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## Financial Condition Report


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AXA China Region Insurance Company  
(Bermuda) Limited – FY2022


**Sign-off**

We certify that to the best of our knowledge and belief, this Financial Condition Report of AXA China Region Insurance Company (Bermuda) Limited fairly represents the financial condition of the company in all material respects.

**Signed by the Chief Executive Officer:**

 ..... Signature	Wan Yuen Wai ..... Name	30-06-2023 ..... Date
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**Signed by the Chief Actuary:**

 ..... Signature	Iris Lau Wing Sin ..... Name	30-06-2023 ..... Date
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## 1. BUSINESS AND PERFORMANCE

### 1.1 NAME OF THE INSURER

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AXA China Region Insurance Company (Bermuda) Limited (the "Company")

### 1.2 INSURANCE SUPERVISOR

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The principal regulatory supervisors of the company are the Bermuda Monetary Authority and the Insurance Authority of Hong Kong.

Insurance Authority  
19/F, 41 Heung Yip Road, Wong Chuk Hang, Hong Kong

Bermuda Monetary Authority  
BMA House, 43 Victoria Street, Hamilton, Bermuda

### 1.3 APPROVED AUDITOR

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PricewaterhouseCoopers  
22/F, Prince's Building, Central, Hong Kong

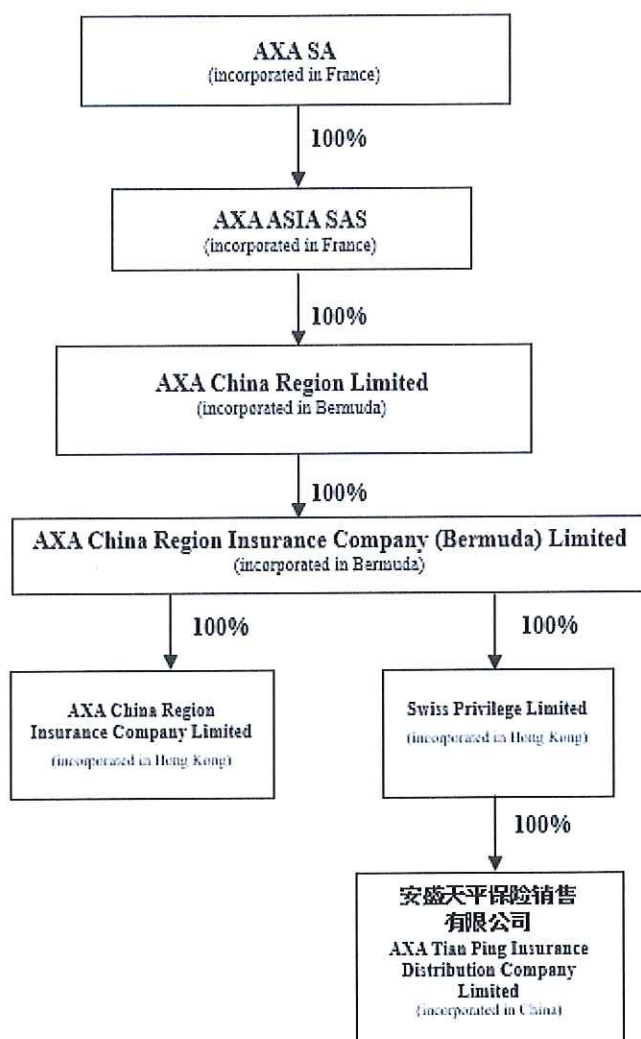
### 1.4 DESCRIPTION OF THE OWNERSHIP DETAILS

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The Company is 100% owned by AXA China Region Limited, a company incorporated in Bermuda, which is 100% owned by AXA ASIA SAS, a company incorporated in France, which in turn is 100% owned by AXA SA, a company incorporated in France and is the Company's ultimate holding company.

## 1.5 STRUCTURE IN AXA GROUP

### Corporate Structure of the Company (as at 1 June 2023)



For change in corporate structure, please refer to the FY2022 AXA China Region Insurance Company (Bermuda) Limited Consolidated Financial Statement pages 96 to 97 and 100.

## 1.6 INSURANCE BUSINESS WRITTEN BY BUSINESS SEGMENTS AND BY GEOGRAPHICAL REGION

AXA China Region Insurance Company (Bermuda) Limited and its subsidiaries (collectively, the "Group") writes long term business (traditional life and unit linked). In addition, the company writes a block of general business which is not considered material in the context of the Company's consolidated business position.

	2022 Gross Written Premium			2021 Gross Written Premium		
	Long Term Business	General Business	Total	Long Term Business	General Business	Total
	in USD'm	in USD'm	in USD'm	in USD'm	in USD'm	in USD'm
Hong Kong	3,363	215	3,578	3,643	178	3,821
Macau	306	38	344	233	38	271
Total	3,669	253	3,922	3,876	216	4,092



## 1.7 PERFORMANCE OF INVESTMENTS

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Please refer to the FY2022 AXA China Region Insurance Company (Bermuda) Limited Consolidated Financial Statement pages 10 and 65.

## 1.8 ANY OTHER MATERIAL INFORMATION

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For the years ended December 31, 2022, the Group has calculated its Enhanced Capital Requirement "ECR" using the Bermuda Solvency Capital Requirement ("BSCR") standard formula. Please refer to section 4 and 5 for more information.

# 2. GOVERNANCE STRUCTURE

## 2.1 BOARD AND SENIOR EXECUTIVE

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Please refer to the FY2022 AXA China Region Insurance Company (Bermuda) Limited Consolidated Financial Statement pages 4 to 5-and 66.

## 2.2 FITNESS AND PROPRIETY REQUIREMENTS

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The Company applies the same fitness and propriety requirements as AXA Group. For details please refer to page 17 of the Solvency and Financial Condition Report of 2022 of AXA Group.

[https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/b4a44587-38e5-4fc4-ad31-cf6ebc77d30f\\_axa\\_sfc\\_r\\_2022\\_va.pdf](https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/b4a44587-38e5-4fc4-ad31-cf6ebc77d30f_axa_sfc_r_2022_va.pdf)

## 2.3 RISK MANAGEMENT AND SOLVENCY SELF-ASSESSMENT

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The Company applies the same policies as AXA Group. For details please refer to page 17 of the Solvency and Financial Condition Report of 2022 of AXA Group.

[https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/b4a44587-38e5-4fc4-ad31-cf6ebc77d30f\\_axa\\_sfc\\_r\\_2022\\_va.pdf](https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/b4a44587-38e5-4fc4-ad31-cf6ebc77d30f_axa_sfc_r_2022_va.pdf)

## 2.4 INTERNAL CONTROLS

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The Company applies the same policies as AXA Group. For details please refer to page 17 of the Solvency and Financial Condition Report of 2022 of AXA Group.

[https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/b4a44587-38e5-4fc4-ad31-cf6ebc77d30f\\_axa\\_sfc\\_r\\_2022\\_va.pdf](https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/b4a44587-38e5-4fc4-ad31-cf6ebc77d30f_axa_sfc_r_2022_va.pdf)

## 2.5 INTERNAL AUDIT

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AXA Hong Kong Internal Audit exists to help the Board and Executive Management protect the assets, reputation and sustainability of the organisation by providing an independent and objective assurance activity designed to add value and improve the organisation's operations. It helps the organisation meet its objectives by bringing a systematic, disciplined approach to challenge Executive Management and evaluate the effectiveness of governance, and risk and control management. The AXA Hong Kong internal audit function has an audit charter to document its mission, independence, scope, accountabilities, responsibilities, authorities and standards. The charter is approved by the relevant Audit Committee each year. The head of the AXA Hong Kong internal audit function has a direct and unfettered reporting line directly to his/her respective Audit Committee Chairman. AXA Hong Kong Internal Audit functionally reports through Head of Audit, Asia Internal Audit to the Global Head of Internal Audit who reports to the Group Audit Committee Chairman. AXA Hong Kong Internal Audit annually sets up an internal audit plan of work, based on an assessment of both the inherent risk and the adequacy of controls. Its performance is formally monitored and reported to the Audit Committee. Over the audit cycle, all applicable audit universe components for each entity are expected to be audited. Any exceptions identified are notified to the Audit Committee for ratification. A report is issued at the conclusion of each audit assignment to the relevant senior management. The results of the audits and resolution status of internal audit issues are presented to the Audit Committee and Executive Management on a regular basis.

## 2.6 ACTUARIAL FUNCTION

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The Actuarial Function is responsible for the valuation and monitoring of the Technical Provisions. Key objectives of the Actuarial Function are to:

- Develop and maintain appropriate methodology for valuation of the Technical Provisions, in compliance with regulatory requirements outlined by the Authority.
- Monitor the Company's actual experience and set the best estimate assumptions on a regular basis.
- Perform the valuation of the Technical Provisions and ensure its reasonableness with consideration of the nature, scale, and complexity of the Company's business.

## 2.7 OUTSOURCING

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The Company's Outsourcing Policy (the "Policy") set out the governance in approving and managing outsourcing activities that complies with AXA Group Standards – Outsourcing Policy, the Regulatory Requirements, Personal Data Privacy Ordinance ("PDPO"), Insurance Authority ("IA")'s Guideline on Outsourcing ("GL14"), the European Insurance and Occupational Pensions Authority ("EIOPA")'s Guideline on Cloud Outsourcing.

AXA Group has developed standard procedures covering all aspects of outsourcing, from the initial decision to outsource to the termination of the agreement. The Company's Outsourcing Policy adopts the AXA Group procedures as applicable. For the avoidance of doubt, all Group entities that are managed or controlled by AXA Group shall follow AXA Group Standards. For details of the AXA Group Standards please refer to page 18 of the Solvency and Financial Condition Report of 2022 of AXA Group.

[https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/b4a44587-38e5-4fc4-ad31-cf6ebc77d30f\\_axa\\_sfc\\_2022\\_va.pdf](https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com/b4a44587-38e5-4fc4-ad31-cf6ebc77d30f_axa_sfc_2022_va.pdf)

In compliance with the Bermuda Insurance regulations, the Company has outsourced to Ocorian Services (Bermuda) Limited to provide Corporate Administration services (registered office and Company Secretary) and Ocorian Management (Bermuda) Limited to provide Insurance Manager and Principal Representative services (including services of a Director resident in Bermuda) for the Company in Bermuda.

Material outsourcing activities refer to the following:

- AXA Group Operations Asia (IT services)
- AXA Investment Managers Asia Limited (Investment Management)
- Genpact (UK) Limited (Policy administration, underwriting, finance, claim)
- Salesforce.com Singapore Pte. Ltd. (AXA iPro, Marketing Cloud Asset and license)

## 2.8 ANY OTHER MATERIAL INFORMATION

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Nil in 2022.

## 3. RISK PROFILES

### 3.1 MATERIAL RISKS

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Please refer to the FY2022 AXA China Region Insurance Company (Bermuda) Limited Consolidated Financial Statement pages 43 to 56.

### 3.2 RISK MITIGATION

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Please refer to the FY2022 AXA China Region Insurance Company (Bermuda) Limited Consolidated Financial Statement pages 43 to 56.

### 3.3 MATERIAL RISK CONCENTRATIONS

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Please refer to the FY2022 AXA China Region Insurance Company (Bermuda) Limited Consolidated Financial Statement pages 43 to 56.



### 3.4 ASSET INVESTMENTS

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Please refer to the FY2022 AXA China Region Insurance Company (Bermuda) Limited Consolidated Financial Statement pages 43 to 56.

### 3.5 STRESS TESTING AND SENSITIVITIES ANALYSIS

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Please refer to the FY2022 AXA China Region Insurance Company (Bermuda) Limited Consolidated Financial Statement pages 43 to 56.

### 3.6 ANY OTHER MATERIAL INFORMATION

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Please refer to the FY2022 AXA China Region Insurance Company (Bermuda) Limited Consolidated Financial Statement pages 43 to 56.

## 4. SOLVENCY VALUATION

### 4.1 VALUATION BASIS, ASSUMPTIONS AND METHODOLOGY FOR ASSETS

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The Company has considered the valuation principles outlined by the Bermuda Monetary Authority's (the Authority) "Guidance Note for Statutory Reporting Regime" for the year's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the quote price in active market if available or measured at fair value using valuation models or other pricing techniques with assumptions that are mainly based on market conditions existing at the end of each reporting period). The fair value principles used for the assets are as follows:

- Investment in subsidiaries (the entities over which the Company has control) other than unit trusts are stated as cost as reduced by impairment loss. This approximates the fair value.
- Investment in associates (the entities over which the Company has significant influence) other than unit trusts are stated as cost reduced by impairment loss. The investment in unit trusts are accounted for under the equity method from the date on which it falls within the definition of an associate. The investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Company's share of net assets of the associates. This approximates the fair value.
- Plant and equipment are stated at historical cost less depreciation and the subsequent costs are included in the asset's carrying amount or recognised as a separate asset. This approximates the fair value.
- Financial assets that are not categorised as fair value through profit or loss, the changes in the fair value of securities classified as available-for-sale, except for impairment losses and relevant foreign exchange gains and losses, are recognised in other comprehensive income and accumulated in a separate fair value reserve within equity.
- Financial assets at fair value through profit or loss are based on transaction price initially and subsequently on current bid prices where available. Unlisted unit trust is based on latest available bid price or net asset value per unit. For those which are not actively traded, the Company establish fair value by using valuation techniques like recent arm's length transactions, discounted cash flow analysis and option pricing models.
- Hedge fund and private equity funds are initially based on transaction price and subsequently based on net asset value provided by the general partner, manager of each investment or reported by administrators for private companies.
- Loans and receivables are carried at amortised cost using the effective interest method less impairment loss. This approximates the fair value.
- Available-for-sale financial asset are initially recognised as fair value plus attributed transaction costs and are measured at fair value subsequently.

- Other financial assets that are held for trading, designated at fair value (upon initial recognition) and derivatives that are not designated as hedging instruments are stated at fair value basis.
- Derivatives with positive fair value are valued at fair value obtained from quoted market prices and valuation techniques.
- Cash and cash equivalent 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.

## 4.2 VALUATION BASIS, ASSUMPTIONS AND METHODOLOGY FOR TECHNICAL PROVISIONS

Insurance contracts are valued using the best estimate probability weighted cash flows – i.e. best-estimate liabilities ("BEL"), with an additional risk margin. The cash flow projection includes policyholders' benefit payments, expenses, taxes, premiums related to existing insurance contracts taking into account the time value of money (using the rates of interest consistent with those supplied by the Authority, where applicable). The calculation of BEL is based upon up-to-date reliable information and realistic assumptions. The cash flow projection used in the calculation includes all the cash in- and out-flows required to settle the insurance obligations over their lifetime, and with the associated reinsurance arrangements presented separately

Assumptions regarding future experience are intended to be reasonable, and, to the extent possible, take into account the historical and current experience of the Company, adjusted to reflect known changes in the environment and identifiable trends.

Key non-market assumptions include but not limited to loss ratio, mortality, morbidity, expenses, persistency and policyholder behaviours. They are best estimate assumptions based on historical data and expert judgement.

Key economic assumptions include but not limited to discount rates and stochastic economic scenarios. These assumptions are internally consistent and updated for each reporting period.

In addition, there is a risk margin to reflect the uncertainty contained inherent in the underlying cash flows, which is calculated using the cost of capital approach and the rate prescribed by the Authority for each year.

At 31 December 2022, the total Technical Provisions in the Economic Balance Sheet amounted to USD 15,156 million comprising the following:

	<u>At 31 Dec 2022</u> <u>in USD million</u>
Total Gross Long-Term Business Insurance Provisions (A)	18,447
Reinsurance Recoverable (B)	4,044
Risk Margin (C)	753
Total Technical Provisions (A) – (B) + (C)	15,156

## 4.3 RECOVERABLES FROM REINSURANCE CONTRACTS

The best estimate of reinsurance recoverables consist of amounts due from reinsurers and the expected claims and benefits arising under the related reinsured insurance contracts, which are consistent with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. The best estimate has been adjusted to reflect the expected loss due to default of the reinsurance counterparty.



#### 4.4 VALUATION BASIS, ASSUMPTIONS AND METHODOLOGY FOR OTHER LIABILITIES

Other Liabilities mainly include financial liabilities for investment contracts, repurchase obligations and debt instruments liabilities, derivatives with negative fair value and accounts payable. Similar to the valuation principles for assets, the Company's liabilities follow the valuation principles outlined by Authority's "Guidance Note for Statutory Reporting Regime" which values liabilities on a fair value basis. The balance is valued at quoted market prices, observable market inputs or on an IFRS basis where appropriate.

- Financial liabilities are valued as fair value through profit and loss, or fair value net of transaction cost incurred.
- Derivatives with negative fair value are valued as fair value obtained from quoted market prices and valuation techniques.
- Provisions for present legal or constructive obligation as a result of past events are measured at the present value of the expenditure expected to be required to settle the obligation discounting at a pre-tax rate that reflect the current market and risk specific to the obligation.

### 5. CAPITAL MANAGEMENT

#### 5.1 ELIGIBLE CAPITAL

Capital management policy and process to determine capital needs for business planning, how capital is managed and any material changes during the reporting period

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 by the regulators, 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 dividend paid to shareholders or return capital to shareholders.

There were no material changes to the capital management policy of the Company during the year (to be confirmed by risk team).

Eligible capital categorised by tiers in accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement (ECR) and Minimum Margin of Solvency (MMS) requirements of the Insurance Act

Tier 1 and 2 capitals are held by the Company at the end of the reporting year. Tier 2 capital is the excess of pledged assets over policyholder obligations.

#### 5.2 REGULATORY CAPITAL REQUIREMENTS

ECR and MMS requirements at the end of the reporting period

At the end of the reporting year, the regulatory capital requirements were assessed as follows:

MMS	USD 449m
Final ECR	USD 1,788m

Identification of any non-compliance with the MMS and the ECR

The Company was compliant with the MMS and ECR requirement at the end of the year.

### 5.3 APPROVED INTERNAL CAPITAL MODEL

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The Company has not applied an internal capital model to determine regulatory capital requirement.

## 6. SUBSEQUENT EVENT

Please refer to the FY2022 AXA China Region Insurance Company (Bermuda) Limited Consolidated Financial Statement page 100.