HSBC LIFE (INTERNATIONAL) LIMITED
(Incorporated in Bermuda with limited liability)

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2020

Contents

Contents (continued) **Page(s)**

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Independent Auditor's Report

To the Board of Directors of HSBC Life (International) Limited
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The financial statements of HSBC Life (International) Limited (the "Company") standing alone set out on pages 4 to 96, which comprise:

- the balance sheet as at 31 December 2020;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

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

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

Independence

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

Responsibilities of Directors and the Audit Committee for the Financial Statements of the Company Standing Alone

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors determines 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 intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 judgment and maintain professional scepticism throughout the audit. We also:

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

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

- 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 directors and 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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 April 2021

HSBC LIFE (INTERNATIONAL) LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in Hong Kong dollars)

	Note	2020 $'millions	2019 $'millions
Turnover	5	43,751	47,222
Gross insurance premium income		43,594	47,027
Reinsurers' share of gross insurance premium income		(2,901)	(9,163)
Net insurance premium income	7	40,693	37,864
Interest income from financial assets measured at amortised cost	9	10,616	9,713
Net income from financial assets measured at fair value	9	12,698	12,704
Net gain on disposal of financial assets measured at amortised cost	9	4	8
Change in expected credit losses	23(a)(v)(2)	(322)	(56)
Other net investment income/(loss)	9	61	(699)
Net investment income	9	23,057	21,670
Fees and commission income	8	388	403
Other operating income		-	1
Net income		64,138	59,938
Gross claims and benefits incurred and movement in liabilities to policyholders		(54,483)	(60,516)
Reinsurers' share of claims and benefits incurred and movement in liabilities to policyholders		3,300	9,274
Net insurance claims and benefits incurred and movement in liabilities to policyholders	11	(51,183)	(51,242)
Movement in investment contract liabilities	12	(2,540)	(1,751)
Acquisition costs	13	(1,750)	(2,787)
Administrative expenses		(1,339)	(1,181)
Depreciation	19	(2)	(1)
Profit from operations before taxation		7,324	2,976
Income tax charge	14	(1,135)	(445)
Profit after taxation attributable to shareholders of the company for the year		6,189	2,531

The notes on pages 10 to 96 form part of these financial statements. Details of dividends paid to equity shareholders of the company attributable to the profit for the year are set out in note 15.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

(Expressed in Hong Kong dollars)

	Note	2020 $'millions	2019 $'millions
Profit after taxation for the year		6,189	2,531
Other comprehensive income for the year (after tax and reclassification adjustments)		-	-
Total comprehensive income attributable to shareholders of the company for the year		6,189	2,531

The notes on pages 10 to 96 form part of these financial statements.

HSBC LIFE (INTERNATIONAL) LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2020
(Expressed in Hong Kong dollars)

	Note	2020 $'millions	2019 $'millions
Assets			
Investment in a subsidiary	17	-	-
Investment properties	18	89	76
Fixed assets	19	15	2
Intangible assets	21	364	305
Investment assets	23	444,283	392,660
Insurance receivable	24	2,983	2,702
Reinsurers' share of liabilities under insurance contracts issued	27	19,714	17,723
Deferred tax assets	22	-	45
Reinsurance receivable	32	2,049	1,040
Other receivables			
- Amounts due from fellow subsidiaries	31	67	16
- Amounts due from intermediate holding companies	31	113	-
- Amounts due from immediate holding company	31	255	298
- Amounts due from a subsidiary	31	3,881	3,380
- Sundry debtors and prepayments	25	198	249
Cash and cash equivalents	26	5,592	4,341
Total assets		479,603	422,837
Liabilities			
Liabilities under insurance contracts issued	27	346,871	319,193
Liabilities under investment contracts issued	29	39,101	36,607
Investment liabilities	23	182	205
Repurchase agreements		11,909	-
Subordinated loan	28	2,151	2,159
Deferred tax liabilities	22	87	-
Reinsurance payable	32	712	225
Insurance payable	30	42,492	34,892
Other payables			
- Amount due to an intermediate holding company	31	143	577
- Amounts due to fellow subsidiaries	31	137	148
- Amount due to ultimate holding company	31	5	7
- Amount due to a subsidiary	31	-	67
Creditors and accruals	32	824	675
Current taxation	22	996	278
Total liabilities		445,610	395,033
Net assets		33,993	27,804
Shareholders' equity			
Share capital	33	4,178	4,178
Reserves		29,815	23,626
Total shareholders' equity		33,993	27,804

BL Johns, Chairman

ECL Moncreiffe, Director

The notes on pages 10 to 96 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in Hong Kong dollars)

	Note	*Attributable to equity shareholders of the company* Share capital	Share premium	Share-based payment reserve	Retained profits	Total
		$'millions	$'millions	$'millions	$'millions	$'millions
Balance at 1 January 2019		4,178	89	85	21,703	26,055
Changes in equity for 2019						
Profit for the year		-	-	-	2,531	2,531
Total comprehensive income		-	-	-	2,531	2,531
Cost of share-based payment arrangement		-	-	2	-	2
Dividends declared in respect of current year	15	-	-	-	(784)	(784)
Balance at 31 December 2019		4,178	89	87	23,450	27,804

	Note	*Attributable to equity shareholders of the company* Share capital	Share premium	Share-based payment reserve	Retained profits	Total
		$'millions	$'millions	$'millions	$'millions	$'millions
Balance at 1 January 2020		4,178	89	87	23,450	27,804
Changes in equity for 2020						
Profit for the year		-	-	-	6,189	6189
Total comprehensive income		-	-	-	6,189	6,189
Cost of share-based payment arrangement		-	-	(1)	1	-
Dividends declared in respect of current year	15	-	-	-	-	-
Balance at 31 December 2020		4,178	89	86	29,640	33,993

The notes on pages 10 to 96 form part of these financial statements.

HSBC LIFE (INTERNATIONAL) LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in Hong Kong dollars)

	Note	2020 $'millions	2019 $'millions
Operating activities			
Profit before taxation		7,324	2,976
Adjustments for:			
- Depreciation and amortisation	19, 21	85	62
- Write off of fixed assets	19	-	1
- Investment and interest income		(523)	(537)
- Net realised loss on investments		(12)	(24)
- Net exchange loss/(gain)		12	(6)
- Change in expected credit losses		12	1
- Share-based payment expenses		4	5
- Interest expense on subordinated loan		(8)	10
Operating profit before changes in working capital		6,894	2,488
Increase in cash balance held in long-term business (Note)		1,540	1,026
Increase in amount due from long-term business		(3,793)	(2,958)
(Increase)/decrease in amounts due from fellow subsidiaries		(50)	22
Decrease in amount due from immediate holding company		45	110
Decrease/(increase) in sundry debtors and prepayments		10	(12)
Decrease in amount due to an intermediate holding company		(376)	(175)
Decrease in amounts due to fellow subsidiaries		(39)	(24)
Decrease in amount due to ultimate holding company		(1)	(2)
Increase/(decrease) in creditors and accruals		31	(77)
Cash generated from operations carried forward		4,261	398

The notes on pages 10 to 96 form part of these financial statements.

HSBC LIFE (INTERNATIONAL) LIMITED

STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in Hong Kong dollars)

	Note	2020 $'millions	2019 $'millions
Cash generated from operations brought forward		4,261	398
Tax paid			
- Hong Kong Profits Tax paid		(284)	(183)
- Overseas Profits Tax paid		-	-
Net cash generated from operating activities		3,977	215
Investing activities			
Payments for purchase of fixed assets	19	(15)	(2)
Payments for purchase of intangible assets	21	(142)	(162)
Payments for purchase of investments		(20,073)	(8,334)
Proceeds from sales of investments		14,663	7,694
Investments and interest income received		512	522
Proceeds from repurchase agreements		2,329	-
Proceeds from subordinated loan		-	780
Net cash (used in)/generated from investing activities		(2,726)	498
Financing activity			
Dividend paid to equity shareholders of the company		-	(784)
Net cash used in financing activity		-	(784)
Net increase/(decrease) in cash and cash equivalents		1,251	(71)
Cash and cash equivalents at 1 January		4,341	4,412
Cash and cash equivalents at 31 December	26	5,592	4,341

Note: Cash flows arising from long-term business operations are presented as movements in cash balance held in long-term business and amount due from long-term business.

The notes on pages 10 to 96 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

The primary financial information on pages 7 to 12 and notes 1 to 38 thereto has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the company is set out below.

The HKICPA has issued a few new standards, amendments and interpretations that are first effective for the current accounting period of the company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the company for the current and prior accounting periods reflected in these financial statements.

The company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 37).

(b) Basis of preparation of the financial statements

The financial statements are presented in Hong Kong dollars ("HKD"), and all values are rounded to the nearest million unless otherwise stated. They are prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates are discussed in note 3.

(c) Group financial statements

The company is exempt from the preparation of consolidated financial statements in compliance with the applicable accounting standard, HKFRS 10, *Consolidated financial statements*. The company is a wholly owned subsidiary of which the immediate parent, the Hongkong and Shanghai Banking Corporation Limited ("HSBC"), produces consolidated financial statements in accordance with HKFRSs which are available for public use. HSBC is incorporated in Hong Kong and its consolidated financial statements are available at http://www.hsbc.com.hk.

Consequently, the financial statements do not give all the information about the economic activities of the company of which the company is the parent which would have been disclosed had the company prepared consolidated financial statements.

1 Significant accounting policies (continued)

(d) Investments in a subsidiary

Subsidiaries are entities controlled by the company. Control exists when the company has power over the entity; and exposure to the variable returns of the entity; and has the ability to use its power to affect the variable returns it receives from the entity. In assessing the control, the power to govern the financial and operating policies of the entity is taken into account.

In the company's balance sheet, investments in a subsidiary is stated at cost less impairment losses.

(e) Investment properties

An investment property is land and/or building which is owned or held under a leasehold interest to earn rental income and/or for capital appreciation. An investment property is stated in the balance sheet initially at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are carried at fair value. Any gain or loss arising from a change in fair value is recognized in the income statement.

(f) Classification of contracts

Contracts under which the company accepts significant insurance risk from another party ("the policyholder") by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event ("the insured event") adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices of rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Contracts under which the transfers of insurance risk from the policyholders to the company that are not significant are classified as investment contracts.

Contracts with discretionary participation features

A significant portion of the company's insurance contracts contain discretionary participation features, which are in the form of non-guaranteed cash dividends payable at the end of each policy year provided premiums due for the year are fully paid. These discretionary participation features are contractual rights held by the policyholders but the amount of payment for each policy year is contractually at the discretion of the company. The company considers the operating result of the company, the market condition and the policyholders' reasonable expectation when determining the amount of cash dividend to be paid.

(g) Recognition and measurement of contracts

(i) Premium income arising from long-term insurance business

Premium income is accounted for on a receivable basis in respect of non-linked insurance contracts, or in the case of unit-linked insurance contracts, premium income is accounted for when the liability is recognised. Outward reinsurance premiums are accounted for on a payable basis.

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(g) Recognition and measurement of contracts (continued)

(ii) Claims and benefits arising from long-term insurance business

Long-term business claims and benefits reflect the cost of all claims and benefits arising during the year, including policyholder cash dividend payment upon policy anniversary.

(iii) Long-term insurance business provision

The long-term business provision for insurance contracts has been computed in accordance with Cap 41E Insurance (Determination of Long Term Liabilities) Rules. In particular, a prospective modified net premium valuation method has been generally adopted for all major classes of business, with the exception of linked contracts where the provisions are based on the market value of the related assets plus a provision for mortality risk and guarantee risk. Insurance contracts as a whole are subject to a liability adequacy test.

(iv) Reinsurance

Reinsurance contracts under which the company transfers a significant amount of insurance risk to another party ("the reinsurer") are classified as insurance contracts.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate. Reinsurance recoveries are accounted for in the same period as the related claim is recognised.

The company entered into modified coinsurance agreements to cede the mortality and lapse risks to the reinsurers for protection against extremely adverse scenarios. The reinsurance receivable is not recognised as an asset until it is probable that the receivable will be settled in cash by the reinsurers at contract expiry. The cost of the arrangements is charged to the income statement when incurred.

(v) Liabilities and related assets under liability adequacy test

Provisions for insurance contracts are tested for adequacy by discounting current estimates of all expected future cash flows and comparing this amount to the carrying value of the liability. Where a shortfall arises, an additional provision is made and the company recognises the deficiency in the income statement for the year.

(vi) Investment contracts

Investment contracts are recognised as financial liabilities in the balance sheet when the company becomes party to their contractual provisions. Contributions received from policyholders are not recognised in the income statement but are accounted for as deposits.

All investment contracts issued by the company are designated by the company on initial recognition for measurement at fair value through profit or loss. This designation is consistent with the documented risk management and investment strategies of the company.

Changes in the fair value of investment contracts are included in the income statement in the period in which they arise.

1 Significant accounting policies (continued)

(g) Recognition and measurement of contracts (continued)

(vii) Liability measurement of investment contracts

Liabilities in relation to investment contracts are designated for measurement at fair value through profit or loss and a provision is set for the guarantee feature for those contracts with investment guarantee. Transaction costs and front-end fees in respect of financial liabilities measured at fair value are not included in the initial measurement amount and are recognised as expense where incurred.

(viii) Embedded derivatives in insurance contracts

Features contained within insurance contracts that would be considered derivatives if they were stand-alone instruments have not been separated and measured at fair value if those embedded derivatives are closely related to the host insurance contracts.

The company's exposure to interest rate and market risk under embedded derivatives that are not separated from the host insurance contracts and measured at fair value has been taken into account in estimating interest rate and market risk sensitivity analyses presented in note 23 to the financial statements.

The company has taken advantage of the exemption available in HKFRS 4 not to separate and measure at fair value the policyholder options to surrender insurance contracts for a fixed amount.

(h) Revenue

(i) Premium income

Premium income is accounted for on a receivable basis in respect of non-linked insurance contracts, or in the case of unit-linked insurance contracts, premium income is accounted for when the liability is recognised.

(ii) Interest income and dividend income

Interest income for all financial instruments is recognised using the effective interest rate method, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of dated investment securities are included in the calculation of their effective interest rates. Dividend income from listed investments is recognised when the share price goes ex-dividend and dividend income from unlisted investments is recognised when the right to receive payment has been irrevocably established. Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

(iii) Fees and commission income

Annual management charges and policy administration charges are recognised when accrued.

Commissions received and receivable which do not require the company to render further services are recognised as revenue by the company on the effective commencement or renewal dates of the related investment and insurance contracts.

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars unless otherwise indicated)

1 Significant accounting policies (continued)

(h) Revenue (continued)

(iv) Rental income

Rental income receivable is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(i) Employee benefits

(i) Short-term employee benefits

Salaries, performance bonuses, paid annual leave, leave passage and the cost to the company of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution plans

Obligations for contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

(iii) Share-based payment transactions

The company's ultimate holding company grants share options to its employees including the company's employees.

The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted, and is recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to the 'Share-based payment reserve'. The vesting period is the period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

Fair value is determined by using market price or appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Vesting conditions include service conditions and performance conditions; any other features of the arrangement are non-vesting conditions. Market performance conditions and non-vesting conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition or non-vesting condition is satisfied, provided all other vesting conditions are satisfied.

1 Significant accounting policies (continued)

(i) Employee benefits (continued)

(iii) Share-based payment transactions (continued)

Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

A cancellation that occurs during the vesting period is treated as an acceleration of vesting and recognised immediately for the amount that would otherwise have been recognised for services over the vesting period.

(j) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

1 Significant accounting policies (continued)

(j) Income tax (continued)

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, the company intends to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(k) Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The financial statements are presented in Hong Kong dollars which is also the company's functional currency.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. Any resulting exchange differences are included in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the dates the fair value was determined. Any foreign exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the income statement depending where the gain or loss on the underlying non-monetary item is recognised.

The results of foreign operations are translated into Hong Kong dollars at the average rates of exchange for the reporting period. Balance sheet items are translated into Hong Kong dollars at the rate of exchange at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. On liquidation of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

(l) Fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing assets, will flow to the company. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Depreciation of fixed assets is calculated to write off their cost over their anticipated useful lives, between three to five years, on a straight-line basis.

Gains or losses arising from disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

1 Significant accounting policies (continued)

(m) Intangible assets

Intangible assets represent computer software which is stated at cost less accumulated amortisation and impairment losses.

Amortisation of computer software is charged to the income statement over the estimated useful life of five years, on a straight-line basis.

(n) Financial instruments

(i) Recognition and derecognition

Purchases and sales of financial assets are recognised on the trade date, which is when the company commits to purchase or sell the assets. Financial assets are derecognised when contractual rights to receive cash flows from the investments expire, or where the investments, together with substantially all the risks and rewards of ownership, have been transferred. The company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(ii) Classification and measurements

On initial recognition, a financial asset is classified as measured at:
(1) amortised cost;
(2) fair value through other comprehensive income; or
(3) fair value through profit or loss.

Classification and subsequent measurement of financial instruments depend on:

(1) the company's business model for managing the financial asset; and
(2) the contractual cash flow characteristics of the financial asset.

For assets measured at fair value, gains or losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The business model reflects how the company manages the assets in order to generate cash flows. That is, whether the company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are measured at fair value through profit or loss. Factors considered by the company in determining the business model of a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel, how risk are assessed and managed and how managers are compensated.

1 Significant accounting policies (continued)

(n) Financial instruments (continued)

(ii) Classification and measurements (continued)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the company assesses whether the financial instruments' cash flow represent Solely Payments of Principal and Interest (the "SPPI test"). In making this assessment, the company considers whether the contractual cash flows are consistent with a basic lending arrangement. If satisfied, these financial assets will be measured at amortised cost. Where the contractual terms introduce exposures to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets is classified and measured at fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the company changes its business model for managing financial assets.

(iii) Financial instruments measured at amortised cost ("AC")

(1) Financial assets

Financial assets such as cash and cash equivalents, loans and receivables and debt securities, are generally measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, the difference is deferred and recognised over the life of these financial assets through the recognition of interest income, unless they become impaired.

(2) Debt securities repurchase agreements

When debt securities measured at amortised cost are sold subject to a commitment to repurchase them at a predetermined price ("repos"), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Repos are then also measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised as an interest expense over the life of the agreement.

(3) Borrowings

Borrowings including subordinated loans are recognised initially at their proceeds less transaction costs incurred. Subsequently, they are stated at amortised cost, and any difference between net proceeds and repayment value is recognised in the income statement over the period of the borrowings using the effective interest method. All borrowing costs are expenses as they are incurred.

1 Significant accounting policies (continued)

(n) Financial instruments (continued)

(iii) Financial instruments measured at amortised cost ("AC") (continued)

(4) Other financial liabilities

Other financial liabilities are generally measured at amortised cost.

(5) Gain or loss arising on derecognition

Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'net investment income'.

(iv) Financial assets measured at fair value through other comprehensive income ("FVOCI")

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. They are recognised on the trade date when the company enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'net investment income'. Financial assets measured at FVOCI are included in the impairment calculations (see note 23) and impairment is recognised in profit or loss.

(v) Financial instruments mandatorily measured at fair value through profit or loss ("FVPL")

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within 'net investment income'.

(vi) Financial instruments designated at fair value

Financial instruments are classified as designated at fair value if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- when a group of financial assets, and financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- where the financial asset or financial liability contains one or more non-closely related embedded derivatives.

1 Significant accounting policies (continued)

(n) Financial instruments (continued)

(vi) Financial instruments designated at fair value (continued)

Designated financial assets are recognised when the company enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the company enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'net investment income'.

Under the above criterion, the main classes of financial instruments designated at fair value by the company are financial assets and financial liabilities under unit-linked and non-linked investment contracts. These liabilities are determined based on the fair value of the assets held in the linked funds, and are managed and reported to management on a fair value basis. If these assets were not designated at fair value, at least some of the assets would otherwise be measured at amortised cost. Designation at fair value of the financial assets and related liabilities allows changes in fair values to be recorded in the income statement and presented in the same line.

(vii) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value, with changes in fair value recorded in the income statement. Derivatives are classified as assets when their fair values are positive or as liabilities when their fair values are negative.

(viii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

1 Significant accounting policies (continued)

(n) Financial instruments (continued)

(ix) Impairment of amortised cost and FVOCI financial assets

Expected credit losses ("ECL") are recognised for financial assets measured at amortised cost or FVOCI.

The Company uses a 'three-stage' model for impairment assessment to calculate financial asset's impairment.

Stage 1 - Financial assets where 12-month ECL is recognised. At initial recognition, allowance is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ("12-month ECL") (see note 23(a)(ii));

Stage 2 - Financial assets which are considered to have experienced a significant increase in credit risk (see note 23(a)(iii)). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial assets ("lifetime ECL");

Stage 3 - Financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired (see note 23(a)(iv)). Financial assets that are credit-impaired at the reporting date are stated as the difference between the gross carrying amount and the present value of estimated future cash flows.

Purchased or originated credit-impaired financial assets ("POCI") - Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial assets are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Financial assets are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. For financial assets that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

1 Significant accounting policies (continued)

(n) Financial instruments (continued)

(ix) Impairment of amortised cost and FVOCI financial assets (continued)

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. Details are set out in note 23(a) (vi).

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the company is exposed to credit risk.

(x) Fair value measurements

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an instrument or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is the fair value of the consideration given or received). However, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the company recognises a trading gain or loss on day 1, being the difference between the transaction price and the fair value. When significant unobservable parameters are used, the entire day 1 gain or loss is deferred and is recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable, or when the company enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the company manages a group of financial assets and liabilities according to its net market or credit risk exposure, the company measures the fair value of the group of financial instruments on a net basis but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the HKFRS offsetting criteria.

(o) Share capital

Ordinary shares are classified as equity.

1 Significant accounting policies (continued)

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash within three months and which are subject to an insignificant risk of change in value. Cash and cash equivalents are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 1(n)(ix).

(q) Provisions

A provision is recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation arising from past events and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate at the expenditure required to settle the present obligation at the end of the reporting period.

(r) Collateral

The company receives and pledges collateral in the form of cash or non-cash assets in respect of derivative transactions and repo transactions, in order to reduce the credit risk of these transactions. The amount and type of collateral depends on an assessment of the credit risk of the counterparty. Collateral received in the form of cash, which is not legally segregated from the company, is recognised as an asset in the balance sheet with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the balance sheet unless the company either sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability. To further minimise credit risk, the financial condition of counterparties is monitored on a regular basis.

Collateral pledged in the form of cash which is legally segregated from the company is derecognised from the balance sheet and a corresponding receivable established for its return. Non-cash collateral pledged is not derecognised (except in the event of default) and therefore continues to be recognised in the balance sheet within the appropriate financial instrument classification. Cash collaterals, margin and settlement accounts are included within the amounts due from fund managers.

(s) Current and non-current assets and liabilities

Financial assets and liabilities that are expected to be recovered or due within one year or less after the reporting date are classified as current assets and liabilities. If not, they are presented as non-current assets and liabilities.

1 Significant accounting policies (continued)

(t) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following types of assets may be impaired or, except in the case of goodwill, an impairment allowance previously recognised no longer exists or may have decreased:

- intangible assets;
- fixed assets;
- investments in subsidiaries; and
- reinsurers' share of liabilities under insurance contracts

If any such indication exists, the asset's recoverable amount is estimated and an impairment allowance is recognised.

- Calculation of recoverable amount

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

- Recognition of impairment allowance

  An impairment allowance is recognised in the income statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment allowance recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversal of impairment allowance

  In respect of assets other than goodwill, an impairment allowance is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment allowance in respect of goodwill is not reversed.

  A reversal of an impairment allowance is limited to the asset's carrying amount that would have been determined had no impairment allowance been recognised in prior years. Reversals of impairment allowance is credited to the income statement in the year in which the reversals are recognised.

1 Significant accounting policies (continued)

(u) Related parties

(i) For the purposes of these financial statements, a person, or a close member of that person's family, is related to the company if that person:

(1) has control or joint control over the company;

(2) has significant influence over the company; or

(3) is a member of the key management personnel of the company or the company's parent.

(ii) An entity is related to the company if any of the following conditions applies:

(1) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a company of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the company or to the company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Leases

The company's investment properties are leased to tenants under operating leases with rentals payable monthly. Lease income from operating leases where the company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income.

(w) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the company and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars unless otherwise indicated)

2 Changes in accounting policies

The HKICPA has issued a few new standards, amendments and interpretations that are first effective for the current accounting period of the company, in which the company has adopted to the extent that they are relevant to the company for the current and prior accounting periods reflected in these financial statements.

The company has adopted a number of interpretations and amendments to standards which have had an insignificant effect on the financial statements of the company.

3 Accounting estimates and judgements

The results of the company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. The principal accounting policies are described in note 1 to the financial statements. The accounting policies that are deemed critical to our results and financial position, in terms of the materiality of the items to which the policies are applied and the high degree of judgement involved including the use of assumptions and estimation are discussed below.

(a) Long-term insurance and investment contract liabilities

The company makes estimates of future deaths, and investment returns for long-term insurance contracts with fixed and guaranteed terms. These estimates form the assumptions used to calculate the liabilities arising from these contracts. Estimates are made in order to establish long-term insurance contract liabilities, which are consistent with the requirements of the Insurance Ordinance Chapter 41E.

The company makes estimates of the fair value of investment guarantees provided in the non-linked investment contracts. A best estimate liability plus an allowance for the cost of holding regulatory capital is used to determine the fair value of the guarantee feature of these contracts.

(b) Fair value of investment properties

The fair value of investment properties are determined using investment approach on the basis of capitalisation of net incomes with due allowance of outgoings and reversionary income potential. The fair value measurement is positively correlated to the market rental but negatively correlated to the market yields.

(c) Impairment of investment in subsidiaries

For investment in subsidiaries, a significant or prolonged decline in the recoverable amount below the carrying amount is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in the recoverable amount has been significant and prolonged. In making this judgement, the subsidiaries' economic performance and the cash flows generated such as dividend received from the subsidiaries are taken into account.

3 Accounting estimates and judgements (continued)

(d) Measurement of ECL

The recognition and measurement of expected credit loss ("ECL") is complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios into the ECL estimates to meet the measurement objective of HKFRS 9.

Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 23(a), which also sets out key sensitivity of the ECL to changes in these elements.

(e) Fair value of financial assets

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques.

(i) Private equity investments

The valuations are produced in accordance with International Private Equity & Venture Capital Valuation ("IPEV") guidelines

In the absence of an active market, the fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, or the price at which similar companies have changed ownership. The exercise of judgement is required because of uncertainties inherent in estimating fair value for private equity investments. Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs.

(ii) Mid-Market Debt Funds

In the absence of an active market, the fair value is derived from the fair value of the underlying loans using valuation techniques with significant unobservable inputs. In valuing the underlying loans, it takes account of a range of factors, including discount rates, market risk premium adjustments to discount rates, cost of capital and probabilities of default and cash flow forecasts. It also considers original transaction price, recent transactions in the same or similar loans and completed third-party transactions in comparable loans and adjust its valuation model as deemed necessary.

4 Insurance and financial risk management

(a) Risk management objectives, policies and processes for management of insurance risk

The majority of the risk in the insurance business derives from manufacturing activities and can be categorised as insurance risk and financial risk. Financial risks include market risk, credit risk and liquidity risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the company.

(b) Risk management of insurance manufacturing operations

As a member of the HSBC Holdings plc group, the company follows the governance and risk management policies of that group which are operated at both a global and regional level.

(i) Governance

Entity level oversight of Insurance Risk is exercised by the local insurance Risk Management Meeting. The insurance entity Chief Risk Officer has dual reporting lines locally and to the Chief Risk Officer Insurance Asia-Pacific who in turn reports to the Global Insurance Chief Risk Officer. The Global Insurance Chief Risk Officer has overall accountability for risk management across the insurance operations globally and reports to the Group Wealth and Personal Banking (WPB) Chief Risk Officer, who in turn reports to the Group Chief Risk Officer.

The Global Insurance Risk Management Meeting oversees Insurance Risks globally and is accountable to the Risk Management Meeting of the Global Wealth and Personal Banking Business.

(ii) Risk Appetite Statement

Group Insurance maintains a Global Insurance Risk Appetite Statement, which reflects a combination of the risk strategy of the global insurance business and of the Global Wealth and Personal Banking Business. The insurance entity maintains local risk appetite statements consistent with the Global Insurance Risk Appetite Statement. Risk profiles are monitored against the local and global insurance risk appetite statements on a regularly basis at Risk Management Meetings. The key Economic Capital metrics on the Local Insurance Risk Appetite Statement are:

- The Economic Capital Cover Ratio (i.e. Economic Capital Supply / Economic Capital Demand)

- The Market Consistent Value of New Business (the contribution to Economic Capital Supply from new business sales, i.e. the economic profit generated by new sales over the quarter)

In addition to the Risk Appetite Framework, all insurance risk exposures are managed and monitored at a more granular level using risk mandates and limits, which have been developed in conjunction with the Risk Appetite Framework. The mandate and limit process formalises the maximum permitted levels of exposures relating to various types of insurance risks on a global and business entity basis.

4 Insurance and financial risk management (continued)

(b) Risk management of insurance manufacturing operations (continued)

(iii) Measurement

The company's risk profile of insurance businesses is measured using an economic capital ("EC") approach. Assets and liabilities are measured on a market value basis and a capital requirement is defined to ensure that there is a less than 1-in-200 chance of insolvency over a one-year time horizon, given the risks that the business is exposed to. The methodology for the EC calculation is largely aligned to the pan-European Solvency II insurance capital regulations, with specific enhancements applied to address known limitations in the Solvency II methodology and calibrations. The EC coverage ratio (economic net asset value divided by the EC requirement) is a key risk appetite measure. Management has set out the risk appetite and tolerance level at which management actions are required.

(iv) Stress and scenario testing

Stress testing forms a key part of the risk management tool that complements the Economic Capital assessment and feeds into the Risk Appetite Statement for internal monitoring. In particular, the entity participates in local regulatory stress tests, Group-wide regulatory stress tests (such as the Bank of England and HKMA exercises), and the Group-wide internal stress test exercises. These have highlighted the key risk scenarios for the insurance business are a prolonged low interest rate and severe credit spread widening. In order to mitigate the impact of this scenario, the company has a range of strategies that could be employed including the hedging of investment risk, a dynamic approach of re-pricing the products to reflect lower interest rates, diversification of product offerings with less sensitivity to interest rate levels, risk transfer to third parties, and yield enhancement investment strategies to optimise the expected returns against the cost of economic capital.

4 Insurance and financial risk management (continued)

(c) Key risk types

(i) Market risk

Market risk is the risk of changes in market factors affecting company's capital or profit. Market factors include interest rates, equity and growth assets, spread risk and foreign exchange rates.

The following gives details of the company's main products and the ways in which it manages the associated risks.

(1) Long-term insurance contracts - non-linked products

Product features

The basic feature of long-term non-linked insurance business is to provide guaranteed death benefit determined at the time of policy issue. For some universal life products, the guaranteed crediting rate is offered within a certain period. For insurance products with a savings element, guaranteed surrender and maturity benefits are usually provided. Most of the company's non-linked products include discretionary participating features ("DPF") which allow policyholders to participate in the profits of the life fund. These plans offer a discretionary bonus in the form of a cash dividend or terminal bonus payable to the policyholder at the policy anniversary date or certain trigger event respectively.

The principles upon which the distribution of profits among the policyholders is made are:

- To recognise the financial condition of the company;

- To take into consideration the reasonable expectation of policyholders, fairness among policyholders and a smooth and stable return over long term; and

- To balance the interests between the shareholders and policyholders.

Management of risks

The company has contractual discretion on the bonuses declared. In practice the company considers policyholders' reasonable expectations when setting bonus levels. It is the company's intention to maintain a smooth and stable dividend scale based on the long-term rate of return. Annual reviews are performed to confirm whether the current dividend scale is supportable taking into account the investment, lapse and surrender, mortality and morbidity, expense and other risks.

Investment risks are managed through matching assets and liabilities. Guaranteed risks are managed through investment in high quality fixed rate bonds. Investment strategies are set which are intended to provide sufficient investment return to satisfy policyholders' reasonable expectations. Mortality risk is managed through reinsurance and underwriting.

4 Insurance and financial risk management (continued)

(c) Key risk types (continued)

(i) Market risk (continued)

(2) *Long-term insurance contracts - unit-linked products*

Product features

The company writes unit-linked life insurance policies, which provide policyholders with life insurance protection and investment options in a variety of funds. One of the linked products provides guaranteed minimum death benefit and guaranteed minimum accumulation benefit, in addition to life insurance protection. Premiums received are deposited into the chosen funds after deduction of premium fees, if applicable. Other charges for the cost of insurance and administration are deducted from the funds accumulated. Policy surrender or withdrawal may be subject to early encashment charge.

Management of risks

Although policyholders bear the market risk on linked products, the company assumes reputational risk for any undue market risk taken by policyholders. Consequently, it is in the company's interest to ensure that the policyholders' exposure to market risk is consistent with any market risk information that the company has communicated to the policyholders.

For the product that provides guaranteed minimum death benefit and guaranteed minimum accumulation benefit, the company cedes the risks through a modified coinsurance agreement to mitigate the exposure to market risk from underwriting the guarantees.

Claims and expenses are reviewed regularly to ensure current charges are sufficient to cover the costs.

(3) *Long-term investment contracts - non-linked return guaranteed products*

Product features

The company underwrites retirement fund business which gives rise to contracts that are classified as investment contracts. Under each retirement scheme, employers and employees are given a choice of funds to place their contributions. The accumulated fund balance will be payable upon retirement or termination of employment. The company provides capital and minimum investment return guarantees on these funds.

Management of risks

Guaranteed risks are managed through investment in high quality fixed rate bonds. Investment strategy is set with the objective of providing return that is sufficient to meet at least the minimum guarantee.

4 Insurance and financial risk management (continued)

(c) Key risk types (continued)

(i) Market risk (continued)

(4) Long-term investment contracts - unit-linked products

Product features

The company underwrites retirement fund business which gives rise to contracts that are classified as investment contracts. Under each retirement scheme, employers and employees are given a choice of funds to place their contributions. The accumulated fund balance will be payable upon retirement or termination of employment.

Management of risks

Although scheme members bear the market risk on linked products, the company assumes reputational risk for any undue market risk taken by scheme members. Consequently, it is in the company's interest to ensure that the scheme members' exposure to market risk is consistent with any market risk information that the company has communicated to the scheme members.

The company has market risk mandates which specify the investment instruments in which the company is permitted to invest and the maximum quantum of market risk which the company may retain. The company manages market risk by using, among others, some or all of the techniques listed below, depending on the nature of the contracts written:

- for products with DPF, adjusting dividends to manage the liabilities to policyholders and the effect is that a significant portion of the market risk is borne by the policyholders;

- asset and liability matching where asset portfolios are structured to support projected liability cash flows. The company manages its assets using an approach that considers asset quality, diversification, cash flow matching, liquidity, volatility and target investment return. It is not always possible to match asset and liability durations due to uncertainty over the receipt of all future premiums and the timing of claims; and also because the forecast payment dates of liabilities may exceed the duration of the longest dated investments available. The company uses models to assess the effect of a range of future scenarios on the values of financial assets and associated liabilities, and the Asset and Liability Management Committee employ the outcomes in determining how to best structure asset holdings to support liabilities;

- using derivatives to protect against adverse market movements or better match liability cash flows;

- for new products with investment guarantees, considering the cost when determining the level of premiums or the price structure;

- periodically reviewing products identified as higher risk, which contain investment guarantees and embedded optionality features linked in savings and investment products for active management;

4 Insurance and financial risk management (continued)

(c) Key risk types (continued)

(i) Market risk (continued)

- exiting, to the extent possible, investment portfolios whose risk is considered unacceptable; and

- repricing premiums charged to policyholders.

(ii) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet their obligation under a contract, which arises in two main areas:

- risk associated with credit spread volatility and default by counterparties of debt securities and accreting loans after investing premiums to generate a return for policyholders and shareholder; and

- risk of default by reinsurance counterparties and non-reimbursement for claims made after ceding insurance risk.

Credit risk is the risk of financial loss if a customer or counterparty fails to meet their obligation under a contract, which arises in two main areas:

The amounts outstanding at the balance sheet date in respect of debt securities, loans and receivables and reinsurers' share of liabilities under insurance contracts are shown in note 23(a)(v) and note 27(c) respectively.

The company is responsible for the credit risk, quality and performance of the investment portfolios. Our assessment of the creditworthiness of issuers and counterparties is based primarily upon internationally recognised credit ratings, internal credit ratings, and other publicly available information, with investment credit exposures monitored against approved investment policies. Stress testing is performed on the investment credit exposures using credit spread sensitivities and default probabilities is included in the stress and scenario testing as described above.

The company uses tools to manage and monitor credit risk. These include a credit report which contains a watch-list of investments with current credit concerns to identify investments which may be at risk of future impairment or where high concentrations to counterparties are present in the investment portfolio.

The credit quality of the reinsurers' share of liabilities under insurance contracts is primarily assessed as 'strong' or 'good' (as defined in note 27), with 100% of the exposure being neither past due nor impaired (2019: 100%). Assessment for impairment under HKFRS 9 is set out in accounting policy in note 1(n)(ix).

Credit risk on assets supporting unit-linked liabilities is predominantly borne by the policyholders; therefore our exposure is primarily related to liabilities under non-linked insurance and investment contracts and shareholder's funds. The credit quality of these financial assets is disclosed in note 23(a)(v)(3).

4 Insurance and financial risk management (continued)

(c) Key risk types (continued)

(iii) Liquidity risk

Liquidity risk is the risk that an insurance operation, though solvent, either does not have sufficient financial resources available to meet its obligations when they fall due, or can secure them only at excessive cost.

Risk is managed by cashflow matching and maintaining sufficient cash resources; investing in high-credit-quality investments with deep and liquid markets, monitoring investment concentrations and restricting them where appropriate and establishing committed contingency borrowing facilities.

The company is required to complete quarterly liquidity risk reports and an annual review of the liquidity risks in which they are exposed for review by management.

(iv) Insurance risk

Insurance risk is the loss through adverse experience, in either timing or amount, of insurance underwriting parameters (non-economic assumptions). These parameters include mortality, morbidity, longevity, lapses and unit costs. The principal risk the company faces is that, over time, the cost of the contract, including claims and benefits may exceed the total amount of premiums and investment income received.

The company primarily manages its insurance risk through asset and liability management, product design, pricing and overall proposition management (e.g. lapses management by introducing surrender charges), underwriting policy, claims management process and reinsurance which cedes risks above its acceptable thresholds to an external reinsurer thereby limiting its exposure.

Concentration of insurance risks

Concentration of risks arises where a particular event, or series of events, impacts heavily upon the company's liabilities.

The company is subject to concentration risks arising from death, accidents, health and other perils relating to common causes, such as earthquakes and other natural disasters that affect lives of the policyholders insured by the company.

To determine the concentration of insurance risks, the reinsurance coverage required and/or the additional amount of capital to be held, the company's economic capital models have been used.

4 Insurance and financial risk management (continued)

(c) Key risk types (continued)

(v) Financial risk

Transactions in financial instruments may result in the company assuming financial risk. These include market risk, credit risk and liquidity risk. Each of these financial risks is described above, together with a summary of the ways in which the company manages these risks.

The company is also exposed to investment return guarantee risk for certain investment contracts issued to policyholders. The risk is that the yield on the assets held by the company to meet these guarantees may fall short of the guaranteed return. The framework for the management of this risk is to adopt a matching approach whereby assets held are managed to meet the liabilities to policyholders. An additional provision is established where analysis indicates that, over the life of the contracts, the returns from the designated assets may not be adequate to cover the related liabilities.

For the linked insurance product that provides guaranteed minimum death benefit and guaranteed minimum accumulation benefit, the company has purchased reinsurance on modified coinsurance basis to mitigate the exposure to market risk from underwriting the guarantees.

(vi) Foreign exchange risk

The assets and liabilities of the company are mainly denominated in United States dollar ("USD"), China Renminbi ("RMB") and Hong Kong dollar ("HKD"). The company adopts a policy of predominately matching the assets with liabilities in the same currency, effectively reducing the foreign currency exchange rate exposure. Limits are set to ensure that the net foreign currency exposure is kept to an acceptable level. The company uses foreign exchange forward contracts and long dated Cross-Currency Swap contracts, to manage its foreign currency risk. Most of the foreign exchange forward contracts have maturities of less than one year, and Cross-currency swap contracts have maturities up-to 15 years."

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars unless otherwise indicated)

5 Turnover

The principal activities of the company are the transaction of a life assurance and retirement benefit business.

Turnover represents gross premiums received in respect of long-term unit-linked insurance contracts and gross premiums received and receivable in respect of long term non-linked insurance contracts during the year, net of discounts and returns and fee income.

6 Notable profit or loss items

Profit before taxation is arrived at

	2020 $'millions	2019 $'millions
After charging:		
Auditors' remuneration		
- Statutory audit	8	6
- Audit-related services	3	4
Rental expenses	33	25
Personnel expenses		
- Wages and salaries	396	364
Pension costs		
- Contributions to defined contribution plans	32	29
- Expenses recognised in respect of defined benefits plans	-	2
Share-based payment expenses		
- Share awards	4	5

(Expressed in Hong Kong dollars unless otherwise indicated)

7 Net insurance premium income

	Insurance contracts (Non-linked)		Insurance contracts (Linked)		Total	
	2020 $'millions	2019 $'millions	2020 $'millions	2019 $'millions	2020 $'millions	2019 $'millions
Gross insurance premium income	43,488	46,894	106	133	43,594	47,027
Less: Reinsurers' share of gross insurance premium income	(2,887)	(9,140)	(14)	(23)	(2,901)	(9,163)
Net insurance premium income	40,601	37,754	92	110	40,693	37,864

8 Fees and commission income

	Insurance contracts (Non-linked)		Insurance contracts (Linked)		Investment contracts (Non-linked)		Investment contracts (Linked)		Service contracts		Total	
	2020 $'millions	2019 $'millions	2020 $'millions	2019 $'millions	2020 $'millions	2019 $'millions	2020 $'millions	2019 $'millions	2020 $'millions	2019 $'millions	2020 $'millions	2019 $'millions
Fee income	-	-	-	-	93	97	67	65	-	33	160	195
Reinsurance commission	226	206	2	2	-	-	-	-	-	-	228	208
Total fees and commission income	226	206	2	2	93	97	67	65	-	33	388	403

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Hong Kong dollars unless otherwise indicated)

9 Net investment income

		2020	2019
		$'millions	$'millions
(i)	**Interest income**	**10,616**	**9,713**
	- Debt instruments measured at amortised cost	9,898	9,352
	- Loans and receivables at amortised cost	718	361
(ii)	**Net gain on disposal of financial assets measured at amortised cost**	**4**	**8**
(iii)	**Change in expected credit losses (note 23(a)(v)(2))**	**(322)**	**(56)**
(iv)	**Net income from financial assets measured at fair value**	**12,698**	**12,704**
	Investment income from listed investment		
	-Dividend income	1,196	852
	-Interest income	42	16
	Investment income from unlisted investments		
	-Dividend income	-	344
	-Interest income	24	55
	Loans and receivables	88	11
	Net realised gain	1,262	1,445
	Net unrealised gain	7,493	9,863
	Net income from financial instruments designated at fair value through profit or loss (note 10)	704	523
	Net realised and unrealised gain/(loss) on derivatives	1,889	(405)
(v)	**Other net investment income**	**61**	**(699)**
	Net exchange gain/(loss)	693	(226)
	Investment management fees	(397)	(352)
	Investment expenses	(98)	(69)
	Interest expenses	(152)	(56)
	Fair value adjustment to investment properties	13	4
	Rental income of investment properties	2	-
		23,057	21,670

10 Net income from financial instruments designated at fair value through profit or loss

	2020	2019
	$'millions	$'millions
Investment income from listed investments		
- Interest income	201	219
Investment income from unlisted investments		
- Interest income	144	118
Net realised loss	(1)	(46)
Net unrealised gain	360	232
	704	523

(Expressed in Hong Kong dollars unless otherwise indicated)

11 Net insurance claims and benefits incurred and movement in liabilities to policyholders

	Insurance contracts (Non-linked)		Insurance contracts (Linked)		Total	
	2020	2019	2020	2019	2020	2019
	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions
Death claims and loss adjustment expenses	1,524	1,259	49	70	1,573	1,329
By way of lump sum on maturity	12,555	10,885	-	-	12,555	10,885
Surrenders	5,884	6,177	4,575	4,330	10,459	10,507
Policy dividends	1,518	1,664	-	-	1,518	1,664
Changes in technical provisions	30,220	36,726	(1,842)	(595)	28,378	36,131
Gross claims and benefits incurred and movement in liabilities to policyholders	51,701	56,711	2,782	3,805	54,483	60,516
Reinsurers' share of claims and benefits incurred and movement in liabilities to policyholders	(3,266)	(9,278)	(34)	4	(3,300)	(9,274)
Net insurance claims and benefits incurred and movement in liabilities to policyholders	48,435	47,433	2,748	3,809	51,183	51,242

12 Movement in investment contract liabilities

The company keeps linked investments separate from other investments and invests them separately in accordance with the request of the policyholders.

Benefit of unit-linked investment contract liabilities amounting to $993 million (2019: Benefit of $850 million) are accrued to the contract holders at the fair value of the net loss (2019: net loss) arising from the underlying linked assets.

Benefit of non-linked investment contract liabilities amounting to $1,547 million (2019: Benefit of $901 million) are accrued to the contract holders based on the policy terms.

(Expressed in Hong Kong dollars unless otherwise indicated)

13 Acquisition costs

	Insurance contracts (Non-linked)		Insurance contracts (Linked)		Investment contracts (Non-linked)		Investment contracts (Linked)		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions
Commission expenses --paid and payable	1,698	2,721	52	66	-	-	-	-	1,750	2,787

(Expressed in Hong Kong dollars unless otherwise indicated)

14 Income taxes

(a) Taxation in the income statement represents:

	2020 $'millions	2019 $'millions
Current tax - Hong Kong Profits Tax		
Provision for the year	1,038	386
Over-provision in respect of prior years	(37)	(33)
	1,001	353
Current tax - Overseas		
Withholding tax provision /(release) for the year	1	(1)
	1	(1)
Deferred tax		
Origination and reversal of temporary differences	133	93
Total income tax expense	1,135	445

The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year. Taxation for overseas branches, if any, is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2020 $'millions	%	2019 $'millions	%
Profit before taxation	7,324		2,976	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	1,208	16.5	491	16.5
Tax effect of non-deductible expenses	1	-	1	-
Tax effect of non-taxable income	(38)	(0.5)	(13)	(0.4)
Over-provision in prior years	(37)	(0.5)	(33)	(1.1)
Overseas withholding tax provision	1	-	(1)	-
	1,135	15.5	445	15.0

(Expressed in Hong Kong dollars unless otherwise indicated)

15 Dividends

Dividends paid to equity shareholders of the company in respect of the year

	2020 $'millions	2019 $'millions
No Interim dividend declared and paid (2019: $0.188 per ordinary share)	-	784

16 Directors' remuneration

	2020 $'millions	2019 $'millions
Fees	1	1
Other emoluments	7	8
	8	9

Other emoluments disclosed above includes contributions to retirement benefits of $429,000 (2019: $133,000).

The remuneration disclosed above relates to directors whose remuneration is borne by the company, or by its subsidiaries. Certain directors also provided services to the immediate parent of the company, or to other fellow subsidiaries. The remuneration is stated before any costs recovered from those fellow subsidiaries in respect of those services. The directors do not believe that it is practicable to apportion remuneration between their services to the company, its subsidiaries, or other fellow subsidiaries.

(Expressed in Hong Kong dollars unless otherwise indicated)

17 Investment in a subsidiary

	2020 $' millions	2019 $' millions
Unlisted shares, at cost	- *	- *

**Comprised of issued and paid up share capital of HKD100,000*

Details of the subsidiary as at 31 December 2020 are as follows:

		Proportion of ownership interest		
Name of company	*Principal place of business*	*Percentage held directly by the company*	*Percentage held indirectly by the company*	*Principal activities*
HSBC Life (Property) Limited	Hong Kong	100%	-	Property Investment and Property Holding
HSBC Life (Edwick Centre) Limited	Hong Kong	-	100%	Property Investment and Property Holding
HSBC Life (Cornell Centre) Limited	Hong Kong	-	100%	Property Investment and Property Holding
HSBC Life (Tsing Yi Industrial) Limited	Hong Kong	-	100%	Property Investment and Property Holding
HSBC Life (Property Light) Limited	Hong Kong	-	100%	Property Investment and Property Holding
HSBC Life (Property Investment) Limited	Hong Kong	-	100%	Property Investment and Property Holding

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Investment properties

	2020 $'millions	2019 $'millions
At 1 January	76	-
Purchase	-	72
Changes in fair value recognised in the income statement	13	4
At 31 December	89	76

Investment properties are intended to earn rental income and/or appreciate in capital.

The company's investment properties were revalued at 31 December 2020.

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Fixed assets

	Computer Equipment $'millions	Equipment, fixtures and fittings $'millions	Total $'millions
Cost:			
At 1 January 2020	1	2	3
Additions	15	-	15
Written off	-	-	-
At 31 December 2020	16	2	18
Accumulated depreciation:			
At 1 January 2020	-	1	1
Charge for this year	1	1	2
Written off	-	-	-
At 31 December 2020	1	2	3
Net book value:			
At 31 December 2020	15	-	15

	Computer Equipment $'millions	Equipment, fixtures and fittings $'millions	Total $'millions
Cost:			
At 1 January 2019	2	-	2
Additions	-	2	2
Written off	(1)	-	(1)
At 31 December 2019	1	2	3
Accumulated depreciation :			
At 1 January 2019	-	-	-
Charge for this year	-	1	1
Written off	-	-	-
At 31 December 2019	-	1	1
Net book value:			
At 31 December 2019	1	1	2

(Expressed in Hong Kong dollars unless otherwise indicated)

20 Interests in structured entities

Included in financial assets designated at fair value through profit or loss on the company's balance sheet are certain investments in collective investment schemes (see note 23) that are structured entities. These investment schemes mainly comprise investments in unit trusts, mid-market debt funds, private equity funds, hedge funds and infrastructure funds established by related companies or third parties. These collective investment schemes provide the company with a variety of investment opportunities through managed investment strategies.

Owing to the passive nature of these investments, the maximum exposure to loss from these interests is limited to the associated equity price risk (see note 23(d)) and the capital commitments. The maximum exposure to loss, which represents the maximum loss that the company could be required to report as a result of its involvement with structured entities regardless of the probability of the loss being incurred, is equivalent to the carrying amount of these investments (see note 23) and the outstanding capital commitments to invest in private equity funds (see note 34).

21 Intangible assets

	Software development costs	
	2020	2019
	$'millions	$'millions
Cost:		
At 1 January	598	436
Additions	142	162
At 31 December	740	598
Accumulated amortisation:		
At 1 January	293	232
Charge for the year	83	61
At 31 December	376	293
Net book value:		
At 31 December	364	305

The amortisation charge was included in 'administrative expenses' in the income statement.

(Expressed in Hong Kong dollars unless otherwise indicated)

22 Income tax in the balance sheet

(a) Taxation recognised in other comprehensive income:

	2020 $'millions	2019 $'millions
Deferred tax expense	-	-

(b) Current taxation in the balance sheet represents:

	2020 $'millions	2019 $'millions
Provision for Hong Kong Profits Tax for the year	1,038	386
Provisional Profits Tax paid	(63)	(127)
Provision for overseas withholding tax	21	19
Tax payable	996	278

(Expressed in Hong Kong dollars unless otherwise indicated)

22 Income tax in the balance sheet (continued)

(c) Deferred tax assets recognised:

The components of deferred tax assets recognised in the balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation $'millions	Available-for-sale securities $'millions	Guarantee liability reserve $'millions	Share based payment $'millions	Reinsurance arrangement $'millions	Impairment provision $'millions	Total $'millions
Deferred tax arising from:							
At 1 January 2019	(35)	-	(21)	-	181	13	138
Charged to income statement	(16)	-	(38)	-	(48)	9	(93)
Other movement	-	-	-	-	-	-	-
At 31 December 2019	(51)	-	(59)	-	133	22	45
At 1 January 2020	(51)	-	(59)	-	133	22	45
Charged to income statement	(12)	-	(124)	-	(49)	52	(133)
Other movement	-	-	-	1	-	-	1
At 31 December 2020	(63)	-	(183)	1	84	74	(87)

Deferred tax assets recognised in the balance sheet are expected to be recovered/settled after 12 months.

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments

	2020			
Assets	Amortised cost $'millions	Mandatorily measured at fair value through profit or loss $'millions	Designated at fair value through profit or loss $'millions	Total $'millions
Equities				
Listed	-	42,002	-	42,002
Unlisted	-	4	-	4
	-	42,006	-	42,006
Debt securities				
Government bonds	16,748	-	431	17,179
Listed	140,004	-	6,829	146,833
Unlisted	128,779	101	9,555	138,435
	285,531	101	16,815	302,447
Collective investment schemes				
Listed	-	11,164	-	11,164
Unlisted	-	58,585	-	58,585
	-	69,749	-	69,749
Derivatives	-	347	-	347
Loans and receivables	13,982	4,436	-	18,418
Amounts due from investment managers	3,204	-	-	3,204
Portfolio cash	8,112	-	-	8,112
Total investment assets	310,829	116,639	16,815	444,283
Liabilities				
Derivatives	-	182	-	182
Total investment liabilities	-	182	-	182

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

	2019			
Assets	Amortised cost $'millions	Mandatorily measured at fair value through profit or loss $'millions	Designated at fair value through profit or loss $'millions	Total $'millions
Equities				
Listed	-	32,145	-	32,145
Unlisted	-	-	-	-
	-	32,145	-	32,145
Debt securities				
Government bonds	12,886	424	231	13,541
Listed	142,114	704	8,789	151,607
Unlisted	109,213	1,423	4,195	114,831
	264,213	2,551	13,215	279,979
Collective investment schemes				
Listed	-	15,911	-	15,911
Unlisted	-	44,836	-	44,836
	-	60,747	-	60,747
Derivatives	-	315	-	315
Loans and receivables	6,613	4,455	-	11,068
Amounts due from investment managers	2,854	-	-	2,854
Portfolio cash	5,552	-	-	5,552
Total investment assets	279,232	100,213	13,215	392,660
Liabilities				
Derivatives	-	205	-	205
Total investment liabilities	-	205	-	205

23 Financial instruments (continued)

The current portion of investment assets was $138,017 million (2019: $119,565 million) and the non-current portion was $306,084 million (2019: $272,890 million).

Derivatives comprising foreign exchange forward contracts, swaps and equity options are measured at fair value at the balance sheet date.

Exposure to credit, interest rate, liquidity, equity price and currency risks arises in the normal course of the company's business. These risks are managed by the company's financial risk management policies and practices disclosed in note 4(c).

(a) Credit risk

The company's credit risk on financial instruments is mainly attributable to the portfolio of debt securities and loans and receivables backing non-linked insurance and investment contracts. Credit risk of assets supporting liabilities under linked insurance and investment contracts is predominantly borne by the policyholders.

For financial instruments measured at amortised cost net of Expected Credit Loss ("ECL") allowance, the measurement of ECL will reflect the change in risk of default occurring over the remaining life of the instruments. The inputs, assumptions and estimation techniques of ECL used are elaborated as below:

(i) Measurement of ECL

The company calculates ECL using three main components, a probability of default ("PD"), a loss given default ("LGD") and the exposure at default ("EAD").

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead where the lifetime PD takes into account credit migration, i.e. an instrument migrating through the external credit rating bands over its life. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

23 Financial instruments (continued)

(a) Credit risk (continued)

(ii) Unimpaired and without significant increase in credit risk – (stage 1)

ECL resulting from default events that are possible within the next 12 months ("12-month ECL") are recognised for financial instruments that remain in stage 1. The company considers bonds, loans and receivables to have low credit risk when its credit rating is equivalent to the globally understood definition of 'investment grade' based on five quality classifications.

Definition of investment grade and asset quality classifications

For debt securities and loans and receivables, external ratings have been aligned to the five quality classifications. The ratings of Standard and Poor's are cited, with those of other agencies being treated equivalently. Debt securities with short-term issue ratings are reported against the long-term rating of the issuer of those securities. If major rating agencies have different ratings for the same debt securities, a prudent rating selection is made in line with regulatory requirements.

Strong:	exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default.
Good:	exposures demonstrate a good capacity to meet financial commitments, with low default risk.
Medium/Satisfactory:	exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
Sub-standard:	exposures require varying degrees of special attention and default risk is of greater concern.
Credit-impaired:	exposures have been assessed as impaired.

Quality classification	**External credit rating**
Investment grade	
Strong	A- and above
Good (Medium)	BBB+ to BBB-
Sub-Investment grade	
Satisfactory (Medium)	BB+ to B and unrated
Sub-standard	B- to C
Credit-impaired	Default

23 Financial instruments (continued)

(a) Credit risk (continued)

(iii) Significant increase in credit risk (stage 2)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and expert credit assessment and including forward-looking information (that is consistent with the measurement of ECL).

Significant increase in credit risk is measured by comparing the average lifetime PD for the remaining term estimated at origination with the equivalent estimation at reporting date. Debt securities and loans and receivables will be in stage 2 if their credit risk increases to the extent that they are no longer considered investment grade. Also, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

(iv) Credit-impaired (stage 3)

The company determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans and bonds which are considered defaulted or otherwise credit-impaired.

(v) Credit risk concentrations

(1) Maximum exposure to credit risk before collateral held or other credit enhancements

The maximum exposure to credit risk before taking account of any collateral held or other credit enhancements (unless such credit enhancements meet accounting offsetting requirements) is represented by the carrying amount of each financial assets. This included financial assets measured on a fair value basis that are not subjected to the ECL measurement.

During the year, the company does not have any credit exposures arising from loan and other credit commitments, or financial guarantees (that are not accounted for under HKFRS 4) and similar contracts.

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(a) Credit risk (continued)

(v) Credit risk concentrations (continued)

(2) Credit risk concentrations by stage and issuer categories for financial instruments to which the impairment requirement is applied

The following table provides an overview of the company's credit exposure by stage and by issuer categories and the associated ECL coverage. It also represents the concentration of exposures in which how credit risks are managed.

	Gross carrying amount					Allowance for ECL					ECL Charge for the year
At 31 December 2020	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions
-Debt securities											
- Government	16,749	-	-	-	16,749	(1)	-	-	-	(1)	(1)
- Corporate	212,981	1,536	-	-	214,517	(221)	(162)	-	-	(383)	(289)
- Banks	52,334	2,320	-	-	54,654	(3)	(2)	-	-	(5)	25
-Loans and receivables											
- Corporate	7,045	1,949	-	-	8,994	(43)	(16)	-	-	(59)	(59)
- Banks	4,554	494	-	-	5,048	-	(1)	-	-	(1)	2
-Other assets at amortized cost*	16,908	-	-	-	16,908	-	-	-	-	-	-
Total	310,571	6,299	-	-	316,870	(268)	(181)	-	-	(449)	(322)

**Other assets at amortised cost comprise of cash and cash equivalents, portfolio cash and amount due from investment managers*

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(a) Credit risk (continued)

(v) Credit risk concentrations (continued)

(2) Credit risk concentrations by stage and issuer categories for financial instruments to which the impairment requirement is applied (continued)

	Gross carrying amount					Allowance for ECL					ECL
At 31 December 2019	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Charge for the year
	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions	$'millions
-Debt securities											
- Government	12,887	-	-	-	12,887	-	-	-	-	-	-
- Corporate	198,768	276	-	-	199,044	(83)	(12)	-	-	(95)	(42)
- Banks	51,059	1,348	-	-	52,407	(19)	(11)	-	-	(30)	(8)
-Loans and receivables											
- Corporate	2,161	-	-	-	2,161	(6)	-	-	-	(6)	(5)
- Banks	4,223	238	-	-	4,461	(2)	(1)	-	-	(3)	(1)
-Other assets at amortized cost*	12,747	-	-	-	12,747	-	-	-	-	-	-
Total	281,845	1,862	-	-	283,707	(110)	(24)	-	-	(134)	(56)

**Other assets at amortised cost comprise of cash and cash equivalents, portfolio cash and amount due from investment managers*

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(a) Credit risk (continued)

(v) Credit risk concentrations (continued)

(3) Credit risk concentrations by credit quality and stage distribution for financial instruments to which the impairment requirement is applied

The following table provides an overview of the company's credit exposure by stage and by credit quality and the associated ECL coverage.

At 31 December 2020	Gross carrying							
	Strong $'millions	Good $'millions	Satisfactory $'millions	Sub-standard $'millions	Credit impaired $'millions	Total $'millions	Allowance for ECL $'millions	Net $'millions
Debt securities	237,836	46,836	1,248	-	-	285,920	(389)	285,531
- Stage 1	236,253	45,594	217	-	-	282,064	(226)	281,838
- Stage 2	1,583	1,242	1,031	-	-	3,856	(163)	3,693
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-
Loans and receivables	5,129	7,599	1,314	-	-	14,042	(60)	13,982
- Stage 1	4,891	6,472	236	-	-	11,599	(42)	11,557
- Stage 2	238	1,127	1,078	-	-	2,443	(18)	2,425
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-
Other assets at amortised cost*	16,908	-	-	-	-	16,908	-	16,908
- Stage 1	16,908	-	-	-	-	16,908	-	16,908
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-
Total	259,873	54,435	2,562	-	-	316,870	(449)	316,421
- Stage 1	258,052	52,066	453	-	-	310,571	(268)	310,303
- Stage 2	1,821	2,369	2,109	-	-	6,299	(181)	6,118
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-

**Other assets at amortised cost comprise of cash and cash equivalents, portfolio cash and amount due from investment managers.*

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(a) Credit risk (continued)

(v) Credit risk concentrations (continued)

(3) Credit risk concentrations by credit quality and stage distribution for financial instruments to which the impairment requirement is applied (continued)

At 31 December 2019	Gross carrying							
	Strong $'millions	Good $'millions	Satisfactory $'millions	Sub-standard $'millions	Credit impaired $'millions	Total $'millions	Allowance for ECL $'millions	Net $'millions
Debt securities	237,509	26,599	230	-	-	264,338	(125)	264,213
- Stage 1	236,870	25,613	230	-	-	262,713	(102)	262,611
- Stage 2	639	986	-	-	-	1,625	(23)	1,602
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-
Loans and receivables	3,729	2,653	240	-	-	6,622	(9)	6,613
- Stage 1	3,491	2,653	240	-	-	6,384	(8)	6,376
- Stage 2	238	-	-	-	-	238	(1)	237
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-
Other assets at amortised cost*	12,747	-	-	-	-	12,747	-	12,747
- Stage 1	12,747	-	-	-	-	12,747	-	12,747
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-
Total	253,985	29,252	470	-	-	283,707	(134)	283,573
- Stage 1	253,108	28,266	470	-	-	281,844	(110)	281,734
- Stage 2	877	986	-	-	-	1,863	(24)	1,839
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-

**Other assets at amortised cost comprise of cash and cash equivalents, portfolio cash and amount due from investment managers.*

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(a) Credit risk (continued)

(v) Credit risk concentrations (continued)

(4) Summary of ECL changes in gross carrying amount and allowances

	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount $'millions	Allowance for ECL $'millions	Gross carrying amount $'millions	Allowance for ECL $'millions	Gross carrying amount $'millions	Allowance for ECL $'millions	Gross carrying amount $'millions	Allowance for ECL $'millions	Gross carrying amount $'millions	Allowance for ECL $'millions
At 1 January 2020	281,844	(110)	1,863	(24)	-	-	-	-	283,707	(134)
Transfers of financial instruments										
- Transfers from Stage 1 to Stage 2	(4,976)	41	4,976	(41)	-	-	-	-	-	-
- Transfers from Stage 2 to Stage 1	1,138	(81)	(1,138)	81	-	-	-	-	-	-
- Transfers to Stage 3	-	-	-	-	-	-	-	-	-	-
- Transfers from Stage 3	-	-	-	-	-	-	-	-	-	-
- Net remeasurement of ECL arising from transfer of stage	-	66	-	(158)	-	-	-	-	-	(92)
New financial assets originated or purchased	42,559	(52)	-	-	-	-	-	-	42,559	(52)
Changes to risk parameters (model inputs)	240	(134)	887	(39)	-	-	-	-	1,127	(173)
Assets derecognised	(10,234)	2	(289)	-	-	-	-	-	(10,523)	2
Assets written off	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other	-	-	-	-	-	-	-	-	-	-
At 31 December 2020	310,571	(268)	6,299	(181)	-	-	-	-	316,870	(449)

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(a) Credit risk (continued)

(v) Credit risk concentrations (continued)

(4) Summary of ECL changes in gross carrying amount and allowances (continued)

	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount $'millions	Allowance for ECL $'millions	Gross carrying amount $'millions	Allowance for ECL $'millions	Gross carrying amount $'millions	Allowance for ECL $'millions	Gross carrying amount $'millions	Allowance for ECL $'millions	Gross carrying amount $'millions	Allowance for ECL $'millions
At 1 January 2019	260,786	(73)	652	(6)	-	-	-	-	261,438	(79)
Transfers of financial instruments										
- Transfers from Stage 1 to Stage 2	(1,302)	1	1,302	(1)	-	-	-	-	-	-
- Transfers from Stage 2 to Stage 1	-	-	-	-	-	-	-	-	-	-
- Transfers to Stage 3	-	-	-	-	-	-	-	-	-	-
- Transfers from Stage 3	-	-	-	-	-	-	-	-	-	-
- Net remeasurement of ECL arising from transfer of stage	-	-	-	(16)	-	-	-	-	-	(16)
New financial assets originated or purchased	59,532	(17)	-	-	-	-	-	-	59,532	(17)
Changes to risk parameters (model inputs)	(6,519)	(23)	109	(1)	-	-	-	-	(6,410)	(24)
Assets derecognised	(30,653)	2	(200)	-	-	-	-	-	(30,853)	2
Assets written off	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other	-	-	-	-	-	-	-	-	-	-
At 31 December 2019	281,844	(110)	1,863	(24)	-	-	-	-	283,707	(134)

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(a) Credit risk (continued)

(vi) Measurement of uncertainty and sensitivity analysis of ECL estimates

The ECL outcome is sensitive to judgement and estimations made with regards to the formulation and incorporation of multiple forward looking economic scenarios. ECL typically have a non-linear relationship to the many factors which influence credit losses, such that more favourable macroeconomic factors do not reduce defaults as much as less favourable macro-economic factors increase defaults. As a result, the sensitivity of the ECL outcome against the forward looking economic conditions has 100% weighting assigned to each of the three scenarios. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting ECL. This analysis excludes any management adjustment.

	2020 $'millions	2019 $'millions
ECL based exposures at 31 Dec	316,870	283,707
Central scenario	255	134
Upside scenario	153	105
Downside scenario	-	171
Downside 1 scenario	528	-
Downside 2 scenario	1,512	-

The ECL sensitivity above represents an estimate based on the underlying point-in-time distribution of economic scenarios. Changes to economic forecasts, underlying credit quality and relationships between macro-economic factors and credit risk will have a corresponding impact on ECL.

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(b) Interest rate risk

For debt securities backing insurance contract liabilities, the change in asset value due to interest rate change is limited as a majority of the debt securities are measured at amortised cost with some portion of debt securities accounted for mandatorily measured at fair value. Details of how the company manages interest rate risk are disclosed in note 4(c)(i).

(i) Financial assets

Movements in interest yield curves as at 31 December 2020 would have the following impact on the profit after taxation for the year and shareholders' equity at that date:

	2020		2019	
	Impact on profit after taxation for the year $'millions	Impact on shareholders' equity $'millions	Impact on profit after taxation for the year $'millions	Impact on shareholders' equity $'millions
+ 100 basis points shift in yield curves				
- Non FVOCI/Non AFS	(95)	(95)	(103)	(103)
- FVOCI/AFS	-	-	-	-
Total	(95)	(95)	(103)	(103)
- 100 basis points shift in yield curves				
- Non FVOCI/Non AFS	101	101	109	109
- FVOCI/AFS	-	-	-	-
Total	101	101	109	109

(ii) Liabilities under investment contracts

Certain investment contracts contain capital and minimum return guarantees. The existence of such guarantees limits the ability of liability valuations to be offset by changes in asset values. At 31 December 2020, of the total non-linked investment contracts, an aggregate fund value of $27,452 million (2019: $25,618 million) was subject to contractual capital and investment return guarantees of between 0% and 5% to be met by the company. These guarantees are estimated to have a fair value of $540 million (2019: $235 million) which is reflected in the financial statements as part of the fair value of these financial instrument liabilities. However, the determination of fair value is sensitive to future changes in interest rates.

A hypothetical 100 basis points reduction in interest rate is estimated to result in $281 million (2019: $316 million) increase in the value of assets backing investment contract liabilities. This entire amount $281 million (2019: $316 million) would accrue to policyholders' fund value, which will also lead to an increase in the company's investment contract liabilities. In addition, there will be an increase in fair value of capital and minimum return guarantee liabilities which results in a reduction of profit after taxation of $75 million (2019: $57 million). Therefore, the aggregate impact is a reduction of profit after taxation or shareholders' equity of $75 million (2019: $57 million).

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(c) Liquidity risk

(i) In respect of income-earning financial assets and financial liabilities, the following table indicates the contractual maturity profile at the balance sheet date:

	2020				
	Total $'millions	One year or less $'millions	1 - 2 years $'millions	2 - 5 years $'millions	More than 5 years $'millions
Financial assets					
Debt securities	302,447	13,711	18,270	48,113	222,353
Other assets (including insurance receivable, reinsurance receivable and other receivables)	9,546	7,869	-	-	1,677
Loans and receivables	18,418	985	1,949	7,977	7,507
Amounts due from investment managers	3,204	3,204	-	-	-
Portfolio cash	8,112	8,112	-	-	-
Cash and cash equivalents	5,592	5,592	-	-	-
Derivatives	347	331	-	-	16
	347,666	39,804	20,219	56,090	231,553
Financial liabilities					
Subordinated loan	2,151	-	-	-	2,151
Reinsurance payable	712	712	-	-	-
Insurance payable	42,492	6,977	1,472	4,312	29,731
Other payables	1,109	1,109	-	-	-
Derivatives	182	81	3	19	79
Repurchase agreements	11,909	11,909	-	-	-
	58,555	20,788	1,475	4,331	31,961

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(c) Liquidity risk (continued)

(i) In respect of income-earning financial assets and financial liabilities, the following table indicates the contractual maturity profile at the balance sheet date: (continued)

	2019				
	Total $'millions	One year or less $'millions	1 - 2 years $'millions	2 - 5 years $'millions	More than 5 years $'millions
Financial assets					
Debt securities	279,979	17,748	12,683	44,387	205,161
Other assets (including insurance receivable, reinsurance receivable and other receivables)	7,685	6,284	-	-	1,401
Loans and receivables	11,068	260	546	1,939	8,323
Amounts due from investment managers	2,854	2,854	-	-	-
Portfolio cash	5,552	5,552	-	-	-
Cash and cash equivalents	4,341	4,341	-	-	-
Derivatives	315	315	-	-	-
	311,794	37,354	13,229	46,326	214,885
Financial liabilities					
Subordinated loan	2,159	-	-	-	2,159
Reinsurance payable	225	225	-	-	-
Insurance payable	34,892	7,719	909	3,046	23,218
Other payables	1,474	1,474	-	-	-
Derivatives	205	56	2	17	130
Repurchase agreements	-	-	-	-	-
	38,955	9,474	911	3,063	25,507

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(c) Liquidity risk (continued)

(ii) Liabilities under insurance and investment contracts

The following table presents the estimated amounts (on a discounted basis) and timing of cash flows arising from liabilities under insurance and investment contracts. These contracts typically include policyholder surrenders or transfer options at a value equal to, or below, the carrying value of those liabilities. A maturity analysis prepared on the basis of the earliest possible contractual repayment date (assuming that all surrenders and transfer options are exercised) would result in all insurance and investment contracts being presented as falling due within one year or less.

	2020				
	Total $'millions	One year or less $'millions	1 - 2 years $'millions	2 - 5 years $'millions	More than 5 years $'millions
Insurance contracts					
- Non-linked	321,507	1,360	2,047	8,335	309,765
- Linked	25,364	69	11	34	25,250
Investment contracts					
- Non-linked	31,587	124	-	-	31,463
- Linked	7,514	115	-	-	7,399
	385,972	1,668	2,058	8,369	373,877

	2019				
	Total $'millions	One year or less $'millions	1 - 2 years $'millions	2 - 5 years $'millions	More than 5 years $'millions
Insurance contracts					
- Non-linked	291,898	1,869	599	7,469	281,961
- Linked	27,295	61	13	28	27,193
Investment contracts					
- Non-linked	30,033	130	-	-	29,903
- Linked	6,574	72	-	-	6,502
	355,800	2,132	612	7,497	345,559

23 Financial instruments (continued)

(d) Equity price risk

The portfolio of equity securities (including collective investment schemes) backing non-linked insurance contracts, which the company carries on the balance sheet at fair value, has exposure to price risk. This risk is defined as the potential loss in market value resulting from an adverse change in prices. Details of how the company manages equity price risk are disclosed in note 4(c).

At 31 December 2020, the equity securities (including collective investment schemes) backing non-linked insurance contracts were recorded at their fair value of $65,349 million (2019: $48,107 million).

The company utilises equity index options to manage the equity exposure in the investments backing non-linked insurance contracts. The carrying amount of these options was $331 million (2019: $315 million).

The following table illustrates the impact on the aggregated profit after taxation for the year and shareholders' equity of a reasonably possible 10 per cent variance in equity prices from assets backing non-linked insurance contracts:

	2020		2019	
	Impact on profit after taxation for the year $'millions	Impact on shareholders' equity $'millions	Impact on profit after taxation for the year $'millions	Impact on shareholders' equity $'millions
10 per cent increase in equity prices	1,854	1,854	2,786	2,786
10 per cent decrease in equity prices	(3,195)	(3,195)	(2,617)	(2,617)

The impact is estimated taking into account the sharing of risk through the discretionary participation feature.

(e) Foreign currency risk

At 31 December 2020, approximately 61% (2019: 61%) of the company's invested assets backing non-linked insurance contracts were denominated in foreign currencies and mainly in United States dollars ("USD"). Invested assets denominated in USD comprised approximately 60% (2019: 61%) of the total invested assets at 31 December 2020. USD denominated non-linked insurance and investment contract liabilities are predominately matched with their USD denominated invested assets. Net USD exposure at 31 December 2020 was a long position of $7,416 million (2019: $3,058 million). As the HKD is pegged to USD, the company considers the impact of movement in exchange rate between USD and HKD to be small.

23 Financial instruments (continued)

(e) Foreign currency risk (continued)

The following table presents the company's financial assets and financial liabilities in main currencies:

	2020			
	Exposure in USD $'millions	Exposure in HKD $'millions	Exposure in other currencies $'millions	Total $'millions
In millions of HKD equivalent				
Financial assets				
Loans and receivables	5,455	12,963	-	18,418
Debt securities	171,521	129,116	1,810	302,447
Equity securities	14,618	11,126	16,262	42,006
Derivatives	229	50	68	347
Collective investment schemes	59,424	4,553	5,772	69,749
Amounts due from investment managers	1,577	1,291	336	3,204
Portfolio cash	4,323	3,652	137	8,112
Cash and cash equivalents	2,963	2,089	540	5,592
Other assets (including insurance receivable, reinsurance receivable and other receivables)	2,324	6,601	621	9,546
	262,434	171,441	25,546	459,421
Financial liabilities				
Liabilities under investment contracts	1,010	38,045	46	39,101
Other liabilities (including insurance payable, reinsurance payable and other payables)	19,576	23,990	748	44,314
Derivatives	11	171	-	182
Repurchase agreements	9,580	2,329	-	11,909
	30,177	64,535	794	95,506

23 Financial instruments (continued)

(e) Foreign currency risk (continued)

The following table presents the company's financial assets and financial liabilities in main currencies: (continued)

	2019			
	Exposure in USD $'millions	Exposure in HKD $'millions	Exposure in other currencies $'millions	Total $'millions
In millions of HKD equivalent				
Financial assets				
Loans and receivables	2,211	8,857	-	11,068
Debt securities	150,461	128,434	1,084	279,979
Equity securities	9,760	9,592	12,793	32,145
Derivatives	38	168	109	315
Collective investment schemes	52,881	4,873	2,993	60,747
Amounts due from investment managers	1,614	1,178	62	2,854
Portfolio cash	2,254	3,166	132	5,552
Cash and cash equivalents	2,070	1,738	533	4,341
Other assets (including insurance receivable, reinsurance receivable and other receivables)	1,874	5,143	668	7,685
	223,163	163,149	18,374	404,686
Financial liabilities				
Liabilities under investment contracts	1,030	35,558	19	36,607
Other liabilities (including insurance payable, reinsurance payable and other payables)	15,616	20,168	807	36,591
Derivatives	10	195	-	205
Repurchase agreements	-	-	-	-
	16,656	55,921	826	73,403

23 Financial instruments (continued)

(f) Recognised assets and liabilities

Changes in the fair value of derivatives are recognised in the income statement. The fair value of derivatives at 31 December 2020 was an asset of $165 million (2019: an asset of $110 million).

(g) Assumptions used in preparing the sensitivity analysis other than credit risks

In managing interest rate and foreign currency risks, the company aims to reduce the impact of short-term fluctuations on the company's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on the company's earnings.

In performing the sensitivity analyses for linked business, the company has assumed that all hypothetical changes in the fair value of financial assets backing these policies are attributable to policyholders.

For interest rate risk, the sensitivity analysis is performed by assessing the change in market value of all debt securities designated at fair value through profit or loss, assuming a 100 basis points movement in interest rate on the valuation date. The impact on profit after taxation is taken to be the net retained amount after taking into account the sharing of investment returns with policyholders under the company's distribution strategy.

For foreign currency risk, as the company's exposure is mainly attributable to its USD denominated assets and liabilities, and the HKD is pegged to the USD, a sensitivity analysis is not presented.

In performing the sensitivity analysis, a global uniform 10% equity market movement is assumed, with a corresponding change in the market value of the company's equity holding. This impact is calculated taking into account the sharing of investment returns with policyholders through the discretionary participation feature.

(h) Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

23 Financial instruments (continued)

(h) Fair values (continued)

(i) Determination of fair value

Fair values are determined according to the following hierarchy:

a. Level 1 - Quoted market price

Financial instruments with unadjusted quoted prices for identical instruments in active markets that the company can access at the balance sheet date.

b. Level 2 - Valuation technique using observable inputs

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

c. Level 3 - Valuation technique with significant unobservable inputs

Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an actively traded market. The fair value of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities used. Where a financial instrument has a quoted price in an active market and it is part of a portfolio, the fair value of the portfolio is calculated as the product of the number of units and quoted price.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as magnitude and the frequency of trading activity, the availability of prices and the size of bid/offer spreads.

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuations, including interest rate yield curves exchange rates and volatilities. In the event that the market for a financial instrument is not active, a valuation technique is used.

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the derivation of fair value is more judgemental. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

23 Financial instruments (continued)

(h) Fair values (continued)

(i) Determination of fair value (continued)

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

a. Securities

The fair values of quoted securities traded in active markets are based on price quotations at the balance sheet date without any deduction for transaction costs.

The fair values of collective investment schemes not traded in active markets are estimated using the net asset value per share as reported by the fund managers of such schemes.

The fair values of debt securities not traded in active markets are estimated by comparing market interest rates when the loans were granted with current market rates offered for similar instruments.

b. Derivatives

Foreign exchange forward contracts, swaps and equity options are either marked to market using market prices or by discounting the contractual forward price and deducting the current spot rate.

c. Loans and receivables

The fair values of loans and receivables are obtained from broker quotes. In the absence of an observable market, the fair value is determined using valuation techniques including discounted cash flow models, which incorporate assumptions regarding an appropriate credit spread for the loan derived from other market instruments issued by the same or comparable entities.

d. Investment contracts

The fair value of investment contracts is the accrued policy fund balance, plus where applicable an allowance for the future cost of guarantee in the non-linked investment contracts. A best estimate liability plus an allowance for the cost of holding regulatory capital is used to determine the fair value of the guarantee features of these contracts.

The best estimate liability is arrived at using a valuation model to project the actual balance and the guaranteed balance based on 1,000 scenarios of stochastically generated investment returns for 30 years. The guarantee cost is derived for each projection year under each scenario, being the present value of any shortfall of the actual balance to meet the guaranteed liability, net of fee income.

The valuation of the allowance for the cost of holding regulatory capital is sensitive to certain assumptions, in particular the cost of capital and the expected yield on assets backing the investment contract liabilities. The cost of capital is computed based on the internal required return of the business. The expected yield on assets is set with reference to the actual experience.

23 Financial instruments (continued)

(h) Fair values (continued)

(i) Determination of fair value (continued)

e. Private equity investments

Please refer to Note 3(e)(i) for the methods and assumptions used in estimating the fair values of private equity investments.

f. Mid-market debt funds

Please refer to Note 3(e)(ii) for the methods and assumptions used in estimating the fair values of mid-market debt funds.

Fair value adjustments

Fair value adjustments are adopted when the company determines there are additional factors considered by market participants that are not incorporated within the valuation model.

Fair value adjustments are also considered for private equity funds and mid-market debt funds where there is a time lag between the valuation date and the balance sheet date. In such instances reference is made to relevant quoted indices (corresponding to the geography and industrial sector(s) related to the underlying investment); where those indices have moved in excess of a defined threshold during the lag period direct engagement with underlying fund managers and other valuation experts is used to inform the quantum of any adjustment.

The process of considering and setting all fair value adjustments is governed by a Valuation Committee, which is a child committee of the Asset and Liability Management Committee.

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(h) Fair values (continued)

(ii) Analysis of fair value determination

The following table provides an analysis of the basis for the valuation of financial assets (excluded insurance, reinsurance and other receivables) and financial liabilities carried at fair value.

At 31 December 2020

	Fair value measurements categorised into			
	Level 1 $'millions	Level 2 $'millions	Level 3 $'millions	Total $'millions
Recurring fair value measurement				
Financial assets				
Financial assets designated and otherwise mandatorily measured at fair value	74,976	18,135	39,996	133,107
Derivatives	-	347	-	347
Financial liabilities				
Designated at fair value through profit or loss	-	39,101	-	39,101
Derivatives	-	182	-	182

At 31 December 2019

	Fair value measurements categorised into			
	Level 1 $'millions	Level 2 $'millions	Level 3 $'millions	Total $'millions
Recurring fair value measurement				
Financial assets				
Financial assets designated and otherwise mandatorily measured at fair value	68,926	17,601	26,586	113,113
Derivatives	-	315	-	315
Financial liabilities				
Designated at fair value through profit or loss	-	36,607	-	36,607
Derivatives	-	205	-	205

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(h) Fair values (continued)

(ii) Analysis of fair value determination (continued)

Assets designated at fair value through profit or loss using a valuation technique with significant unobservable inputs principally comprised of private equity investments and mid-market debt funds. Details on the fair value determination for private equity investment and mid-market debt funds are stated in note 3(e).

(iii) Fair value of financial instruments not carried at fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2019 and 2020 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount	Fair value	Fair value measurements categorised into		
At 31 December 2020			Level 1	Level 2	Level 3
	$'millions	$'millions	$'millions	$'millions	$'millions
Debt securities at amortised costs	285,531	325,982	28,583	297,399	-
Loans and receivables	13,982	14,771	-	14,771	-

	Carrying amount	Fair value	Fair value measurements categorised into		
At 31 December 2019			Level 1	Level 2	Level 3
	$'millions	$'millions	$'millions	$'millions	$'millions
Debt securities at amortised costs	264,213	281,905	32,692	249,213	-
Loans and receivables	6,613	6,641	-	6,641	-

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(h) Fair values (continued)

(iv) The movement during the year in the Level 3 financial assets and liabilities is as follows:

	2020 $'millions	2019 $'millions
Financial assets		
Designated at fair value through profit or loss		
At 1 January	26,586	16,869
Payments for purchases	12,031	9,845
Net unrealised gains recognised in profit or loss during the year	2,706	1,636
Proceeds from distribution	(1,327)	(1,764)
At 31 December	39,996	26,586

The gains/(losses) are recognised in 'net investment income' of the income statement.

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(h) Fair values (continued)

(v) Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions:

			2020				2019			
			Reflected in profit or loss		Reflected in equity		Reflected in profit or loss		Reflected in equity	
	Valuation techniques	Significant unobservable inputs	Favourable changes $'millions	Unfavourable changes $'millions	Favourable changes $'millions	Unfavourable changes $'millions	Favourable changes $'millions	Unfavourable changes $'millions	Favourable changes $'millions	Unfavourable changes $'millions
Financial assets designated at fair value through profit or loss										
- Private equities and mid-market debt funds	Price – Net asset value	Fund Valuation	6,679	(6,679)	6,679	(6,679)	4,440	(4,440)	4,440	(4,440)

Unobservable parameters used to determine fair value for private equity and mid-market debt funds are not amenable to statistical analysis, therefore quantification of uncertainty is judgemental. Valuations are assessed on an asset by asset basis using a valuation methodology appropriate to the specific investment, in line with industry guidelines. In many of the methodologies, a principal assumption is the valuation multiple to be applied to the main financial indicators.

23 Financial instruments (continued)

(h) Fair values (continued)

(vi) Transfers between Level 1 and Level 2

Transfer between levels of the fair value hierarchy is deemed to occur at the end of the reporting period. There were no transfers between levels during the reporting period.

In 2019, management has refined its approach to assessing whether debt securities' quoted prices are taken from active markets. This updated approach has been applied in the determination of the fair value hierarchy of debt securities since the year ended 31 December 2019.

(i) Offsetting financial assets and financial liabilities

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

The following table sets out the carrying amounts of recognised financial instruments that are subject to offsetting:

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(i) Offsetting financial assets and financial liabilities (continued)

	Amounts subject to enforceable netting arrangements								
	Effects of offsetting in the balance sheet			Amounts not offset in the balance sheet					
At 31 December 2020	Gross amounts $'millions	Amounts offset $'millions	Amounts reported in the balance sheet $'millions	Financial instruments $'millions	Non-cash collateral $'millions	Cash collateral $'millions	Net amount $'millions	Amounts not subject to enforceable netting arrangements $'millions	Balance sheet total $'millions
Financial assets									
Derivatives	476	(129)	347	-	-	-	347	-	347
Reinsurance receivable	2,052	(665)	1,387	-	-	-	1,387	-	1,387
	2,528	(794)	1,734	-	-	-	1,734	-	1,734
Financial liabilities									
Derivatives	311	(129)	182	-	-	(95)	277	-	182
Reinsurance payable	715	(665)	50	-	-	-	50	-	50
	1,026	(794)	232	-	-	(95)	327	-	232
At 31 December 2019									
Financial assets									
Derivatives	503	(188)	315	-	-	-	315	-	315
Reinsurance receivable	1,684	(869)	815	-	-	-	815	-	815
	2,187	(1,057)	1,130	-	-	-	1,130	-	1,130
Financial liabilities									
Derivatives	393	(188)	205	-	-	(89)	294	-	205
Reinsurance payable	869	(869)	-	-	-	-	-	-	-
	1,262	(1,057)	205	-	-	(89)	294	-	205

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Financial instruments (continued)

(i) Offsetting financial assets and financial liabilities (continued)

The 'amount not set off in the balance sheet' for derivatives include transactions where the counterparty has an offsetting exposure with the company and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied.

At 31 December 2020, the company had posted cash collateral of HK$95 million (2019: HK$89 million) for derivative liabilities. These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard repurchase agreements.

(j) Securities lending transactions

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	2020		2019	
	Carrying amount of:		Carrying amount of:	
	Transferred assets $'millions	Associated liabilities $'millions	Transferred assets $'millions	Associated liabilities $'millions
Securities lending agreements	4,071	-	5,533	-

The financial assets shown above include amounts transferred to third parties that do not qualify for derecognition, notably debt securities held by counterparties as collateral under repurchase agreements. As the substance of these transactions is secured borrowings, the collateral assets continue to be recognised in full and the related liabilities, reflecting the company's obligation to repurchase the transferred assets for a fixed price at a future date, are also recognised on the balance sheet. As a result of these transactions, the company is unable to use, sell or pledge the transferred assets for the duration of the transactions. The company remains exposed to interest rate risk, credit risk and market risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

23 Financial instruments (continued)

(k) Assets pledged

	2020 $'millions	2019 $'millions
Financial assets pledged to secure liabilities		
Debt securities	13,415	-
Assets pledged as at 31 Dec	13,415	-
Amount of liabilities secured	11,909	-

The above shows assets where a charge has been granted to secure liabilities on a legal and contractual basis. These transactions are conducted under terms that are usual and customary to collateralised transactions for repurchase agreements.

Financial assets pledged as collateral which the counterparty has the right to sell or repledge was $13,415m (2019: nil).

(Expressed in Hong Kong dollars unless otherwise indicated)

24 Insurance receivable

	2020 $'millions	2019 $'millions
Policy loans	1,677	1,401
Premium receivables	1,306	1,301
	2,983	2,702

The total amount of premium receivables is expected to be recovered within one year. The majority of policy loans are expected to be recovered after more than one year.

25 Sundry debtors and prepayments

Sundry debtors and prepayments are expected to be recovered within one year.

26 Cash and cash equivalents

	2020 $'millions	2019 $'millions
Deposits with banks	67	345
Cash at bank and on hand	5,525	3,996
Cash and cash equivalents in the balance sheet and the statement of cash flows	5,592	4,341

(Expressed in Hong Kong dollars unless otherwise indicated)

27 Liabilities under insurance contracts issued and reinsurers' share of liabilities under insurance contracts issued

	2020 Gross $'millions	2020 Reinsurance $'millions	2020 Net $'millions	2019 Gross $'millions	2019 Reinsurance $'millions	2019 Net $'millions
Long-term insurance business						
Liabilities to policyholders						
- Non-linked	321,507	19,712	301,795	291,898	17,697	274,201
- Linked	25,364	2	25,362	27,295	26	27,269
Total liabilities under insurance contracts issued	346,871	19,714	327,157	319,193	17,723	301,470
Current	1,424	317	1,107	1,923	299	1,624
Non-current	345,447	19,397	326,050	317,270	17,424	299,846
	346,871	19,714	327,157	319,193	17,723	301,470

(a) Analysis of movements in liabilities under insurance contracts issued and reinsurers' share of liabilities under insurance contracts issued

Long-term insurance contracts – non-linked

	2020 Gross $'millions	2020 Reinsurance $'millions	2020 Net $'millions	2019 Gross $'millions	2019 Reinsurance $'millions	2019 Net $'millions
Balance at 1 January	291,898	17,697	274,201	256,101	8,945	247,156
Claims and benefits paid	(20,021)	(1,781)	(18,240)	(18,413)	(707)	(17,706)
Claims and benefits incurred	50,182	3,266	46,916	55,047	9,278	45,769
Foreign exchange and other movements	(552)	530	(1,082)	(837)	181	(1,018)
Balance at 31 December	321,507	19,712	301,795	291,898	17,697	274,201

Long-term insurance contracts – linked

	2020 Gross $'millions	2020 Reinsurance $'millions	2020 Net $'millions	2019 Gross $'millions	2019 Reinsurance $'millions	2019 Net $'millions
Balance at 1 January	27,295	26	27,269	28,021	35	27,986
Claims and benefits paid	(4,628)	(10)	(4,618)	(4,390)	(6)	(4,384)
Claims and benefits incurred	2,782	34	2,748	3,805	(4)	3,809
Foreign exchange and other movements	(85)	(48)	(37)	(141)	1	(142)
Balance at 31 December	25,364	2	25,362	27,295	26	27,269

27 Liabilities under insurance contracts issued and reinsurers' share of liabilities under insurance contracts issued (continued)

(b) Process used to determine assumptions

The process used to determine the assumptions is intended to result in appropriate estimates of future outcome. This is achieved by adopting relatively conservative assumptions which can withstand a reasonable range of fluctuation of actual experience. Annual review of the relevant experience is performed to assess the adequacy of margin between the assumptions adopted and the most likely estimate of future outcome. The assumptions that are considered include the probability of claims and investment returns.

For non-linked life products, the policy reserve is generally calculated on a modified net premium basis. On inception of the contract, the net premium is the level of premium payable over the premium payment period whose discounted value at the outset of the policy would be sufficient to exactly cover the discounted value of the original guaranteed benefits payable until maturity or death if earlier. The net premium is then modified to allow for deferral of acquisition costs. Post-inception, the policy reserve is then calculated by subtracting the present value of future modified net premiums from the present value of the benefits guaranteed at maturity or death up to the balance sheet date. Negative provisions are not allowed. The modified net premium basis makes no allowance for voluntary discontinuance by policyholders as this would generally result in a reduced level of policy reserve. Furthermore the policy reserve includes a provision on future dividend as well as investment fluctuation experience.

For linked life products, the policy reserve is generally determined as the total account balance of all in-force policies with an additional provision for the unexpired insurance risk and guarantee risk. The company has used its own stochastic based valuation model to estimate the value of the guarantees covered under the modified co-insurance treaty on a unit-linked insurance product.

For universal life products, the policy reserve is determined as the present value of account balance to be received by policyholder, plus the present value of death payout on net amount at risk when account value is positive. An additional reserve is provided, when necessary, to ensure the total reserve is sufficient to cover the mortality risk for policies with no-lapse guarantee benefit attached.

The provision of this no-lapse guarantee benefit is determined as the present value of loss on this guarantee only after account balance becomes zero.

(i) Mortality

A base mortality table which is appropriate for each type of contract is selected. A loading is generally added as a provision for adverse deviation. An annual investigation is performed to ascertain the appropriateness with the company's actual experience.

(ii) Morbidity

The morbidity incidence rates, which mainly cover major illness and disability, are generally derived from the reinsurance costs or mortality table. A loading is generally added as a provision for adverse deviation. An annual investigation is performed to ascertain the appropriateness with the company's actual experience.

(Expressed in Hong Kong dollars unless otherwise indicated)

27 Liabilities under insurance contracts issued and reinsurers' share of liabilities under insurance contracts issued (continued)

(b) Process used to determine assumptions (continued)

(iii) Discount rates

Rate of interest	2020	2019
Participating business		
- Life and Annuity –Whole Life	2.00% for HKD policies, 3.25% for other currencies	2.00% for HKD policies, 3.00% for other currencies
- Life and Annuity –Non Whole Life	2.15% for HKD policies, 3.05% for other currencies	2.20% for HKD policies, 3.20% for other currencies
- WealthSave (RMB) Protection Plan	3.0%	3.0%
- Income Goal Insurance Plan	2.15% for HKD policies; 2.65% for USD policies	2.30% for HKD policies; 2.65% for USD policies
- Wealth Goal Insurance Plan	2.25%	2.35%
Non-participating business		
- Others	2.15% for HKD policies; 3.05% for other currencies	2.40% for HKD policies; 3.25% for other currencies
- WealthSave (RMB) Insurance Plan	2.32%	2.32%
- WealthSave (RMB) Insurance Plan II	4.09%	4.09%
- WealthSave Insurance Plan	2.80%	2.80%
- FirstSave Insurance Plan	2.49%	2.49%
Jade Global Series	3.40%	3.65%
Goal Access Universal Life	3.25% for USD policies	3.25% for USD policies
Other Universal Life products	3.50% for HKD policies; 3.70% for other currencies	3.50% for HKD policies; 3.70% for other currencies

Under the modified net premium method, the long-term business liabilities is sensitive to the interest rate used when discounting.

(Expressed in Hong Kong dollars unless otherwise indicated)

27 Liabilities under insurance contracts issued and reinsurers' share of liabilities under insurance contracts issued (continued)

(b) Process used to determine assumptions (continued)

Sensitivity to changes in variables

The company re-runs its valuation models on various bases. An analysis of sensitivity around various scenarios provides insight to the key risks the company exposed to. The table presented below demonstrates the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. Certain variables can be expected to impact on life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

This sensitivity impact on mortality is assessed with the consideration on adjusting future charges subject to the provision of the contract.

Impact on reported profits to changes in key variables

	Change in variable	*Increase/(decrease) in liability*	
		2020	2019
	%	$'millions	$'millions
Base run		346,395	318,756
Discount rate	+1	(10,420)	(10,825)
Discount rate	-1	28,764	28,519
Mortality/Morbidity	+10	393	396
Mortality/Morbidity	-10	(299)	(314)

The analysis above has been prepared for a change in variable with all other assumptions remaining constant and ignores changes in values of the related assets.

(Expressed in Hong Kong dollars unless otherwise indicated)

27 Liabilities under insurance contracts issued and reinsurers' share of liabilities under insurance contracts issued (continued)

(c) The company has reinsurance recoveries subject to credit risk

At 31 December 2020

	Neither past due nor impaired						
	Strong $'millions	Medium $'millions	Sub-standard $'millions	Past due not impaired $'millions	Impaired $'millions	Impairment allowances $'millions	Total $'millions
Linked insurance contracts	2	-	-	-	-	-	2
Non-linked insurance contracts	19,712	-	-	-	-	-	19,712
Total	19,714	-	-	-	-	-	19,714

At 31 December 2019

	Neither past due nor impaired						
	Strong $'millions	Medium $'millions	Sub-standard $'millions	Past due not impaired $'millions	Impaired $'millions	Impairment allowances $'millions	Total $'millions
Linked insurance contracts	1	23	-	-	-	-	24
Non-linked insurance contracts	17,699	-	-	-	-	-	17,699
Total	17,700	23	-	-	-	-	17,723

For linked insurance products that provide guaranteed minimum death benefits and guaranteed minimum accumulation benefits, the company has purchased reinsurance on modified coinsurance basis with a third party reinsurer. The company has a credit risk exposure in respect of this reinsurer's ability to meet its reinsurance obligation. At 31 December 2020, the exposure to this reinsurer was nil (2019: $23 million).

In determining recoverability of this reinsurance receivable, the company has assessed the financial position of the reinsurer and its parent company from public information.

(Expressed in Hong Kong dollars unless otherwise indicated)

28 Subordinated loan

		2020 $'millions	2019 $'millions
Amount owed to an immediate holding company			
Nominal value:	Description:		
HK$1,362 million	Floating rate subordinated loan due 15 November 2028	1,362	1,362
HK$780 million	Floating rate subordinated loan due 27 November 2029	780	780
		2,142	2,142
Representing:			
-Measured at amortised cost		2,151	2,159

	2020 $'millions	2019 $'millions
Reconciliation of subordinated loan arising from financing activities		
At 1 January	2,159	1,369
Cash items:		
-Proceeds from draw down of new subordinated loan at 27 November 2019	-	780
Non-cash items:		
-Finance costs	(72)	(46)
-Amortisation of interest	64	56
	(8)	10
At 31 December	2,151	2,159

(Expressed in Hong Kong dollars unless otherwise indicated)

29 Liabilities under investment contracts issued

	2020 $'millions	2019 $'millions
Total liabilities under investment contracts issued - fair value	39,101	36,607
Current	238	202
Non-current	38,863	36,405
	39,101	36,607

Analysis of movements in liabilities under investment contracts issued

	Non-linked		Linked		Total	
	2020 $'millions	2019 $'millions	2020 $'millions	2019 $'millions	2020 $'millions	2019 $'millions
Balance at 1 January	30,033	30,175	6,574	6,000	36,607	36,175
Benefits paid	(10,305)	(6,804)	(603)	(527)	(10,908)	(7,331)
Benefits incurred	11,951	6,759	1,610	1,166	13,561	7,925
Fees charges	(92)	(97)	(67)	(65)	(159)	(162)
Other movements	-	-	-	-	-	-
Balance at 31 December	31,587	30,033	7,514	6,574	39,101	36,607

30 Insurance payable

	2020 $'millions	2019 $'millions
Advance premiums	5,710	6,779
Policy dividends	36,782	28,113
	42,492	34,892
Current	6,977	7,719
Non-current	35,515	27,173
	42,492	34,892

31 Amounts due from and to the immediate holding company, intermediate holding companies, ultimate holding company, a subsidiary and fellow subsidiaries

The amounts due from and to the immediate holding company, intermediate holding companies, ultimate holding company, a subsidiary and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

32 Reinsurance receivable/payable, creditors and accruals

Reinsurance receivable/payable, creditors and accruals are expected to be settled within one year.

33 Share capital

(a) Capital management

The primary capital management objectives of the company are to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The company recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain a prudent balance.

Regulatory capital requirements arise from the company's operations in Hong Kong and Macau and require the company to hold assets sufficient to cover liabilities and satisfy the solvency capital rules in the respective jurisdictions. The principal solvency requirements that apply to the company are those set out in the Insurance Ordinance ("IO"). The company has established an internal solvency (assets as a proportion of liabilities) benchmark that exceeds the minimum requirements of the IO and it aims to maintain this level of solvency at all times.

The company manages its own capital within the context of the annual operating plan of its holding company, which determines an appropriate amount and mix of capital required to support planned business growth. As part of this capital management policy, capital generated in excess of planned requirements is returned to shareholders, normally by way of dividends.

The company defines 'capital' as including all components of equity plus long term loans from group companies with no fixed terms of repayment, less unaccrued proposed dividends.

The company has complied with all externally imposed capital requirements throughout the current and prior periods.

(Expressed in Hong Kong dollars unless otherwise indicated)

33 Share capital (continued)

(b) Share capital

	2020		2019	
	No. of shares millions	*$'millions*	No. of shares millions	*$'millions*
Authorised:				
At 1 January	4,178	4,178	4,178	4,178
Shares issued of $1 each	-	-	-	-
At 31 December	4,178	4,178	4,178	4,178
Issued and fully paid:				
At 1 January	4,178	4,178	4,178	4,178
Shares issued of $1 each	-	-	-	-
At 31 December	4,178	4,178	4,178	4,178

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

34 Capital commitments

The outstanding capital commitments not provided for in the financial statements as at 31 December 2020 amounting to $31,128 million (2019: $20,818 million).

The capital commitments mainly relate to the commitment to invest in private equity funds which have yet to request these amounts for the purposes of their investments.

(Expressed in Hong Kong dollars unless otherwise indicated)

35 Material related party transactions

During the year, the company entered into transactions with group companies in the ordinary course of its insurance business and investing activity. The company used back office support and IT services of group companies on a cost recovery basis.

(a) Year end balances with group companies

	2020 $'millions	2019 $'millions
Amounts due from/(to)		
- Fellow subsidiary companies	67	16
- The immediate holding company	255	298
- Intermediate holding companies	(2,181)	(2,736)
- Fellow subsidiary companies	(137)	(148)
- The ultimate holding company	(5)	(7)
- The subsidiary company	3,881	3,313
Cash and cash equivalents		
- An intermediate holding company	5,530	4,279
Repurchase agreements		
- An intermediate holding company	(6,371)	-
- A fellow subsidiary company	(5,538)	-

(b) Investments include amounts with an intermediate holding company and fellow subsidiary companies as follows:

	2020		2019	
	Intermediate holding company $'millions	Fellow subsidiary companies $'millions	Intermediate holding company $'millions	Fellow subsidiary companies $'millions
Debt securities	101	-	845	-
Collective investments schemes	-	14,041	-	14,418
Derivatives	(166)	-	(214)	-
Loans and receivables	807	-	873	-
Amounts due from investment managers	-	201	-	(216)
Portfolio cash	7,791	3	5,547	6
	8,533	14,245	7,051	14,208

(Expressed in Hong Kong dollars unless otherwise indicated)

35 Material related party transactions (continued)

(c) Investment income

	2020		2019	
	Intermediate holding company $'millions	Fellow subsidiary companies $'millions	Intermediate holding company $'millions	Fellow subsidiary companies $'millions
Interest income	162	-	15	-
Net income/(loss) from investment assets mandatorily or otherwise designated at fair value through profit or loss	21	1,163	43	1,811
Net realised & unrealised (loss)/gain on derivatives	(495)	-	(155)	-
Interest expense	(87)	-	-	-
	(399)	1,163	(97)	1,811

(d) Sales of services

	2020		2019	
	Intermediate holding company $'millions	Fellow subsidiary companies $'millions	Intermediate holding company $'millions	Fellow subsidiary companies $'millions
Gross insurance premium income	564	450	-	-
Reinsurers' share of claims & benefits incurred	-	478	-	-
Fees and commission income	-	-	-	13
Other administration and support services	27	42	20	60
	591	970	20	73

(e) Purchase of services

	2020			2019		
	Ultimate holding company $'millions	Intermediate holding company $'millions	Fellow subsidiary companies $'millions	Ultimate holding company $'millions	Intermediate holding company $'millions	Fellow subsidiary companies $'millions
Reinsurers' share of gross insurance premium income	-	-	457	-	-	-
Gross claims and benefits incurred		-	2		-	
Acquisition costs	-	1,718	27	-	2,686	23
Investment management fees	-	-	431	-	-	499
Other administration and support services	34	397	149	-	410	174
	34	2,115	1,066	-	3,096	696

(Expressed in Hong Kong dollars unless otherwise indicated)

35 Material related party transactions (continued)

(f) Guarantees were given by an intermediate holding company and a fellow subsidiary company on the investment return of some of the company's investment portfolios backing non-linked investment contracts whereby these group companies will reimburse the company with the amount of shortfall should the return of the said portfolios fall below an agreed percentage. The company will pay the excess return to these group companies should the return exceed the agreed percentage. The amount of shortfall receivable from the intermediate holding company during the year was $74 million (2019: $72 million) and the amount of excess to return to the fellow subsidiary company during the year was $1.7 million (2019: deficit recoverable from fellow subsidiary company during the year was $2.3 million) respectively. The amounts outstanding at 31 December are included in note 35(a).

(g) Key management compensation

	2020 $'millions	2019 $'millions
Short-term employee benefits	41	41
Post-employment benefits	3	2
Share-based payments	1	2
Termination benefits	1	-
Total	46	45

Included in the key management compensation above, certain key management staff provided services to the company's immediate holding company. No apportionment has been made as it is not practicable to apportion the amounts between their services to the company and its immediate holding company.

(h) Share option and share award schemes

The company participates in various share option and share plans operated by HSBC Holdings plc whereby share options or shares of HSBC Holdings plc are granted to employees of the company. As disclosed in note 1(i)(iii), the company recognises an expense in respect of these share options and share awards. The cost borne by the ultimate holding company in respect of share options is treated as a capital contribution and is recorded within 'Share-based payment reserves'. In respect of share awards, the company recognises a liability to the ultimate holding company over a vesting period. This liability is measured at the fair value of the shares at each reporting date, with changes since the award dates adjusted through the capital contributions account within 'Share-based payment reserves'. The balances of the capital contribution and the liability as at 31 December 2020 amounted to $86 million and $4 million respectively (2019: $87 million and $7 million respectively).

(Expressed in Hong Kong dollars unless otherwise indicated)

36 Parent and ultimate holding company

At 31 December 2020, the directors consider the parent of the company to be HSBC Insurance (Asia) Limited, a company incorporated in Hong Kong, and the ultimate controlling party of the company to be HSBC Holdings plc, a company incorporated in the United Kingdom. HSBC Holdings plc produces financial statements that are available for public use at www.hsbc.com.

37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2020

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the company has not early adopted them in preparing these financial statements.

HKFRS 17 'Insurance contracts' was issued in May 2017, and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. HKFRS 17 is effective from 1 January 2023, and HSBC is considering its impact.

Except for the above, the company is in the process of making an assessment of what the impact of the below standards, amendments and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's financial statements.

	Effective for accounting periods beginning on or after
Annual Improvements to HKFRSs 2018-2020 (amendments)	1 January 2022
Narrow-scope amendments (amendments) - Amendments to HKFRS 3, HKAS 16 and HKAS 37	1 January 2022
Classification of Liabilities as Current or Non-current (amendments) – Amendments to HKAS 1	1 January 2023
Covid-19-Related Rent Concessions (amendments) – Amendments to HKFRS 16	1 June 2021
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments) – Amendments to HKFRS 10 and HKAS 28	Undetermined

38 Consolidated Income Statement and Balance Sheet

For the purpose of the consolidated balance sheet and consolidated income statement of HSBC Life (International) Limited, investments in controlled subsidiary are consolidated. Intra-group balances and transactions and any unrealised profit arising from intra-group transactions are eliminated in full. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment. Non-controlling interests in the results and equity of subsidiary is shown separately in the consolidated income statement and consolidated balance sheet respectively.

(Expressed in Hong Kong dollars unless otherwise indicated)

38 Consolidated Income Statement and Balance Sheet (continued)

(a) Consolidated Income Statement For the year ended 31 December 2020

	2020 $'millions	2019 $'millions
Turnover	43,751	47,222
Gross insurance premium income	43,594	47,027
Reinsurers' share of gross insurance premium income	(2,901)	(9,163)
Net insurance premium income	40,693	37,864
Interest income from financial assets measured at amortised cost	10,616	9,713
Net income/(loss) from financial assets measured at fair value	12,698	12,704
Net gain on disposal of financial assets measured at amortised cost	4	8
Change in expected credit losses	(322)	(56)
Other net investment loss	(44)	(699)
Net investment income	22,952	21,670
Fees and commission income	388	403
Other operating income	(205)	40
Net income	63,828	59,977
Gross claims and benefits incurred and movement in liabilities to policyholders	(54,483)	(60,516)
Reinsurers' share of claims and benefits incurred and movement in liabilities to policyholders	3,300	9,274
Net insurance claims and benefits incurred and movement in liabilities to policyholders	(51,183)	(51,242)
Movement in investment contract liabilities	(2,540)	(1,751)
Acquisition costs	(1,750)	(2,787)
Administrative expenses	(1,339)	(1,181)
Depreciation	(2)	(1)
Other operation expenses	(18)	(9)
Profit from operations before taxation	6,996	3,006
Income tax charge	(1,135)	(461)
Profit after taxation attributable to shareholders of the company for the year	5,861	2,545

(Expressed in Hong Kong dollars unless otherwise indicated)

38 Consolidated Income Statement and Balance Sheet (continued)

(b) Consolidated Balance Sheet
As at 31 December 2020

	2020 $'millions	2019 $'millions
Assets		
Investment properties	3,678	3,390
Fixed assets	15	2
Intangible assets	364	305
Investment assets	444,283	392,660
Insurance receivable	2,983	2,702
Reinsurers' share of liabilities under insurance contracts issued	19,714	17,723
Deferred tax assets	-	45
Reinsurance receivable	2,049	1,040
Other receivables		
- Amounts due from fellow subsidiaries	67	16
- Amounts due from intermediate holding companies	113	-
- Amounts due from immediate holding company	255	298
- Sundry debtors and prepayments	205	279
Cash and cash equivalents	5,611	4,350
Total assets	479,337	422,810
Liabilities		
Liabilities under insurance contracts issued	346,871	319,193
Liabilities under investment contracts issued	39,101	36,607
Investment liabilities	182	205
Repurchase agreement	11,909	-
Subordinated loan	2,151	2,159
Deferred tax liabilities	87	
Reinsurance payable	712	225
Insurance payable	42,492	34,892
Other payables		
- Amount due to an intermediate holding company	143	577
- Amounts due to fellow subsidiaries	137	148
- Amount due to ultimate holding company	5	7
Creditors and accruals	856	685
Current taxation	1,012	294
Total liabilities	445,658	394,992
Net assets	33,679	27,818
Shareholders' equity		
Share capital	4,178	4,178
Reserves	29,501	23,640
Total shareholders' equity	33,679	27,818

BL Johns, Chairman

ECL Moncreiffe, Director