracts held – continued

(a) Analysis by remaining coverage and incurred claims – continued

	Remaining coverage component		Incurred claims component			
	<u>Note</u>	<u>Excluding loss recovery component</u> HK\$'000	<u>Loss recovery component</u> HK\$'000	<u>Contracts not under PAA</u> HK\$'000	<u>Present value of future cash flows</u> HK\$'000	<u>Risk adjustment</u> HK\$'000
Opening liabilities		164,869	-	-	7,529	394
Opening assets		1,373,450	-	-	56,112	2,254
		1,538,319	-	-	63,641	2,648
Net balance as at 1 January 2023						
Expenses from reinsurance contracts		(697,737)	-	-	-	-
Claims recovered		-	-	155,874	438,349	(67)
Changes in estimates that relate to losses and reversal of losses on underlying onerous contracts		-	-	-	-	-
Effect of changes in the risk of reinsurers non-performance		1,875	-	-	-	-
						1,875
Net income / (expenses) from reinsurance contracts held		(695,862)	-	155,874	438,349	(67)
Investment components		(36,773)	-	36,773	-	-
Net finance income or expenses from reinsurance contracts		(97,687)	-	-	-	-
						(97,687)
Total changes in the statement of profit or loss and other comprehensive income		(830,322)	-	192,647	438,349	(67)
Cash flows						
Premiums paid net of ceding commissions		650,746	-	-	-	-
Recoveries from reinsurance net of commission related to claims		-	-	(192,647)	(443,319)	-
						(635,966)
Total cash flows		650,746	-	(192,647)	(443,319)	-
						14,780
Net balance as at 31 December 2023		1,358,743	-	-	58,671	2,581
						1,419,995
Closing liabilities		15,362	-	-	10,825	570
Closing assets		1,343,381	-	-	47,846	2,011
						1,393,238
Net balance as at 31 December 2023		1,358,743	-	-	58,671	2,581
						1,419,995

AXA CHINA REGION INSURANCE COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024**

18. INSURANCE AND REINSURANCE CONTRACTS – continued

18.3 Movements in the carrying amount of reinsurance contracts held – continued

(b) Analysis by measurement components – Contracts not measured under the PAA

	Note	Estimates present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Contractual service margin (CSM) HK\$'000	Total carrying amount HK\$'000
Opening liabilities		(126,204)	5,072	83,159	(37,973)
Opening assets		1,103,553	14,026	201,903	1,319,482
Net balance as at 1 January 2024		977,349	19,098	285,062	1,281,509
Changes that relate to current service					
CSM recognised in profit or loss for the services received		-	-	32,715	32,715
Change in the risk adjustment for non-financial risk for the risk expired		-	(743)	-	(743)
Experience adjustments		(30,913)	-	-	(30,913)
Changes that relate to future service					
Changes in estimates that adjust the CSM		292,516	3,649	(296,165)	-
Contracts initially recognised in the period		-	-	-	-
Changes that relate to past service					
Effect of changes in the risk of reinsurers non-performance		(1,845)	-	-	(1,845)
Net expenses from reinsurance contracts		259,758	2,906	(263,450)	(786)
Net finance income from reinsurance contracts held		105,297	-	4,657	109,954
Total changes in the statement of profit or loss and other comprehensive income		365,055	2,906	(258,793)	109,168
Cash flows					
Premiums paid net of ceding commissions paid		207,166	-	-	207,166
Recoveries from reinsurance (net of commissions related to claims)		(746,066)	-	-	(746,066)
Total cash flows		(538,900)	-	-	(538,900)
Net balance as at 31 December 2024		803,504	22,004	26,269	851,777
Closing liabilities		-	-	-	-
Closing assets		803,504	22,004	26,269	851,777
Net balance as at 31 December 2024		803,504	22,004	26,269	851,777

AXA CHINA REGION INSURANCE COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024**

18. INSURANCE AND REINSURANCE CONTRACTS – continued

18.3 Movements in the carrying amount of reinsurance contracts held – continued

(b) Analysis by measurement components – Contracts not measured under the PAA – continued

	Note	Estimates present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Contractual service margin (CSM) HK\$'000	Total carrying amount HK\$'000
Opening liabilities					
Opening assets		(167,286)	15,810	210,500	59,024
		1,245,844	1,326	105,574	1,352,744
Net balance as at 1 January 2023		1,078,558	17,136	316,074	1,411,768
Changes that relate to current service					
CSM recognised in profit or loss for the services received		-	-	(29,711)	(29,711)
Change in the risk adjustment for non-financial risk for the risk expired		-	(511)	-	(511)
Experience adjustments		(23,982)	-	-	(23,982)
Changes that relate to future service					
Changes in estimates that adjust the CSM		3,164	2,473	(5,637)	-
Contracts initially recognised in the period		-	-	-	-
Changes that relate to past service					
Effect of changes in the risk of reinsurers non-performance		1,875	-	-	1,875
Net expenses from reinsurance contracts		(18,943)	1,962	(35,348)	(52,329)
Net finance income from reinsurance contracts held		(102,023)	-	4,336	(97,687)
Total changes in the statement of profit or loss and other comprehensive income		(120,966)	1,962	(31,012)	(150,016)
Cash flows					
Premiums paid net of ceding commissions paid		212,404	-	-	212,404
Recoveries from reinsurance (net of commissions related to claims)		(192,647)	-	-	(192,647)
Total cash flows		19,757	-	-	19,757
Net balance as at 31 December 2023		977,349	19,098	285,062	1,281,509
Closing liabilities		(126,204)	5,072	83,159	(37,973)
Closing assets		1,103,553	14,026	201,903	1,319,482
Net balance as at 31 December 2023		977,349	19,098	285,062	1,281,509

AXA CHINA REGION INSURANCE COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024**

18. INSURANCE AND REINSURANCE CONTRACTS – continued

18.4 Impact of contracts recognized in the year

Insurance contracts and investment contract contracts with DPF

	<u>Note</u>	Year ended 31.12.2024			Year ended 31.12.2023		
		<u>Non-onerous contracts</u> HK\$'000	<u>Onerous contracts</u> HK\$'000	<u>Total</u> HK\$'000	<u>Non-onerous contracts</u> HK\$'000	<u>Onerous contracts</u> HK\$'000	<u>Total</u> HK\$'000
Insurance acquisition cash flows		-	-	-	-	(2)	(2)
Claims and other directly attributable expenses		257	-	257	452	29	481
Estimates of the present value of future cash outflows		257	-	257	452	27	479
Estimates of the present value of future cash inflows		(299)	-	(299)	(452)	-	(452)
Risk adjustment for non-financial risk		(3)	-	(3)	-	(7)	(7)
CSM		45	-	45	-	-	-
Losses on onerous contract		-	-	-	-	20	20

Reinsurance contracts held

	<u>Note</u>	Year ended 31.12.2024			Year ended 31.12.2023		
		<u>Contracts originated not in a net gain</u> HK\$'000	<u>Contracts originated in a net gain</u> HK\$'000	<u>Total</u> HK\$'000	<u>Contracts originated not in a net gain</u> HK\$'000	<u>Contracts originated in a net gain</u> HK\$'000	<u>Total</u> HK\$'000
Estimates of the present value of future cash inflows		-	-	-	-	-	-
Estimates of the present value of future cash outflows		-	-	-	-	-	-
Risk adjustment for non-financial risk		-	-	-	-	-	-
Loss recovery component		-	-	-	-	-	-
Income recognised on initial recognition		-	-	-	-	-	-
CSM		-	-	-	-	-	-

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

18. INSURANCE AND REINSURANCE CONTRACTS – continued

18.5 Insurance revenue and the CSM by transition method

Insurance contracts and investment contract contracts with DPF

	Note	Contracts under modified retrospective approach HK\$'000	Contracts under fair value approach HK\$'000	All other contracts HK\$'000	Total HK\$'000
Insurance revenue		776,561	753,573	1,461,688	2,991,822
CSM as at 1 January 2024		2,198,436	4,043,385	50	6,241,871
Changes that relate to current service					
CSM recognised in profit or loss for the services provided		(167,555)	(252,928)	(13)	(420,496)
Changes that relate to future service					
Changes in estimates that adjust the CSM		426,417	(771,061)	195	(344,449)
Contracts initially recognised in the period		-	-	45	45
Finance expenses from insurance contracts issued		76,688	2,380	2	79,070
Total changes in the statement of profit or loss and other comprehensive income		335,550	(1,021,609)	229	(685,830)
CSM as at 31 December 2024		2,533,986	3,021,776	279	5,556,041
	Note	Contracts under modified retrospective approach HK\$'000	Contracts under fair value approach HK\$'000	All other contracts HK\$'000	Total HK\$'000
Insurance revenue		767,446	862,341	1,319,580	2,949,367
CSM as at 1 January 2023		2,360,427	4,874,774	-	7,235,201
Changes that relate to current service					
CSM recognised in profit or loss for the services provided		(152,255)	(336,049)	(3)	(488,307)
Changes that relate to future service					
Changes in estimates that adjust the CSM		(94,789)	(498,078)	53	(592,814)
Contracts initially recognised in the period		-	-	-	-
Finance expenses from insurance contracts issued		85,053	2,738	-	87,791
Total changes in the statement of profit or loss and other comprehensive income		(161,991)	(831,389)	50	(993,330)
CSM as at 31 December 2023		2,198,436	4,043,385	50	6,241,871

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

18.5 Insurance revenue and the CSM by transition method – continued

	<u>Note</u>	<u>Contracts</u> <u>under</u> <u>modified</u> <u>retrospective</u> <u>approach</u> HK\$'000	<u>Contracts</u> <u>under fair</u> <u>value</u> <u>approach</u> HK\$'000	<u>All other</u> <u>contracts</u> HK\$'000	<u>Total</u> HK\$'000
Reinsurance expense		-	115,953	591,683	707,636
CSM as at 1 January 2024		-	284,644	418	285,062
Changes that relate to current service					
CSM recognised in profit or loss for the services received		-	32,090	625	32,715
Changes that relate to future service					
Changes in estimates that adjust the CSM		-	(295,069)	(1,096)	(296,165)
Contracts initially recognised in the period		-	-	-	-
Finance income from reinsurance contract held		-	4,639	18	4,657
Total changes in the statement of profit or loss and other comprehensive income		-	(258,340)	(453)	(258,793)
CSM as at 31 December 2024		-	26,304	(35)	26,269
	<u>Note</u>	<u>Contracts</u> <u>under</u> <u>modified</u> <u>retrospective</u> <u>approach</u> HK\$'000	<u>Contracts</u> <u>under fair</u> <u>value</u> <u>approach</u> HK\$'000	<u>All other</u> <u>contracts</u> HK\$'000	<u>Total</u> HK\$'000
Reinsurance expense		-	209,780	487,956	697,736
CSM as at 1 January 2023		-	315,207	867	316,074
Changes that relate to current service					
CSM recognised in profit or loss for the services received		-	(29,415)	(296)	(29,711)
Changes that relate to future service					
Changes in estimates that adjust the CSM		-	(5,440)	(197)	(5,637)
Contracts initially recognised in the period		-	-	-	-
Finance income from reinsurance contract held		-	4,292	44	4,336
Total changes in the statement of profit or loss and other comprehensive income		-	(30,563)	(449)	(31,012)
CSM as at 31 December 2023		-	284,644	418	285,062

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

18. INSURANCE AND REINSURANCE CONTRACTS – continued

18.6 Expected recognition of the Contractual Service Margin

	2024		2023	
	Insurance contracts and investment contracts with DPF	Reinsurance contracts held	Insurance contracts and investment contracts with DPF	Reinsurance contracts held
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 year or less	391,964	1,114	452,763	28,805
1-2 years	367,034	1,181	423,142	27,646
2-3 years	343,779	1,193	395,315	26,308
3-4 years	321,537	1,207	369,109	24,952
4-5 years	300,455	1,234	344,013	23,625
5-10 years	1,237,410	6,176	1,393,395	68,579
More than 10 years	2,593,862	14,164	2,864,134	85,147
Total	5,556,041	26,269	6,241,871	285,062

18.7 Investment return in OCI related to contracts measured under modified retrospective or fair value approach

	2024	2023
	HK\$'000	HK\$'000
Beginning Balance	(555,020)	(623,205)
Net Change in Fair Value	(384)	179,072
Net Amount reclassified to P&L	(16,167)	(2,658)
Rebalancing	5,973	(108,229)
Ending Balance	(565,598)	(555,020)

19. PENSIONS – DEFINED CONTRIBUTION PLANS

	Year ended 31.12.2024 HK\$'000	Year ended 31.12.2023 HK\$'000
Gross and net contributions charged to the statement of profit or loss	6,516	6,785

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

20. 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 debtors and amounts due from group companies at the end of the reporting period are stated at amortised cost using the effective interest method less any impairment losses.

All of these balances are classified as current assets.

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

Other financial liabilities

Debt instruments liabilities

Total return swap

The Company entered into a structured financing arrangement that consists of a two-step process (1) a sale of a liquid corporate bond (investment grade/no high yield names) with (2) a corresponding total return swap with the transferee whereby all of the interest payment and principal redemption cash flows from the underlying bond are remitted back to the Company in exchange for agreed upon payments by the Company. Throughout the term of the agreement, the Company will receive the nominal bond coupons and pay a floating financing cost to the counterparty bank. The term of the arrangement is until the maturity of the underlying bond. At the end of the agreement term, the asset maturity redemption amount is returned to the Company and the Company repays the counterparty bank the financing amount which could be either bond notional or initial price.

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

Repurchase Obligations

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

Pursuant to an Agency Agreement, the Company authorised 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. The transaction adheres to the guidelines and requirements agreed to by all parties.

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

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

20. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES – continued

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

	<u>At 31.12.2024</u>	<u>At 31.12.2023</u>
	HK\$'000	HK\$'000
Repurchase agreement	991,801	-
Total return swap	<u>4,338,661</u>	<u>4,250,578</u>

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

Creditors and accrued charges and amount 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.

21. EQUITY COMPENSATION BENEFITS

AXA SA STOCK OPTION PLAN

Certain eligible employees of the Group have been granted options to subscribe to AXA 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.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

21. EQUITY COMPENSATION BENEFITS – continued

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

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

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

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

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

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

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

AXA SHAREPLAN

For the past 31 years, the AXA Group has continuously offered employees the opportunity to become AXA shareholders through the annual employee share offering (the "SharePlan"), comprising two investment options: the Traditional Plan and the Guarantee plus Plan.

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

21. EQUITY COMPENSATION BENEFITS – continued

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

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

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

Rules regarding shares subject to performance conditions:

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

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

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

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

AXA MILES

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

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

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

21. 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>International Performance Share Plan</u>
Outstanding at 1 January 2023	44,990
Granted during the year	17,955
Increase due to new appointment	-
Adjustment (due to performance conditions/other reason)	651
Exercised during the year	(16,891)
Decrease due to resignation/withdrawal	-
Outstanding at 31 December 2023	46,705
Granted during the year	22,327
Increase due to new appointment	-
Adjustment (due to performance conditions/other reason)	1,777
Exercised during the year	(15,709)
Decrease due to resignation/withdrawal	-
Outstanding at 31 December 2024	55,100
Exercisable at end of year	-

The expenses arising from equity-settled 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 2024 of HK\$23,694,000 (2023: HK\$20,643,000), was absorbed by the Company.

22. CAPITAL COMMITMENTS

	<u>At 31.12.2024</u>	<u>At 31.12.2023</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Unlisted unit trust investments	<u>1,499,280</u>	<u>1,495,371</u>

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

23. LEASES

(a) Amounts recognised in the statement of financial position

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

	<u>At 31.12.2024</u> HK\$'000	<u>At 31.12.2023</u> HK\$'000
Right-of-use assets		
Buildings	274,732	396,952
Lease Liabilities		
Current	125,410	159,439
Non-current	171,519	262,553
	<u>296,929</u>	<u>421,992</u>

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

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

	<u>Year ended</u> <u>31.12.2024</u> HK\$'000	<u>Year ended</u> <u>31.12.2023</u> HK\$'000
Depreciation charge of right-of-use assets		
Buildings	(156,441)	(157,897)
Interest expense	(8,530)	(11,006)
Gains from termination of lease	227	-

The total cash outflow for leases in 2024 was HK\$167,586,915 (2023: HK\$168,181,540).

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

The Company leases various offices. Rental contracts are typically made for fixed period of 15 months to 106 months.

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

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

24. 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.

	At 31.12.2024	
	Assets	Liabilities
	HK\$'000	HK\$'000
Forward currency contracts	375,513	106,272
Cross currency swaps	414,478	11,089
Asset swap	15,113	944,855
Forward interest rate swap	908,740	664,177
Credit default swap	-	3,224
Equity forward	86,760	81,221
Bond forward	-	213,938
Interest rate swaption	3,870	1,720
	<u>1,804,474</u>	<u>2,026,496</u>

	At 31.12.2023	
	Assets	Liabilities
	HK\$'000	HK\$'000
Forward currency contracts	131,249	134,495
Equity options	59,085	-
Cross currency swaps	438,038	31,903
Asset swap	11,854	1,068,723
Forward interest rate swap	967,329	901,856
Credit default swap	-	3,468
Equity forward	-	70,736
Bond forward	109,321	31,037
Currency option	-	-
Interest rate swaption	2,798	10,891
	<u>1,719,674</u>	<u>2,253,109</u>

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

24. DERIVATIVE FINANCIAL INSTRUMENTS -- continued

(c) Derivatives -- continued

		Contractual or notional amounts	
		At 31.12.2024	At 31.12.2023
		HK\$'000	HK\$'000
Forward currency contracts	- bought	60,331,825	50,959,565
	- sold	(60,062,584)	(50,962,811)
Equity options	- long	-	1,988,077
Cross currency swaps		18,378,948	18,460,164
Asset swap		5,988,426	6,019,759
Forward interest rate swap		13,130,086	14,435,875
Interest rate swaption		2,621,679	3,513,862
Credit default swap	- long	173,178	174,084
Equity forward	- long	292,651	390,429
	- short	(1,707,523)	(807,143)
Bond forward	- bought	4,016,024	4,372,806

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

24. DERIVATIVE FINANCIAL INSTRUMENTS – continued

(c) Derivatives – continued

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. Accordingly, the statement of financial position reflects all unrealised gains and losses on derivatives held by the Company.

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.

25. NET ASSETS HELD BY A PARENT COMPANY ON BEHALF OF THE COMPANY

Non-linked investment of HK\$962,116 (2023: HK\$1,821,205,660) are held on behalf of the Company by AXA China Region Insurance Company (Bermuda) Limited (“AXA CRIB”), a parent company of the Company in accordance with the deed of trust dated 13 July 2009 entered between the Company and AXA CRIB. AXA CRIB is part of the worldwide AXA Group with a S&P credit rating of AA-. AXA CRIB manages a combined investment portfolio of approximately HK\$3,297,917 (2023: HK\$4,285,265,088) for several Hong Kong-based insurers in the AXA China Region Group and the Company has a percentage share of this portfolio. AXA CRIB is incorporated in Bermuda, is authorised to conduct insurance business in Hong Kong, and does not have a standalone credit rating.

26. DEFERRED REVENUE

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

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

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

27. RELATED PARTY TRANSACTIONS

(a) During the year, the Company entered into the following transactions with related parties:

	Notes	Year ended 31.12.2024 HK\$'000	Year ended 31.12.2023 HK\$'000
Investment charges paid to fellow subsidiaries	i	(56,823)	(46,675)
Administrative service fee from a fellow subsidiary	ii	-	612
Administrative service fee from a subsidiary	ii	612	-
Allocation of management expenses to an intermediate holding company	iii	-	52
Allocation of management expenses to the immediate holding company	iii	1,604,587	1,383,014
Allocation of management expenses to fellow subsidiaries	iii	231,821	198,316
Allocation of management expenses to subsidiaries	iii	16,993	-
Interest income from an intermediate holding company	iv	10,223	10,195
Interest expense to an intermediate holding company	v	(11,343)	(13,218)
Management expenses paid to fellow subsidiaries	vi	(265,654)	(282,139)
Claims handling fees to a fellow subsidiary	vii	(2,735)	(2,800)
Reinsurance premiums to the ultimate holding company	viii	(15,093)	(18,037)
Reinsurance premiums to fellow subsidiaries	viii	(541,043)	(428,216)
Reinsurance claims recoveries from the ultimate holding company	viii	1,443	6,157
Reinsurance claims recoveries from fellow subsidiaries	viii	467,352	386,052
Reinsurance commissions from fellow subsidiaries	viii	27,261	24,241
Reinsurance claims handling fees from a fellow subsidiary	viii	2,735	2,798
Reinsurance premiums, commissions and claims recoveries payable to fellow subsidiaries	viii	(95,733)	(232,937)
Reinsurance premiums, commissions and claims recoveries payable to ultimate holding company	viii	(1,944)	(10,108)
Services charges to a fellow subsidiary	ix	-	(5,151)
Shared services charged by an intermediate holding company	x	(11,005)	(34,360)
Trademark fees payable to the ultimate holding company	xi	(3,948)	(4,176)
Acquisition of subsidiaries from intermediate holding companies	xii	(1,037,334)	-

Notes:

- (i) The investment charges were made to fellow subsidiaries for the provision of the investment services throughout the year based on the size of the investment portfolios.
- (ii) The administrative service fee was charged at a fixed rate of HK\$51,000 (2023: HK\$51,000) per month.
- (iii) Certain costs borne by the Company were allocated to the inter-companies sharing the common services and facilities.

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

27. RELATED PARTY TRANSACTIONS – continued

- (a) During the year, the Company entered into the following transactions with related parties – continued

Notes:

- (iv) The floating rate debenture of HK\$864 million was terminated on 6 June 2021 and renewed on 7 June 2021 which issued by an intermediate holding company is unsecured and bearing interest at the fixed interest rate of 1.18% per annum (2023: 1.18% per annum) above Hong Kong Inter Bank Offer Rate (“HIBOR”). The debenture will be fully redeemed on or before 6 June 2026.
- (v) Details of the subordinated loan from an intermediate holding company are set out in note 30 to the financial statements.
- (vi) Certain management expenses were paid to fellow subsidiaries for the provision of various types of information technology related services and support and other group services.
- (vii) The amounts related to a claims handling arrangement made with a fellow subsidiary in the normal course of business.
- (viii) The amounts related to reinsurance ceded arrangement made or payable with fellow subsidiaries and the ultimate holding company in the normal course of business.
- (ix) The amount related to value-added services provided by a fellow subsidiary in the normal course of business.
- (x) Certain overhead costs borne by the group companies were allocated to the Company for sharing the common services and activities on time spent basis.
- (xi) Trademark fees were recharged and payable to the ultimate holding company for the provision of brand usage.
- (xii) All of the shares in AXA Wealth Management (HK) Limited and AXA Life Insurance Company Limited were transferred from intermediate holding companies on 24 June 2024 and 2 July 2024 respectively.
- (xiii) The Company’s balances with related parties are set out in the statement of financial position and note 20 to the financial statements.
- (xiv) Certain non-linked investments are held by an investment custodian in the name of the parent company, as described in note 25.
- (b) The remuneration of key management during the year was as follows:

	Year ended 31.12.2024 HK\$'000	Year ended 31.12.2023 HK\$'000
Salaries and other short-term employee benefits	44,829	36,953
Contributions to retirement/pension schemes	1,614	1,273

AXA CHINA REGION INSURANCE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

28. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	<u>At 31.12.2024</u> HK\$'000	<u>At 31.12.2023</u> HK\$'000
Deposits with banks:		
Fixed term	262,295	222,068
Current accounts	743,309	1,884,901
Cash	46	46
	<u>1,005,650</u>	<u>2,107,015</u>
Less:		
Fixed term bank deposits with maturity over three months	<u>(262,295)</u>	<u>(222,068)</u>
	<u>743,355</u>	<u>1,884,947</u>

Deposits with banks represent cash at current accounts with banks and deposits placed with various banks with terms up to 1 year with interest rate up to 5.1% per annum (2023: 6.0% per annum). The directors consider the carrying values of the above items approximately equal to their fair values.

29. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with current year presentation.

30. SUBORDINATED LOAN

	<u>At 31.12.2024</u> HK\$'000	<u>At 31.12.2023</u> HK\$'000
Subordinated loan from an intermediate holding company	<u>-</u>	<u>250,000</u>
Due within one year	<u>-</u>	<u>250,000</u>

Since 2012, the Company has entered into a subordinated loan agreement to borrow HK\$250 million from an intermediate holding company. The loan is unsecured and bears interest at the rate of 0.5 percent per annum above 3 months HIBOR starting from the date of loan agreement. It is repayable on demand. During the year, it was fully repaid with the approval from Insurance Authority.

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