

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2023

HSBC LIFE (INTERNATIONAL) LIMITED

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HSBC LIFE (INTERNATIONAL) LIMITED

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2023.

Principal place of business

HSBC Life (International) Limited (“the Company”) is a company incorporated in Bermuda with its registered office and principal place of business at 18/F, Tower 1, HSBC Centre, 1 Sham Mong Road, Kowloon, Hong Kong, SAR.

Principal activities

The principal activities of the Company are the transaction of life assurance and retirement benefit business. The principal activities and other particulars of the subsidiaries are set out in note 13 to the financial statements.

Business Review

No business review is presented for 2023. The Company is a wholly owned subsidiary of HSBC Insurance (Asia) Limited, a company incorporated in Hong Kong.

Financial statements

The profit of the Company for the year ended 31 December 2023 and the state of the Company’s affairs as at that date are set out in the financial statements on pages 7 to 111.

Reserves

Profit attributable to shareholders, before dividends, of HK\$4,842 million (2022 (restated): HK\$3,149 million) has been transferred to reserves. Other movements in reserves are set out in the statement of changes in equity.

Interim dividends of HK\$5,474 million (2022: HK\$3,900 million) were declared and paid during the year. The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2023 (2022: HK\$Nil).

Share capital

The balance of the Company’s authorised and issued share capital as at 31 December 2023 is HK\$4,178 million (2022: HK\$4,178 million).

Details of the movements in share capital of the Company during the year are set out in note 25 to the financial statements.

Charitable donations

No charitable donations were made by the Company during the year (2022: HK\$50,000).

Fixed assets

Movements in fixed assets during the year are set out in note 14 to the financial statements.

HSBC LIFE (INTERNATIONAL) LIMITED

REPORT OF THE DIRECTORS (continued)

Directors

The Directors and the change of directorships during the financial year and up to the date of this report are:

Name	Date of appointment	Date of resignation
ECL Moncreiffe, Chairman**	24 April 2024 (as Chairman)	10 April 2024 (as Chairman and Director)
GT Hingston**		
MM Lau		
S Katsaitis		
YY Yeung		
X Fang		
HM Knight*		
B Nikzad Abbasabadi*		
CF Yam*		

* Independent Non-Executive Director

** Subsequent to the resignation of GT Hingston as the Chairman and a Director of the Company on 10 April 2024, ECL Moncreiffe, a current director of the Company who was appointed on 27 September 2017, was appointed as the Chairman of the Company on 24 April 2024.

All directors retire and, being eligible, offer themselves for re-election.

Payments made to Directors

Payments made to directors during the year are set out in note 12 to the financial statements.

Apart from the above, no property was transferred, payment made, or loans advanced to, nor obligations assumed by or for a director of the Company or his nominees or associates during the year.

Directors' interests in shares

Certain executive or non-executive directors of the company are eligible to be granted conditional awards over ordinary shares in HSBC Holdings plc by its ultimate holding company under the HSBC Share Plan 2011 and the HSBC International Employee Share Purchase Plan ("ShareMatch").

During the year, ECL Moncreiffe, GT Hingston, MM Lau, S Katsaitis, YY Yeung and X Fang acquired or were awarded shares in HSBC Holdings plc under the terms of the HSBC Share Plan 2011. S Katsaitis also acquired shares in HSBC Holdings plc under ShareMatch.

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

HSBC LIFE (INTERNATIONAL) LIMITED

REPORT OF THE DIRECTORS (continued)

Directors' interests in transactions, arrangements or contracts

No transaction, arrangement or contract of significance to which the Company, any of its holding companies or any fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Permitted indemnity provision

The Company's ultimate holding company, HSBC Holdings plc, has maintained directors' and officers' liability insurance providing appropriate cover for the directors and officers within the Company, including the Directors of the Company.

Management contracts

No contract of significance concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



ECL Moncreiffe
Chairman

Hong Kong, 30 April 2024

Independent Auditor's Report

To the Members 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, which are set out on pages 7 to 111, comprise:

- the balance sheet as at 31 December 2023;
- 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, comprising material accounting policy information and other explanatory information.

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 2023, 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements of the Company Standing Alone section of our report.

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

Independence

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

Independent Auditor's Report

To the Members of HSBC Life (International) Limited
(incorporated in Bermuda with limited liability) (continued)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the report of the directors, but does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of Directors and 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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 Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report

To the Members of HSBC Life (International) Limited
(incorporated in Bermuda with limited liability) (continued)

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

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

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

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



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 April 2024

HSBC LIFE (INTERNATIONAL) LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023**

(Expressed in Hong Kong dollars)

	Note	2023 \$' millions	Restated 2022 \$' millions
Insurance revenue		8,239	6,501
Insurance service expenses		(4,189)	(3,495)
Net income/(expenses) from reinsurance contracts held		81	(233)
Insurance service results	7	4,131	2,773
Interest income from financial assets not measured at FVPL		721	814
Net gain/(loss) from financial assets measured at FVPL		33,372	(63,402)
Change in expected credit losses		33	(31)
Movement in investment contract liabilities		(933)	2,025
Finance cost		(182)	(87)
Other net investment income/(loss)		163	(469)
Net investment income/(expenses)	9	33,174	(61,150)
Net finance (expenses)/income from insurance contracts		(32,638)	63,428
Net finance income/(expenses) from reinsurance contracts held		1,482	(798)
Net insurance finance (expenses)/income	9	(31,156)	62,630
Net investment results	9	2,018	1,480
Net insurance and investment results	9	6,149	4,253
Net fee income	8	115	158
Other operating income		41	49
Other operating expenses	6	(643)	(793)
Profit before taxation		5,662	3,667
Income tax charge	10	(820)	(518)
Profit and total comprehensive income for the year		4,842	3,149

The notes on pages 13 to 111 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 11.

HSBC LIFE (INTERNATIONAL) LIMITED

BALANCE SHEET


AS AT 31 DECEMBER 2023

(Expressed in Hong Kong dollars)

	Note	31 December 2023 \$'millions	Restated 31 December 2022 \$'millions	Restated 1 January 2022 \$'millions
Assets				
Deferred tax assets	17	3,171	2,132	2,133
Intangible assets	16	590	604	530
Fixed assets	14	22	8	13
Investment properties		88	88	88
Investment in a subsidiary	13	554	554	234
Reinsurance contract assets	19	29,810	25,222	23,813
Insurance contract assets	19	806	-	-
Investment assets	18	504,544	467,054	499,840
Other receivables				
- Amounts due from fellow subsidiaries	27	394	17	33
- Sundry debtors and prepayments	20	53	203	142
- Amounts due from intermediate holding companies	27	33	236	156
- Amounts due from immediate holding company	27	2	53	32
- Amounts due from a subsidiary	27	3,597	3,593	3,646
Cash and cash equivalents	21	3,462	4,606	9,214
Total assets		547,126	504,370	539,874
Liabilities				
Subordinated loan	22	1,565	2,944	2,930
Insurance contract liabilities	19	471,382	428,555	461,991
Reinsurance contract liabilities	19	3,998	3,449	4,977
Liabilities under investment contracts issued	23	29,616	31,043	35,004
Investment liabilities	18	734	601	261
Repurchase agreements	27	8,725	10,192	3,901
Other payables				
- Amount due to an intermediate holding company	27	59	127	120
- Amounts due to fellow subsidiaries	27	136	136	178
- Amount due to ultimate holding company	27	3	6	7
- Amounts due to immediate holding company	27	33	-	-
Creditors and accruals		2,730	92	1,901
Current taxation	17	1,548	206	836
Total liabilities		520,529	477,351	512,106
Net assets		26,597	27,019	27,768
Shareholders' equity				
Share capital	25	4,178	4,178	4,178
Reserves		22,419	22,841	23,590
Total shareholders' equity		26,597	27,019	27,768

The financial statements on pages 7 to 12 were approved by the Board of Directors on 30 April 2024 and were signed on its behalf.


ECL Moncreiffe, Chairman


MM Lau, Director

The notes on pages 13 to 111 form part of these financial statements.

HSBC LIFE (INTERNATIONAL) LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023 (Expressed in Hong Kong dollars)

	Note	<i>Attributable to equity shareholders of the Company</i>				Total \$'millions
		Share capital \$'millions	Share premium \$'millions	Share-based payment reserve \$'millions	Retained profits \$'millions	
Balance at 1 January 2023		4,178	89	86	22,666	27,019
Changes in equity for 2023						
Profit for the year		-	-	-	4,842	4,842
Total comprehensive income		-	-	-	4,842	4,842
Exercise and lapse of share options and vesting of share awards		-	-	(6)	-	(6)
Dividends declared in respect of current year	11	-	-	-	(5,474)	(5,474)
Other adjustments		-	-	-	216	216
Balance at 31 December 2023		<u>4,178</u>	<u>89</u>	<u>80</u>	<u>22,250</u>	<u>26,597</u>

HSBC LIFE (INTERNATIONAL) LIMITED

STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

(Expressed in Hong Kong dollars)

		<i>Attributable to equity shareholders of the Company (Restated)</i>				
	Note	Share capital \$'millions	Share premium \$'millions	Share-based payment reserve \$'millions	Retained profits \$'millions	Total \$'millions
Balance at 31 December						
2021		4,178	89	84	34,788	39,139
Impact on transition to HKFRS 17		-	-	-	(11,371)	(11,371)
Balance at 1 January 2022		4,178	89	84	23,417	27,768
Changes in equity for 2022						
Profit for the year		-	-	-	3,149	3,149
Total comprehensive income		-	-	-	3,149	3,149
Cost of share-based payment arrangement		-	-	2	-	2
Dividends declared in respect of current year	11	-	-	-	(3,900)	(3,900)
Balance at 31 December 2022		4,178	89	86	22,666	27,019

The notes on pages 13 to 111 form part of these financial statements.

HSBC LIFE (INTERNATIONAL) LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

(Expressed in Hong Kong dollars)

	Note	2023 \$'millions	Restated 2022 \$'millions
Operating activities			
Profit before taxation		5,662	3,667
Adjustments for:			
- Depreciation and amortisation	14, 16	183	152
- Net insurance finance expenses/(income)		31,156	(62,630)
- Net (gain)/loss from financial assets measured at FVPL		(33,372)	63,402
- Interest income from financial assets not measured at FVPL		(721)	(814)
- Change in expected credit loss		(33)	31
- Share-based payment expenses		4	4
- Interest (income)/expenses on subordinated loan	22	(17)	14
- Other adjustments for non-cash items		250	(1)
Operating profit before changes in working capital		3,112	3,825
Changes in:			
- Net change in insurance and reinsurance contract assets/liabilities		6,826	26,257
- Increase in investment assets backing insurance contracts		(7,375)	(29,414)
- Decrease in liabilities under investment contracts issued		(1,427)	(3,961)
- Increase in sundry debtors and prepayments		(16,246)	(13,878)
- (Increase)/decrease in amounts due from fellow subsidiaries		(377)	16
- Decrease/(increase) in amount due from immediate holding company		51	(21)
- Decrease/(increase) in amount due from intermediate holding companies		203	(80)
- (Decrease)/increase in amount due to an intermediate holding company		(68)	7
- (Increase)/decrease in amounts due from a subsidiary		(4)	53
- Decrease in amounts due to fellow subsidiaries		-	(42)
- Decrease in amount due to ultimate holding company		(3)	(1)
- Increase in amount due to immediate holding company		33	-
- Increase/(decrease) in creditors and accruals		2,638	(1,809)
Interest received		13,051	11,803
Dividend received		3,668	2,456
Cash generated from/(used in) operations carried forward		4,082	(4,789)

HSBC LIFE (INTERNATIONAL) LIMITED

**STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

(Expressed in Hong Kong dollars)

	Note	2023 \$'millions	Restated 2022 \$'millions
Cash generated from operations brought forward		4,082	(4,789)
Tax paid			
- Hong Kong Profits Tax paid		(558)	(1,146)
- Overseas Profits Tax paid		-	-
		<u> </u>	<u> </u>
Net cash generated from/(used in) operating activities		3,524	(5,935)
		<u> </u>	<u> </u>
Investing activities			
Payments for purchase of fixed assets	14	(23)	-
Payments for purchase of intangible assets	16	(160)	(221)
Payments for purchase of subsidiaries		-	(320)
Purchase of investments		(14,100)	(12,424)
Proceeds from sale or redemption of investments		17,523	11,531
Interest received		395	370
		<u> </u>	<u> </u>
Net cash generated from investing activities		3,635	(1,064)
		<u> </u>	<u> </u>
Financing activities			
Dividend paid to equity shareholders of the Company		(5,474)	(3,900)
(Repayment)/Proceeds from repurchase agreement		(1,467)	6,291
Repayment from subordinated loan	22	(1,362)	-
		<u> </u>	<u> </u>
Net cash (used in)/from financing activities		(8,303)	2,391
		<u> </u>	<u> </u>
Net decrease in cash and cash equivalents		(1,144)	(4,608)
Cash and cash equivalents at 1 January		4,606	9,214
		<u> </u>	<u> </u>
Cash and cash equivalents at 31 December	21	3,462	4,606
		<u> </u>	<u> </u>

The notes on pages 13 to 111 form part of these financial statements.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies

(a) Statement of compliance

HSBC Life (International) Limited is a company incorporated in Bermuda with its registered office and principal place of business at 18/F, Tower 1, HSBC Centre, 1 Sham Mong Road, Kowloon, Hong Kong, SAR.

The principal activities of the Company are the transaction of life assurance and retirement benefit business. The principal activities and other particulars of the subsidiary are set out in note 13 to the financial statements.

The primary financial statements on pages 7 to 12 and notes 1 to 29 thereto has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) as issued by the Hong Kong Institute of Certified Public Accountants. HKFRS comprise the following authoritative literature:

- Hong Kong Financial Reporting Standards
- Hong Kong Accounting Standard
- Interpretations developed by the Hong Kong Institute of Certified Public Accountants (“HKICPA”)

A summary of the material accounting policies adopted by the Company is set out below. The HKICPA has issued a few new and amended standards 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 and amended standards issued that are not yet effective for the current accounting period (see Note 29).

(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.

The financial statements have been prepared on a historical cost basis except for:

- certain financial assets and financial liabilities measured at fair value; and
- insurance contract issued and reinsurance contract held measured on a current value basis as explained in Note 1(f) and Note 3

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.

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

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(c) Standalone 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 intermediate 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 <https://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.

(d) Investment in a subsidiary

Subsidiary is an entity 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, investment in a subsidiary is stated at cost less impairment losses.

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.

(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) Insurance contracts

A contract is classified as an insurance contract where the Company accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant.

i. Aggregation of insurance contracts

Individual insurance contracts that are managed together and subject to similar risks are identified as a portfolio. Contracts that are managed together usually belong to the same product group and have similar characteristics such as being subject to a similar pricing framework or similar product management. If a contract is exposed to more than one risk, the dominant risk of the contract is used to assess whether the contract features similar risks. Each portfolio is further separated by the contract’s expected profitability. The portfolios are split by their profitability into: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and (iii) the remaining contracts. These profitability groups are then divided by issue date, with contracts the Company issues after the transition date being grouped into calendar quarter cohorts. For multi-currency groups of contracts, the Company considers its groups of contracts as being denominated in a single currency.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(f) Insurance contracts (continued)

i. Aggregation of insurance contracts (continued)

The measurement of the insurance contract liability is based on groups of insurance contracts as established at initial recognition and will include fulfilment cash flows as well as the contractual service margin (“CSM”) representing the unearned profit. The Company has elected to update the estimates used in the measurement on a year-to-date basis.

ii. Fulfilment cash flows

The fulfilment cash flows comprise the following:

a. Best estimates of future cash flows

These cash flows within the contract boundary of each contract in the group include amounts expected to be collected from premiums and payouts for claims, benefits and expenses, and are projected using a range of scenarios and assumptions in an unbiased way based on the Company’s demographic and operating experience along with external mortality data where the Company’s own experience data is not sufficiently large in size to be credible.

b. Adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows

The estimates of future cash flows are adjusted to reflect the time value of money and the financial risks to derive an expected present value. The Company generally makes use of stochastic modelling techniques in the estimation for products with options and guarantees.

A bottom-up approach is used to determine the discount rate to be applied to a given set of expected future cash flows. This is derived as the sum of the risk-free yield and an illiquidity premium. The risk-free yield is determined based on observable market data, where such markets are considered to be deep, liquid and transparent. Illiquidity premiums reflect the liquidity characteristics of the associated insurance contracts.

c. Risk adjustment for non-financial risk

The risk adjustment reflects the compensation required for bearing the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. It is calculated as a 75th percentile level of stress over a one year period. The level of the stress is determined with reference to external regulatory stresses and internal economic capital stresses.

The 75th percentile is estimated to be equivalent to 60th percentile (2022: 59th percentile) for the main insurance manufacturing entity in the group, determined on the basis of an ultimate view over the whole duration of the of the contract.

The Company does not disaggregate changes in the risk adjustment between insurance service result (comprising insurance revenue and insurance service expense) and insurance finance income or expenses. All changes are included in insurance service result.

iii. Measurement models

The variable fee approach (“VFA”) measurement model is used for most of the contracts issued by the Company, which is mandatory upon meeting the following eligibility criteria at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(f) Insurance contracts (continued)

iii. Measurement models (continued)

- the Company expects to pay to the policyholder a substantial share of the fair value returns on the underlying items. The Company considers that a substantial share is a majority of returns; and
- the Company expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The Company considers that a substantial proportion is a majority proportion of change on a present value probability-weighted average of all scenarios. These criteria are assessed at the individual contract level based on the Company's expectations at the contract's inception, and they are not reassessed in subsequent periods, unless the contract is modified. The variability in the cash flows is assessed over the expected duration of a contract. The duration of a contract takes into account all cash flows within the boundary.

Insurance contracts with direct participation features ("DPF") are viewed as creating an obligation to pay policyholders an amount that is equal to the fair value of the underlying items, less a variable fee for service. The variable fee comprises the amount of the Company's share of the fair value of the underlying items, which is based on a fixed percentage of investment management fees (withdrawn annually from policyholder account values based on the fair value of underlying assets and specified in the contracts with policyholders), less the fulfilment cash flow that do not vary based on the returns on underlying items. The measurement approach for insurance contracts with direct participation features is referred to as the VFA. The VFA modifies the accounting model in HKFRS 17 to reflect that the consideration that an entity receives for the contracts is a variable fee.

Direct participating contracts issued by the Company are contracts with direct participation features where the Company holds the pool of underlying assets and accounts for these groups of contracts under the VFA.

The risk mitigation option is used for a number of economic offsets against the instruments that meet specific requirements.

The remaining contracts issued and the reinsurance contracts held are accounted for under the general measurement model ("GMM").

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(f) Insurance contracts (continued)

iv. CSM and coverage units

The CSM represents the unearned profit and results in no income or expense at initial recognition when the group of contracts is profitable. The CSM is adjusted at each subsequent reporting period for changes in fulfilment cash flows relating to future service (e.g. changes in non-economic assumptions, including mortality and morbidity rates). For initial recognition of onerous groups of contracts and when groups of contracts become onerous subsequently, losses are recognised in insurance service expense immediately.

For groups of contracts measured using the VFA, changes in the Company's share of the underlying items, and economic experience and economic assumption changes adjust the CSM, whereas these changes do not adjust the CSM under the GMM but are recognised in profit or loss as they arise. However, under the risk mitigation option for VFA contracts, the changes in the fulfilment cash flows and the changes in the Company's share in the fair value return on underlying items that the instruments mitigate are not adjusted in CSM but recognised in profit or loss. Certain instruments are eligible for risk mitigation option, including coinsurance arrangement on annuity business and mortality reinsurance on universal life business, which economic offset exists between fulfilment cash flow of underlying contracts and reinsurance contracts in response to interest rate movement.

The CSM is systematically recognised in insurance revenue to reflect the insurance contract services provided, based on the coverage units of the group of contracts. Coverage units are determined by the quantity of benefits and the expected coverage period of the contracts.

The Company identifies the quantity of the benefits provided as follows:

- For insurance coverage - based on the expected net policyholder insurance benefit at each period after allowance for decrements, where net policyholder insurance benefit refers to the amount of sum assured less the fund value or surrender value.
- For investment services (including both investment-return service and investment-related service) - based on a constant measure basis which reflects the provision of access for the policyholder to the facility.

For contracts that provide both insurance coverage and investment services, coverage units are weighted according to the expected present value of the future cash outflows for each service.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(f) Insurance contracts (continued)

v. Insurance service result

Insurance revenue reflects the consideration to which the Company expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components). Insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.

vi. Net insurance finance (expenses) / income

Net insurance finance (expenses) / income comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. For VFA contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in net insurance finance (expenses) / income.

vii. Presentation

The amounts presented in the income statement under HKFRS 17 include:

- insurance revenue that reflects the consideration to which the Company expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components).
- insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.
- net insurance finance (expenses) / income comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein.

For VFA contracts, changes in the fair value of the underlying items (excluding additions and withdrawals) are recognised in net insurance finance (expenses) / income.

The Company elected to re-calculate its results each period on a year-to-date basis, thereby re-calculating the results for periods already disclosed.

In measuring multi-currency groups of contracts, the Company considers its groups of contracts (including the CSM) as being denominated in a single currency. Changes in exchange rates between the currency of the cash flows and the currency of each group of contracts are treated as changes in financial risk. Changes in exchange rates between the currency of each group of contracts and the functional currency are treated as exchange differences.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(f) Insurance contracts (continued)

viii. Reinsurance contracts held

The Company purchased reinsurance in the normal course of business for the purpose of limiting its net loss potential. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

The measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued, with the exception of the following:

- Measurement of the cash flows include an allowance on a probability-weighted basis for the effect of any non-performance by the reinsurers, including the effects of collateral and losses from disputes.
- The Company determines the risk adjustment for non-financial risk so that it represents the amount of risk being transferred to the reinsurer.
- The Company recognizes both net gain and net cost on purchasing reinsurance at initial recognition in the balance sheet as CSM and releases this to profit or loss as the reinsurer renders services, except for the net cost that relates to events before initial recognition.

(g) 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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(g) Employee benefits (continued)

(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.

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.

(h) 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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(h) Income tax (continued)

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
- 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.

(i) Intangible assets

Intangible assets represent internally developed computer software development costs which is stated at cost less accumulated amortisation and impairment losses. See note 1(p) for further details of the impairment policy for intangible assets.

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

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(i) Intangible assets (continued)

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

(j) Financial instruments

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.

On initial recognition, a financial asset is classified as measured at:

- (1) amortised cost (“AC”);
- (2) fair value through other comprehensive income (“FVOCI”); or
- (3) fair value through profit or loss (“FVPL”).

Financial assets that are held to support contracts within the scope of HKFRS 17 (financial assets “backing” insurance contracts) are measured at FVPL as default and no business model assessment, or having to demonstrate either trading intent or the need to apply the fair value option is necessary. For financial assets that are not eligible for supporting insurance contracts, the Company will need to determine a business model and assess solely payments of principal and interest (the “SPPI test”) according to the requirements set out below.

For those financial assets where the contractual cash flows are assessed to be SPPI, classification at amortised cost or FVOCI will depend on whether the business model is to hold financial assets for the collection of contractual cash flows or whether the objective of the business model is achieved by both the collection of contractual cash flows and selling financial assets.

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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(j) Financial instruments (continued)

(i) Financial instruments measured at amortised cost

(1) Financial assets

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, including most debt securities and accreting loans, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes the directly attributed transactions costs. If the initial fair value is lower than the cash amount advanced, the difference is deferred and recognised over the life of the asset through the recognition of interest income, unless the asset becomes 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.

(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.

(ii) Financial instruments at fair value through profit or loss

Financial assets, including equities, collective investment schemes and some debt securities and accreting loans are measured at FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI. Changes in the fair value of the investment (including interest) are recognised in profit or loss.

The Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(j) Financial instruments (continued)

(ii) Financial instruments at fair value through profit or loss(Continued)

Transaction costs in respect of financial instruments designated at FVPL are expensed as they are incurred. After initial recognition, the Company measures financial instruments designated at FVPL, at their fair value. Gains and losses from changes in the fair value of such instruments are recognised as part of Net investment income as they arise.

Management designated financial instruments at FVPL if this eliminates a measurement or recognition inconsistency or if the liabilities are actively managed on a fair value basis. The risk management and investment strategies of these financial instruments are set by the Investment Committee and Risk Management Meeting of the Company with performance being evaluated on a fair value basis. These risk management and investment strategies are documented and approved by the Investment Committee and Risk Management Meeting of the Company.

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.

Investment contracts consist of contracts with guarantee features (i.e. capital and minimum return guarantees), being non-linked investment contract, and contracts without guarantee features, being the linked investment contracts.

For linked investment contract, the fair value is determined based on the fair value of the assets held in the linked funds.

For the non-linked investment contract, the fair value is determined based on the fair value of the assets held in the non-linked funds, plus where applicable an allowance for the future cost of guarantee.

The Company has designated all investment contract liabilities for measurement at fair value through profit or loss.

(iii) 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.

(iv) 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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(j) Financial instruments (continued)

(v) 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 5(c)(ii)(1));

Stage 2 - Financial assets which are considered to have experienced a significant increase in credit risk (see note 5(c)(ii)(3)). 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 5(c)(ii)(4)). 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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(j) Financial instruments (continued)

(v) 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 5(c)(ii)(1).

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.

(vi) Fair value measurement

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.

(k) Share capital

Ordinary shares are classified as equity.

(l) Dividend

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the equity, on or before the end of the reporting period but not distributed at the end of the reporting period.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(m) 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 in accordance with the policy set out in note 5(c)(iii)(1).

(n) 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.

(o) 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 other receivables.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(p) 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;
- investment in subsidiary; and

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.

(q) 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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(q) Related parties (continued)

- (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)(1).
 - (7) A person identified in (i)(2) 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.

(r) 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.

(s) 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.

(t) 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.

(u) Comparative figures

Comparative figures have been adjusted, where necessary, to conform to the basis of presentation and the classification used in the current year.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Changes in accounting standards, amendments and interpretation

The HKICPA has issued a few new standards and, amendments 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.

HKFRS 17 Insurance Contracts

On 1 January 2023, the Company initially applied HKFRS 17 *Insurance Contracts* with comparatives restated from the transition date, 1 January 2022. These include comparative data presented in the primary financial statements. At transition, the Company's total equity reduced by \$11,371m. For further details, see Note 3 *Effects of adoption of HKFRS 17*.

On adoption of HKFRS 17, balances based on HKFRS 4 in relation to the upfront recognition of future profits of in-force insurance contracts, were derecognised. Insurance contract liabilities have been remeasured under HKFRS 17 based on groups of insurance contracts, which include the fulfilment cash flows comprising the best estimate of the present value of the future cash flows (for example premiums and payouts for claims, benefits, and expenses), together with a risk adjustment for non-financial risk, as well as the contractual service margin. The CSM represents the unearned profits that will be released and systematically recognised in insurance revenue as services are provided over the expected coverage period.

In addition, the Company has made use of the option under the standard to re-designate certain eligible financial assets held to support insurance contract liabilities, which were measured at amortised cost, as financial assets measured at FVPL, with comparatives restated from the transition date. The effects on adoption of HKFRS 17 are set out in Note 3.

Transition

In applying HKFRS 17 for insurance contracts retrospectively, the full retrospective approach ("FRA") has been used unless it was impracticable. When the FRA is impracticable such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach ("MRA") or the fair value approach ("FVA"). The Company has applied the FRA for new business from 2019 at the earliest, subject to practicability, and the FVA for the contracts for which the FRA is impracticable.

Under the FVA, the valuation of insurance liabilities on transition is based on the applicable requirements of HKFRS 13 *Fair Value Measurement*. This requires consideration of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The CSM is calculated as the difference between what a market participant would demand for assuming the unexpired risk associated with insurance contracts, including required profit, and the fulfilment cash flows that are determined using HKFRS 17 principles.

In determining the fair value, the Company considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities with the consideration of the level of capital that a market participant would be required to hold, and the discount rate with an allowance for an illiquidity premium that takes into account the level of "matching" between the Company's assets and related liabilities.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 Changes in accounting standards, amendments and interpretation (continued)

Amendments to HKAS 12 International Tax Reform – Pillar Two Model Rules

On 20 June 2023, legislation was substantively enacted in the UK, the jurisdiction of the Company's ultimate parent entity, HSBC Holdings plc ("the Group"), to introduce the "Pillar Two" global minimum tax model rules of the OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS), with effect from 1 January 2024.

Under these rules, a top-up tax liability arises where the effective tax rate of the Company's operations in a jurisdiction, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15%. Any additional tax arising in relation to jurisdictions in which a Qualified Domestic Minimum Top-up Tax ("QDMTT") applies will be payable to the tax authority in that jurisdiction. Where there is no QDMTT, any resulting tax is payable by the Group, to the UK tax authority.

On 22 February 2023, the Hong Kong government has announced their intention to implement Pillar Two legislation and a QDMTT starting from 1 January 2025. Based on the Group's forecasts, no material top-up tax liability is expected to arise in the Company. Nonetheless, the impact is dependent upon the ongoing evolution of rules and guidance in the UK and Hong Kong.

3 Effects of the adoption of HKFRS 17

On 1 January 2023, the Company initially adopted HKFRS 17 *Insurance Contracts* with comparatives restated from the transition date, 1 January 2022. The tables below provide the transition restatement impact on the Company's balance sheet as at 1 January 2022, as well as the Company's statement of comprehensive income for the year ended 31 December 2022.

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(Expressed in Hong Kong dollars unless otherwise indicated)

3 Effects of the adoption of HKFRS 17 (continued)

Reconciliation for balance sheet at 31 December 2021 and 1 January 2022

	HKFRS 4 at 31 Dec 2021	Removal of HKFRS 4 measurement	Remeasurement designations	FV/ECL change due to FA redesignation, and related tax	HKFRS 17 CSM	Tax effect	HKFRS 17
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Assets							
Deferred tax assets	-	-	-	-	-	2,133	2,133
Intangible assets	530	-	-	-	-	-	530
Fixed assets	13	-	-	-	-	-	13
Investment properties	88	-	-	-	-	-	88
Investment in a subsidiary	234	-	-	-	-	-	234
Reinsurance contract assets	-	-	-	23,624	189	-	23,813
Reinsurance receivables	1,487	(1,487)	-	-	-	-	-
Insurance receivables	2,830	(2,830)	-	-	-	-	-
Reinsurers' share of liabilities under insurance contracts issued	21,101	(21,101)	-	-	-	-	-
Investment assets	473,459	-	26,381	-	-	-	499,840
Other receivables							
- Amounts due from fellow subsidiaries	33	-	-	-	-	-	33
- Sundry debtors and prepayments	111	31	-	-	-	-	142
- Amounts due from intermediate holding companies	156	-	-	-	-	-	156
- Amounts due from immediate holding company	32	-	-	-	-	-	32
- Amounts due from a subsidiary	3,646	-	-	-	-	-	3,646
Cash and cash equivalents	9,214	-	-	-	-	-	9,214
Total assets	512,934	(25,387)	26,381	23,624	189	2,133	539,874

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(Expressed in Hong Kong dollars unless otherwise indicated)

3 Effects of the adoption of HKFRS 17 (continued)

Reconciliation for balance sheet at 31 December 2021 and 1 January 2022 (continued)

	HKFRS 4 at 31 Dec 2021	Removal of HKFRS 4 measurement	Remeasurement designations	FV/ECL change due to FA redesignation, and related tax	HKFRS 17 CSM	Tax effect	HKFRS 17
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Liabilities							
Deferred tax liabilities	113	-	-	-	-	(113)	-
Subordinated loan	2,930	-	-	-	-	-	2,930
Insurance contract liabilities	-	-	-	424,907	37,084	-	461,991
Reinsurance contract liabilities	-	-	-	4,431	546	-	4,977
Liabilities under insurance contracts issued	375,950	(375,950)	-	-	-	-	-
Insurance payables	52,221	(52,221)	-	-	-	-	-
Reinsurance payables	1,225	(1,225)	-	-	-	-	-
Liabilities under investment contracts issued	35,004	-	-	-	-	-	35,004
Investment Liabilities	261	-	-	-	-	-	261
Repurchase agreement	3,901	-	-	-	-	-	3,901
Other payables	-	-	-	-	-	-	-
- Amount due to an intermediate holding company liabilities	120	-	-	-	-	-	120
- Amounts due to fellow subsidiaries	178	-	-	-	-	-	178
- Amount due to ultimate holding company	7	-	-	-	-	-	7
Creditors and accruals	1,049	852	-	-	-	-	1,901
Current taxation	836	-	-	-	-	-	836
Total liabilities	473,795	(428,544)	-	429,338	37,630	(113)	512,106

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(Expressed in Hong Kong dollars unless otherwise indicated)

3 Effects of the adoption of HKFRS 17 (continued)

Reconciliation for balance sheet at 31 December 2021 and 1 January 2022 (continued)

	HKFRS 17						
	fulfilment cash flows:						
	HKFRS 4 at 31 Dec 2021	Removal of HKFRS 4 measurement	Remeasurement of HKFRS 9 re-designations	FV/ECL change due to FA redesignation, and related tax	HKFRS 17 CSM	Tax effect	HKFRS 17
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Net assets	39,139	403,157	26,381	(405,714)	(37,441)	2,246	27,768
Shareholders' Equity							
Share capital	4,178	-	-	-	-	-	4,178
Reserves	34,961	403,157	26,381	(405,714)	(37,441)	2,246	23,590
Total shareholders' equity	39,139	403,157	26,381	(405,714)	(37,441)	2,246	27,768

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Effects of the adoption of HKFRS 17 (continued)

HKFRS 9 asset re-designation

Loans and advances and debt securities both supporting associated insurance liabilities, were re-designated from an amortised cost classification to FVPL. The re-designations were made in order to more closely align the asset accounting with the valuation of the associated insurance liabilities. The re-designation of amortised cost assets generated a net increase to assets because the fair value measurement on transition was higher than the previous amortised cost carrying amount.

Recognition of the HKFRS 17 fulfilment cash flows

The measurement of the insurance contracts liabilities under HKFRS 17 is based on groups of insurance contracts and includes a liability for fulfilling the insurance contracts, such as premiums, directly attributable expenses, insurance benefits and claims including policyholder returns and the cost of guarantees. These are recorded within the fulfilment cash flow component of the insurance contract liability, together with the risk adjustment for non-financial risk.

Recognition of the HKFRS 17 CSM

The CSM is a component of the insurance contract liability and represents the future unearned profit associated with insurance contracts which will be released to the profit and loss over the expected coverage period.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Effects of the adoption of HKFRS 17 (continued)

HKFRS 17 transition impact on the reported statement of comprehensive income for the year ended 31 December 2022

	Removal of		Remeasurement effect		Insurance finance income		Onerous contracts		Experience variance and other		Attributable expenses		Tax effect		HKFRS 17	
	HKFRS 4	HKFRS 4	of HKFRS 9 redesignations	of HKFRS 9 redesignations	finance income	HKFRS 17 CSM	contracts	and other	Attributable expenses	Tax effect	HKFRS 17	HKFRS 17	HKFRS 17	HKFRS 17	HKFRS 17	HKFRS 17
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Net insurance premium income	48,804	(48,804)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance revenue	-	-	-	-	-	3,105	-	3,396	-	-	-	-	-	-	-	6,501
Acquisition costs	(2,409)	2,409	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance service expenses	-	-	-	-	-	-	(226)	(3,269)	-	-	-	-	-	-	-	(3,495)
Net expenses from reinsurance contracts held	-	-	-	-	-	-	-	(233)	-	-	-	-	-	-	-	(233)
Insurance service result (HKFRS17)	46,395	(46,395)	-	-	-	3,105	(226)	(106)	-	-	-	-	-	-	-	2,773
Interest income from financial assets not measured at FVPL	11,945	-	(11,131)	-	-	-	-	-	-	-	-	-	-	-	-	814
Net loss from financial assets measured at FVPL	(7,736)	-	(55,666)	-	-	-	-	-	-	-	-	-	-	-	-	(63,402)
Net (loss)/gain on disposal of financial assets measured at amortised cost	(7)	-	7	-	-	-	-	-	-	-	-	-	-	-	-	-
Movement in investment contract liabilities	-	-	2,025	-	-	-	-	-	-	-	-	-	-	-	-	2,025
Change in expected credit losses	(49)	-	18	-	-	-	-	-	-	-	-	-	-	-	-	(31)
Finance cost	-	-	(87)	-	-	-	-	-	-	-	-	-	-	-	-	(87)
Other net investment income/(loss)	(3,659)	-	3,190	-	-	-	-	-	-	-	-	-	-	-	-	(469)
Net investment income (HKFRS4 / HKFRS17)	494	-	(61,644)	-	-	-	-	-	-	-	-	-	-	-	-	(61,150)
Net finance income from insurance contracts	-	-	-	-	63,428	-	-	-	-	-	-	-	-	-	-	63,428
Net finance expenses from reinsurance contracts held	-	-	-	-	(798)	-	-	-	-	-	-	-	-	-	-	(798)
Net insurance finance expenses (HKFRS17)	-	-	-	-	62,630	-	-	-	-	-	-	-	-	-	-	62,630

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Effects of the adoption of HKFRS 17 (continued)

HKFRS 17 transition impact on the reported statement of comprehensive income for the year ended 31 December 2022 (continued)

	HKFRS 4 \$'millions	Removal of HKFRS 4 \$'millions	Remeasurement effect of HKFRS 9 redesignations \$'millions	Insurance finance income \$'millions	HKFRS 17 CSM \$'millions	Onerous contracts \$'millions	Experience variance and other \$'millions	Attributable expenses \$'millions	Tax effect \$'millions	HKFRS 17 \$'millions
Gross claims and benefits incurred and movement in liabilities to policyholders	(51,886)	51,886	-	-	-	-	-	-	-	-
Reinsurers' share of claims and benefits incurred and movement in liabilities to policyholders	7,722	(7,722)	-	-	-	-	-	-	-	-
Net insurance claims and benefits and benefits incurred and movement in liabilities to policyholders (HKFRS4)	(44,164)	44,164	-	-	-	-	-	-	-	-
Fees income	359	(201)	-	-	-	-	-	-	-	158
Movement in investment contract liabilities	2,025	(2,025)	-	-	-	-	-	-	-	-
Other operating income	-	-	-	-	-	-	-	49	-	49
Other operating expenses	(1,566)	-	-	-	-	-	-	773	-	(793)
Profit before tax (HKFRS4 / HKFRS17)	3,543	(4,457)	(61,644)	62,630	3,105	(226)	(106)	822	-	3,667
Tax expense	(493)	-	-	-	-	-	-	-	(25)	(518)
Profit for the period (HKFRS4 / HKFRS17)	3,050	(4,457)	(61,644)	62,630	3,105	(226)	(106)	822	(25)	3,149

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3 Effects of the adoption of HKFRS 17 (continued)

Removal of HKFRS 4

As a result of the removal of the HKFRS 4 results, the associated revenue was previously reported within *Other operating income* is no longer reported under HKFRS 17. This includes the removal of the value of new business.

On the implementation of HKFRS 17, new income statement line items associated with insurance contract accounting were introduced. Consequently, the previously reported HKFRS 4 line items *Net insurance premium income* and *Net insurance claims and benefits paid and movement in liabilities to policyholders* were also removed.

Remeasurement effect of HKFRS 9 redesignations

Following the re-designation of financial assets supporting associated insurance liabilities to FVPL classification, the related income statement reporting also changed. Under our previous HKFRS 4-based reporting convention, these assets generated interest income is no longer reported in *Net interest income* under HKFRS 17. To the extent that this interest income was shared with policyholders, the corresponding policyholder sharing obligation was previously included within the *Net insurance claims and benefits paid and movement in liabilities to policyholders* line.

Following re-designation to FVPL, gains and losses from changes in the fair value of underlying assets, together with interest income earned, are both reported within *Net gain/(loss) from financial assets measured at FVPL*. Similar to an HKFRS 4 basis, HKFRS 17 accounting provides for an offset. While this offset was reported within the claims line under HKFRS 4, under HKFRS 17 it is reported within the *Net insurance finance (expenses)/ income* line described below.

Insurance finance income

Net finance income from insurance contracts of \$63,428m for the year ended 31 December 2022 represents the change in the carrying amount of insurance contracts arising from the effect of, and changes in, the time value of money and financial risk. For variable fee approach contracts, which represent more than 90% of the Company's insurance contracts, the *net insurance finance (expenses)/ income* includes the changes in the fair value of underlying items (excluding additions and withdrawals). It therefore has an offsetting impact to investment income earned on underlying assets supporting insurance contracts. This includes an offsetting impact to the gains and losses on assets re-designated on transition to FVPL, and which is now included in *Net insurance finance (expenses)/ income*.

HKFRS 17 CSM

Revenue is recognised for the release of the CSM associated with the in-force business, which was allocated at a rate of approximately 8% during 2022. The CSM release is largely impacted by the constant measure allocation approach for investment services, but may vary over time primarily due to changes in the total amount of CSM reported on the balance sheet from factors such as new business written, changes to levels of actual returns earned.

Onerous contracts

Losses on onerous contracts are taken to the statement of comprehensive income as incurred.

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3 Effects of the adoption of HKFRS 17 (continued)

Experience variance and other

Experience variance and other represents the expected expenses, claims and recovery of acquisition cash flows, which are reported as part of the *Insurance revenue*. This is offset with the actual expenses and claims incurred in the period and amortisation of acquisition cash flows, which are reported as part of *Insurance service expenses*.

Attributable expenses

Directly attributable expenses are the costs associated with originating and fulfilling an identified portfolio of insurance contracts. These costs include distribution fees paid to third parties as part of originating insurance contracts together with appropriate allocations of fixed and variable overheads, which are included within the fulfilment cash flows and are no longer shown on the operating expenses line, whereas non-attributable expenses remain in the other operating expenses.

Tax effect

Tax effect represents the tax impact of all the items described above.

4 Critical 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) Insurance contracts

Determination of the fair value of insurance contract liabilities

Under the FVA, the valuation of insurance liabilities on transition is based on the applicable requirements of HKFRS 13 *Fair Value Measurement*. This requires consideration of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The CSM is calculated as the difference between what a market participant would demand for assuming the unexpired risk associated with insurance contracts, including required profit, and the fulfilment cash flows that are determined using HKFRS 17 principles.

There is judgement involved in determining an appropriate fair value, as there is a lack of observable data for actual transactions for closed book insurance businesses and arrange of possible modelling approaches. In determining the fair value, the Company considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities, and the discount rate that would be applied within the HKFRS 13 calculation. The approach for setting these included the following:

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4 Critical estimates and judgements (continued)

(a) Insurance contracts (continued)

Determination of the fair value of insurance contract liabilities (continued)

- (i) The discount rate was derived with an allowance for a illiquidity premium that takes into account the level of "matching" between the Company's assets and related liabilities, utilising local regulatory frameworks.
- (ii) The profit margin was determined considering the level of capital that a market participant would be required to hold under the local regulatory framework, and the associated cost of capital.

These assumptions were set taking into account the assumptions that a hypothetical market participant operating in each local jurisdiction would consider.

Coverage units

The Company's approach to the determination of coverage units is set out in *Material accounting policies* in note 1(f). Significant judgement was involved in the determination of the approach that most faithfully represents the nature of our business and the benefits that are ascribed to the policy holder over the duration of insurance contracts, as the standard does not specify a required basis for determination of coverage units. This judgement is most significant for investment services, which constitute the most material element of service for most of our contracts. The Company determined that the coverage unit basis that best reflects the provision of investment services is the availability of the facility over time. The quantity of benefit selected is therefore a constant measure.

Discount rates

The discount rate methodology is a fundamental assumption underpinning the HKFRS 17 reporting. While HKFRS 17 does not specify the actual methodology of setting the discount rate, it requires that the methodology should be market consistent, set based on the liability characteristics, and that only financial risk should be allowed for in the discount rate. The Company has elected to apply a bottom-up approach whereby the discount rate is derived using the risk-free rate adjusted for a illiquidity premium as set out in the Note 1(f). The blended average of discount rates used within the Company are as follows:

	At 31 DEC 2023		At 31 DEC 2022		At 1 JAN 2022	
	HKD	USD	HKD	USD	HKD	USD
Rate 10Y (%)	4.02	4.47	4.56	4.59	2.17	2.23
Rate 20Y(%)	4.21	4.91	4.63	4.96	2.6	2.7

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4 Critical estimates and judgements (continued)

(a) Insurance contracts (continued)

Determination of the fair value of insurance contract liabilities (continued)

Expenses

HKFRS 17 requires the determination of whether cash flows are directly attributable to the acquisition or fulfilment of insurance contracts. Insurance acquisition cash flows are included in the measurement of a group of insurance contracts only if they are directly attributable to the individual contracts in a group, or to the group itself, or the portfolio of insurance contracts to which the group belongs. When estimating fulfilment cash flows, the Company also allocates fixed and variable overheads cash flows directly attributable to the fulfilment of insurance contracts. Judgement is involved in identifying and allocating costs and this determination has been informed by time study assessments which consider factors such as the allocation of frontline staff costs related to distribution including salaries, commissions and bonuses, and associated overhead allocations. Assessments are also performed to determine the amount of maintenance costs such as claims handling, policy administration and associated overheads.

(b) Measurement of ECL

The recognition and measurement of 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 5(c), which also sets out key sensitivity of the ECL to changes in these elements.

5 Risk and capital 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 risks. 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

(i) Governance

Insurance risk are managed to a defined risk appetite, which is aligned to the Company's risk appetite and enterprise risk management framework including the Company's Three Lines of defence model. The Company's Risk Management Meeting oversees the control framework.

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5 Risk and capital management (continued)

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

(ii) Measurement

The Company's risk profile of insurance businesses is measured using a risk based capital 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 calculation is aligned to the Hong Kong Risk Based Capital ("HKRBC") technical specifications. The HKRBC coverage ratio is a key risk appetite measure. Management has set out the risk appetite and tolerance level at which management actions are required.

(iii) Stress and scenario testing

Stress testing forms a key part of the risk management framework for the insurance business. The Company participates in regulatory stress tests. These have highlighted that a key risk scenario for the insurance business is a prolonged low interest rate environment. 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 risk based capital.

(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.

Contracts with DPF are further classified into Life direct participating contracts and Life other contracts under HKFRS 17.

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 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.

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(i) Market risk (continued)

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

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.

(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, asset management 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.

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(i) Market risk (continued)

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

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) *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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(i) Market risk (continued)

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;
- exiting, to the extent possible, investment portfolios whose risk is considered unacceptable; and
- repricing premiums charged to policyholders.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(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.

The amounts outstanding at the balance sheet date in respect of the financial assets and reinsurance contract assets that are subject to credit risk are shown in Note 18 and Note 19 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 and other publicly available information, with investment credit exposures monitored against limits. 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 5(c)(ii)(1)), with 100% of the exposure being neither past due nor impaired (2022: 100%). Assessment for impairment under HKFRS 9 is set out in accounting policy in Note 1(p).

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 5(c)(ii)(5).

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(ii) Credit risk (continued)

The Company's credit risk on financial instruments is mainly attributable to the portfolios of debt investments "backing" non-linked insurance and investment contracts. Credit risk of assets supporting liabilities under unit-linked insurance and investment contracts is predominantly borne by the policyholders.

For financial assets measured at amortised cost, the measurement of expected credit loss 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:

(1) 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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(ii) Credit risk (continued)

(1) Measurement of ECL (continued)

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

Good (Medium)

A- and above

BBB+ to BBB-

Sub-Investment grade

Satisfactory (Medium)

Sub-standard

Credit-impaired

BB+ to B and unrated

B- to C

Default

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

ECL resulting from default events that are possible within the next 12 months 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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(ii) Credit risk (continued)

(3) 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. Also, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

(4) 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.

(5) 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 17) and similar contracts.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(ii) Credit risk (continued)

(5) Credit risk concentrations (continued)

- 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 2023	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
-Debt securities									
- Government	7,428	-	-	-	7,428	-	-	-	-
- Corporate	21,228	-	-	-	21,228	(7)	-	-	(7)
- Banks	10,098	-	-	-	10,098	(2)	-	-	(2)
-Loans and receivables									
- Corporate	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
-Other assets at amortized cost*	17,259	-	-	-	17,259	-	-	-	-
Total	56,013	-	-	-	56,013	(9)	-	-	(9)

During the year, the Company does not have any credit exposures arising from loan and other credit commitments, or financial guarantees and similar contracts.

*Other assets at amortised cost comprise of cash and cash equivalents, portfolio cash, amount due from investment managers and other receivables (except prepayments).

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(ii) Credit risk (continued)

(5) Credit risk concentrations (continued)

At 31 December 2022 (restated)	Gross carrying amount						Allowance for ECL			ECL Charge for the year \$ millions
	Stage 1 \$ millions	Stage 2 \$ millions	Stage 3 \$ millions	POCI \$ millions	Total \$ millions	Stage 1 \$ millions	Stage 2 \$ millions	Stage 3 \$ millions	POCI \$ millions	
-Debt securities										
- Government	11,464	-	-	-	11,464	-	-	-	-	-
- Corporate	15,871	-	-	-	15,871	(7)	-	-	-	(7)
- Banks	12,892	30	-	-	12,922	-	-	-	-	-
-Loans and receivables										
- Corporate	-	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
-Other assets at amortized cost*	20,658	-	-	-	20,658	-	-	-	-	-
Total	60,885	30	-	-	60,915	(7)	-	-	-	(7)

During the year, the Company does not have any credit exposures arising from loan and other credit commitments, or financial guarantees and similar contracts.

*Other assets at amortised cost comprise of cash and cash equivalents, portfolio cash, amount due from investment managers and other receivables (except prepayments).

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(ii) Credit risk (continued)

(5) Credit risk concentrations (continued)

- 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.

	Gross carrying						Total \$ millions	Allowance for ECL \$ millions	Net \$ millions
	Strong \$ millions	Good \$ millions	Satisfactory \$ millions	Sub-standard \$ millions	Credit impaired \$ millions	Total \$ millions			
At 31 December 2023									
Debt securities	35,875	2,879	-	-	-	38,754	(9)	38,745	
- Stage 1	35,875	2,879	-	-	-	38,754	(9)	38,745	
- Stage 2	-	-	-	-	-	-	-	-	
- Stage 3	-	-	-	-	-	-	-	-	
- POCI	-	-	-	-	-	-	-	-	
Other assets at amortised cost*	17,259	-	-	-	-	17,259	-	17,259	
- Stage 1	17,259	-	-	-	-	17,259	-	17,259	
- Stage 2	-	-	-	-	-	-	-	-	
- Stage 3	-	-	-	-	-	-	-	-	
- POCI	-	-	-	-	-	-	-	-	
Total	53,134	2,879	-	-	-	56,013	(9)	56,004	
- Stage 1	53,134	2,879	-	-	-	56,013	(9)	56,004	
- Stage 2	-	-	-	-	-	-	-	-	
- Stage 3	-	-	-	-	-	-	-	-	
- POCI	-	-	-	-	-	-	-	-	

*Other assets at amortised cost comprise of cash and cash equivalents, portfolio cash, amount due from investment managers and other receivables (except prepayments).

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(ii) Credit risk (continued)

(5) Credit risk concentrations (continued)

	At 31 December 2022 (restated)							Net \$'millions
	Strong \$'millions	Good \$'millions	Satisfactory \$'millions	Sub-standard \$'millions	Credit impaired \$'millions	Total \$'millions	Allowance for ECL \$'millions	
Debt securities	37,506	2,751	-	-	-	40,257	(7)	40,250
- Stage 1	37,506	2,721	-	-	-	40,227	(7)	40,220
- Stage 2	-	30	-	-	-	30	-	30
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-
Other assets at amortised cost*	20,658	-	-	-	-	20,658	-	20,658
- Stage 1	20,658	-	-	-	-	20,658	-	20,658
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-
Total	58,164	2,751	-	-	-	60,915	(7)	60,908
- Stage 1	58,164	2,721	-	-	-	60,885	(7)	60,878
- Stage 2	-	30	-	-	-	30	-	30
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-

*Other assets at amortised cost comprise of cash and cash equivalents, portfolio cash, amount due from investment managers and other receivables (except prepayments).

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(ii) Credit risk (continued)

(5) Credit risk concentrations (continued)

- Summary of ECL changes in gross carrying amount and allowances for debt securities and the associated ECL coverage.

	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 2023	40,227	(7)	30	-	-	-	-	-	40,257	(7)
Transfers of financial instruments										
- Transfers from Stage 2 to Stage 1	30	-	(30)	-	-	-	-	-	-	-
New financial assets originated or purchased	6,676	(2)	-	-	-	-	-	-	6,676	(2)
Changes to risk parameters (model inputs)	187	-	-	-	-	-	-	-	187	-
Assets derecognised	(8,366)	-	-	-	-	-	-	-	(8,366)	-
	38,754	(9)	-	-	-	-	-	-	38,754	(9)
At 31 December 2023										

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(ii) Credit risk (continued)

(5) Credit risk concentrations (continued)

- Summary of ECL changes in gross carrying amount and allowances for debt securities and the associated ECL coverage (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 2022	300,552	(197)	2,033	(46)	-	-	-	-	302,585	(243)
HKFRS 17 transition impact	(260,166)	185	(2,033)	46	-	-	-	-	(262,199)	231
At 1 January 2022 (restated)	40,386	(12)	-	-	-	-	-	-	40,386	(12)
Transfers of financial instruments										
- Transfers from Stage 1 to Stage 2	(30)	-	30	-	-	-	-	-	-	-
- Transfers from Stage 2 to Stage 1	257	(1)	(257)	1	-	-	-	-	-	-
New financial assets originated or purchased	9,029	(1)	-	-	-	-	-	-	9,029	(1)
Changes to risk parameters (model inputs)	(626)	6	611	(9)	-	-	-	-	(15)	(3)
Assets derecognised	(8,789)	1	(354)	8	-	-	-	-	(9,143)	9
At 31 December 2022	40,227	(7)	30	-	-	-	-	-	40,257	(7)

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(ii) Credit risk (continued)

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

The recognition and measurement of ECL involves the use of significant judgement and estimation. The Company forms multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

Four economic scenarios have been used to capture the exceptional nature of the current economic environment and to articulate management's view of the range of potential outcomes. Three of the scenarios are drawn from consensus forecasts and distributional estimates. These include a central scenario, representing a most likely outcome, a downside and an upside scenario that represent meaningfully different outcomes from the central. The central scenario is created using the average of a panel of external forecasters ("the consensus") while consensus upside and downside scenarios are created with reference to distributions for select markets that capture forecasters views of the entire range of outcomes. In the later years of the scenarios, projections revert to long-term consensus trend expectations. In the consensus outer scenarios, reversion to trend expectations is done mechanically with reference to historically observed quarterly changes in the values of macroeconomic variables.

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.

	2023 \$'millions	2022 \$'millions
ECL based exposures at 31 Dec	56,013	60,915
Central scenario	6	4
Upside scenario	4	2
Downside scenario 1 scenario	10	8
Downside scenario 2 scenario	58	50

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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(ii) Credit risk (continued)

(7) The Company has reinsurance contract assets subject to credit risk

At 31 December 2023

Reinsurance contracts assets	<i>Neither past due nor impaired</i>				Total \$' millions
	Strong \$' millions	Medium \$' millions	Sub- standard \$' millions	Past due not impaired \$' millions	
Life others	29,810	-	-	-	29,810
Total	29,810	-	-	-	29,810

At 31 December 2022 (restated)

Reinsurance contracts assets	<i>Neither past due nor impaired</i>				Total \$' millions
	Strong \$' millions	Medium \$' millions	Sub- standard \$' millions	Past due not impaired \$' millions	
Life others	25,222	-	-	-	25,222
Total	25,222	-	-	-	25,222

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital 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.

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

	2023				
	Total \$'millions	One year or less \$'millions	1 - 2 years \$'millions	2 - 5 years \$'millions	More than 5 years \$'millions
Financial assets					
Investment assets (including Equities, Debt securities and Collective investment schemes)	481,444	170,561	24,160	63,697	223,026
Other assets	4,079	4,079	-	-	-
Loans and receivables	12,886	276	2,063	4,454	6,093
Amounts due from investment managers	3,978	3,978	-	-	-
Portfolio cash	5,740	5,740	-	-	-
Cash and cash equivalents	3,462	3,462	-	-	-
Derivatives	496	320	9	28	139
	<u>512,085</u>	<u>188,416</u>	<u>26,232</u>	<u>68,179</u>	<u>229,258</u>
Financial liabilities (excluding investment contracts)					
Subordinated loan	1,565	-	-	-	1,565
Repurchase agreement	8,725	8,725	-	-	-
Other payables	2,961	2,961	-	-	-
Derivatives	734	693	4	23	14
	<u>13,985</u>	<u>12,379</u>	<u>4</u>	<u>23</u>	<u>1,579</u>

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(iii) Liquidity risk (continued)

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

	2022 (restated)				
	Total \$'millions	One year or less \$'millions	1 - 2 years \$'millions	2 - 5 years \$'millions	More than 5 years \$'millions
Financial assets					
Investment assets (including Equities, Debt securities and Collective investment schemes)	440,017	150,136	12,943	67,770	209,168
Other assets	4,102	4,102	-	-	-
Loans and receivables	14,634	1,076	738	6,247	6,573
Amounts due from investment managers	4,040	4,040	-	-	-
Portfolio cash	7,914	7,914	-	-	-
Cash and cash equivalents	4,606	4,606	-	-	-
Derivatives	449	430	-	2	17
	<u>475,762</u>	<u>172,304</u>	<u>13,681</u>	<u>74,019</u>	<u>215,758</u>
Financial liabilities (excluding investment contracts)					
Subordinated loan	2,944	-	-	-	2,944
Repurchase agreement	10,192	10,192	-	-	-
Other payables	361	361	-	-	-
Derivatives	601	521	3	25	52
	<u>14,098</u>	<u>11,074</u>	<u>3</u>	<u>25</u>	<u>2,996</u>

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(iii) Liquidity risk (continued)

(2) 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.

Amounts Payable on Demand

	2023		2022 (restated)	
	Amounts Payable on Demand \$'millions	Carrying Amount for these Contracts \$'millions	Amounts Payable on Demand \$'millions	Carrying Amount for these Contracts \$'millions
Life direct participating contracts	432,625	460,103	384,905	414,532
Life other contracts	9,375	11,279	12,076	14,023
At 31 Dec	442,000	471,382	396,981	428,555

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(iii) Liquidity risk (continued)

Investment Contracts:

	2023				
	Total \$'millions	One year or less \$'millions	1 - 2 years \$'millions	2 - 5 years \$'millions	More than 5 years \$'millions
Investment contracts					
- Non-linked	24,176	85	-	-	24,091
- Linked	5,440	130	-	-	5,310
	<u>29,616</u>	<u>215</u>	<u>-</u>	<u>-</u>	<u>29,401</u>
	2022 (restated)				
	Total \$'millions	One year or less \$'millions	1 - 2 years \$'millions	2 - 5 years \$'millions	More than 5 years \$'millions
Investment contracts					
- Non-linked	25,535	74	-	-	25,461
- Linked	5,508	141	-	-	5,367
	<u>31,043</u>	<u>215</u>	<u>-</u>	<u>-</u>	<u>30,828</u>

(iv) Underwriting risk arising from insurance contracts

Underwriting risk arising from insurance contracts 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 underwriting risk the Company faces is that, over time, the cost of fulfilling the contracts, including claims and benefits may exceed the total amount of premiums and investment returns.

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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(iv) Underwriting risk arising from insurance contracts (continued)

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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(iv) Underwriting risk arising from insurance contracts (continued)

The following tables illustrate when the Company expects to recognise the remaining contractual service margin as insurance revenue for insurance contracts and allocation of reinsurance premiums for reinsurance contracts held.

	Within 1 year \$'millions	1-2 years \$'millions	2-3 years \$'millions	3-4 years \$'millions	4-5 years \$'millions	5-10 years \$'millions	10-20 years \$'millions	Over 20 years \$'millions	Total \$'millions
Insurance liability future									
Life direct participating contracts	(18,122)	(6,003)	7,489	8,940	12,772	48,167	132,137	229,672	415,052
Life other contracts	7,456	2,991	(69)	(63)	(48)	(135)	(126)	275	10,281
Reinsurance contracts	(6,623)	(3,680)	(964)	(850)	(852)	(7,421)	(7,730)	2,377	(25,743)
At 31 Dec 2023	(17,289)	(6,692)	6,456	8,027	11,872	40,611	124,281	232,324	399,590
Remaining contractual									
Life direct participating contracts	3,801	3,525	3,261	3,000	2,768	10,779	10,860	5,484	43,478
Life other contracts	150	127	111	96	80	182	89	22	857
Reinsurance contracts	67	39	88	28	39	(62)	(58)	25	166
At 31 Dec 2023	4,018	3,691	3,460	3,124	2,887	10,899	10,891	5,531	44,501
	Within 1 year \$'millions	1-2 years \$'millions	2-3 years \$'millions	3-4 years \$'millions	4-5 years \$'millions	5-10 years \$'millions	10-20 years \$'millions	Over 20 years \$'millions	Total \$'millions
Insurance liability future									
Life direct participating contracts	(25,486)	(11,277)	554	3,467	5,849	37,782	178,681	191,957	381,527
Life other contracts	3,427	6,613	2,686	(69)	286	(79)	26	341	13,231
Reinsurance contracts	(2,190)	(3,685)	(3,258)	(597)	(938)	(5,990)	(7,091)	1,688	(22,061)
At 31 Dec 2022	(24,249)	(8,349)	(18)	2,801	5,197	31,713	171,616	193,986	372,697
Remaining contractual									
Life direct participating contracts	2,661	2,470	2,302	2,136	1,986	7,995	8,469	4,257	32,276
Life other contracts	128	107	93	81	69	168	71	22	739
Reinsurance contracts	44	42	40	37	34	104	97	68	466
At 31 Dec 2022	2,833	2,619	2,435	2,254	2,089	8,267	8,637	4,347	33,481

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(v) Financial guarantee 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 to manage its foreign currency risk. Most of the foreign exchange forward contracts have maturities of less than one year.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(vi) Foreign exchange risk (continued)

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

	2023			Total \$'millions
	Exposure in USD \$'millions	Exposure in HKD \$'millions	Exposure in other currencies \$'millions	
<i>In millions of HKD equivalent</i>				
Financial assets				
Loans and receivables	6,920	4,623	1,343	12,886
Debt securities	197,224	124,734	2,883	324,841
Equity	18,106	8,906	23,326	50,338
Derivatives	(5,127)	5,512	111	496
Collective investment schemes	86,656	5,970	13,639	106,265
Amounts due from investment managers	2,257	1,574	147	3,978
Portfolio cash	2,874	2,290	576	5,740
Cash and cash equivalents	1,082	1,800	580	3,462
Other assets (including Prepayment and other receivables)	62	4,007	10	4,079
	<u>310,054</u>	<u>159,416</u>	<u>42,615</u>	<u>512,085</u>
Financial liabilities				
Liabilities under investment contracts	479	29,090	47	29,616
Other liabilities (including accrual and other payables)	188	2,632	141	2,961
Derivatives	3,388	(38,278)	35,624	734
Repurchase agreement	8,725	-	-	8,725
	<u>12,780</u>	<u>(6,556)</u>	<u>35,812</u>	<u>42,036</u>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(vi) Foreign exchange risk (continued)

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

	2022 (restated)			Total \$'millions
	Exposure in USD \$'millions	Exposure in HKD \$'millions	Exposure in other currencies \$'millions	
<i>In millions of HKD equivalent</i>				
Financial assets				
Loans and receivables	6,244	6,990	1,400	14,634
Debt securities	180,818	126,142	2,420	309,380
Equity	13,575	9,047	17,773	40,395
Derivatives	(3,658)	4,083	24	449
Collective investment schemes	73,241	6,180	10,821	90,242
Amounts due from investment managers	2,375	1,561	104	4,040
Portfolio cash	3,928	3,406	580	7,914
Cash and cash equivalents	1,258	2,595	753	4,606
Other assets (including Prepayment and other receivables)	81	3,921	100	4,102
	<u>277,862</u>	<u>163,925</u>	<u>33,975</u>	<u>475,762</u>
Financial liabilities				
Liabilities under investment contracts	618	30,408	17	31,043
Other liabilities (including accrual and other payables)	81	230	50	361
Derivatives	2,973	(30,577)	28,205	601
Repurchase agreement	10,192	-	-	10,192
	<u>13,864</u>	<u>61</u>	<u>28,272</u>	<u>42,197</u>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(vii) Interest rate risk

Details of how the Company manages interest rate risk are disclosed in Note 5(c)(i).

(1) 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 2023, of the total non-linked investment contracts, an aggregate fund value of \$21,358 million (2022: \$22,329 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 \$165 million (2022: \$199 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 \$248 million (2022: \$256 million) increase in the value of assets backing investment contract liabilities. This entire amount \$248 million (2022: \$256 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 \$56 million (2022: \$39 million). Therefore, the aggregate impact is a reduction of profit after taxation or shareholders' equity of \$56 million (2022: \$39 million).

(viii) Sensitivities

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 FVPL, 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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(viii) Sensitivities (continued)

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.

	2023			2022		
	Effect on profit after tax \$'millions	Effect on CSM \$'millions	Effect on total equity \$'millions	Effect on profit after tax \$'millions	Effect on CSM \$'millions	Effect on total equity \$'millions
+100 basis point parallel shift in yield curves						
- Insurance & Reinsurance Contracts	(66)	(1,122)	(66)	(1,565)	(502)	(1,565)
- Financial Instruments	(6)	-	(6)	32	-	32
-100 basis point parallel shift in yield curves						
- Insurance & Reinsurance Contracts	33	(1,384)	33	65	652	65
- Financial Instruments	(56)	-	(56)	(72)	-	(72)
+100 basis point shift in credit spreads						
- Insurance & Reinsurance Contracts	(372)	(5,059)	(372)	(1,940)	(4,357)	(1,940)
- Financial Instruments	-	-	-	-	-	-
-100 basis point shift in credit spreads						
- Insurance & Reinsurance Contracts	434	4,525	434	550	5,983	550
- Financial Instruments	-	-	-	-	-	-
10% increase in growth assets ¹						
- Insurance & Reinsurance Contracts	137	1,674	137	150	1,795	150
- Financial Instruments	17	-	17	26	-	26
10% decrease in growth assets ¹						
- Insurance & Reinsurance Contracts	(171)	(2,199)	(171)	(223)	(2,848)	(223)
- Financial Instruments	(21)	-	(21)	(29)	-	(29)
10% increase in US dollar exchange rate compared with all currencies						
- Insurance & Reinsurance Contracts	199	2,603	199	128	1,756	128
- Financial Instruments	761	-	761	721	-	721
10% decrease in US dollar exchange rate compared with all currencies						
- Insurance & Reinsurance Contracts	(199)	(2,603)	(199)	(128)	(1,756)	(128)
- Financial Instruments	(761)	-	(761)	(721)	-	(721)

¹ Growth assets primarily comprise equity securities and investment properties and variability in growth asset fair value constitutes a market risk to HSBC insurance manufacturing subsidiaries.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 Risk and capital management (continued)

(c) Key risk types (continued)

(ix) Equity price risk

The portfolio of equity securities (including collective investment schemes) backing non-linked investment 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 5(c).

At 31 December 2023, the equity securities (including collective investment schemes) backing non-linked insurance contracts were recorded at their fair value of \$116,519 million (2022: \$88,109 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 \$127 million (2022: \$67 million).

6 Other operating expenses

	2023 \$'millions	Restated 2022 \$'millions
Auditors' remuneration		
- Statutory audit	15	9
- Audit-related services	11	9
Rental expenses	38	35
Personnel expenses		
- Wages and salaries	496	451
- Contributions to defined contribution plans	41	37
Share-based payment expenses		
- Share awards	4	4
Legal and professional fee	22	58
Marketing expenses	131	140
Other administrative expenses	728	818
Depreciation	9	5
	<hr/>	<hr/>
	1,495	1,566
Less: cost directly attributable to insurance business	(852)	(773)
	<hr/>	<hr/>
	643	793
	<hr/> <hr/>	<hr/> <hr/>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

7 Insurance service results

	2023		2022			
	Life direct participating contracts ¹ \$'millions	Life Other ^{2,3} \$'millions	Total \$'millions	Life direct participating contracts ¹ \$'millions	Life Other ^{2,3} \$'millions	Total \$'millions
Contracts issued						
Insurance revenue						
Amounts relating to changes in liabilities for remaining coverage						
- CSM recognised for services provided	3,891	192	4,083	2,951	154	3,105
- Change in risk adjustment for non-financial risk for risk expired	52	53	105	54	65	119
- Expected incurred claims and other insurance service expenses	1,760	1,313	3,073	1,792	1,305	3,097
Recovery of insurance acquisition cash flows	866	112	978	120	60	180
Total insurance revenue for contracts	6,569	1,670	8,239	4,917	1,584	6,501
Insurance service expenses						
Claims and benefits	(1,875)	(1,329)	(3,204)	(1,749)	(1,293)	(3,042)
Losses on onerous insurance contracts	(3)	(9)	(12)	(61)	(165)	(226)
Amortisation of insurance acquisition cash flows	(866)	(112)	(978)	(119)	(60)	(179)
Adjustments to liabilities for incurred claims	(1)	6	5	(16)	(32)	(48)
Total insurance service expenses for contracts issued	(2,745)	(1,444)	(4,189)	(1,945)	(1,550)	(3,495)
Net expense from reinsurance contracts held	-	81	81	-	(233)	(233)
Insurance service results	3,824	307	4,131	2,972	(199)	2,773

¹ *Life direct participating contracts* are measured under the variable fee approach measurement model.

² *Life Other* contracts are measured under the general measurement model.

³ *Life Other* mainly includes protection insurance contracts as well as reinsurance contracts held. The reinsurance contracts held primarily provide diversification benefits over the life participating contracts.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 Net fees income

	Investment contracts (Non-linked)		Investment Contracts (linked)		Service contracts		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Net fee income	69	78	58	58	(12)	22	115	158

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

9 Net Investment results

	2023			2022				
	Life direct participating contracts \$'millions	Life other contracts \$'millions	Non-insurance related \$'millions	Total \$'millions	Life direct participating contracts \$'millions	Life other contracts \$'millions	Non-insurance related \$'millions	Total \$'millions
Net investment income/(expenses)								
Represented by:								
Amounts recognised in statement of comprehensive income	31,792	441	941	33,174	(61,807)	44	613	(61,150)
Total net investment income/(expenses)	31,792	441	941	33,174	(61,807)	44	613	(61,150)
Net finance (expenses)/income from insurance contracts								
Changes in fair value of underlying items of direct participating contracts	(31,792)	-	-	(31,792)	61,807	-	-	61,807
Effect of risk mitigation option	(342)	-	-	(342)	1,497	-	-	1,497
Interest accreted	-	(521)	-	(521)	12	(379)	-	(367)
Effect of changes in interest rates and other financial assumptions	-	44	-	44	-	487	-	487
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	-	(27)	-	(27)	-	4	-	4
Total net finance (expenses)/income from insurance contracts	(32,134)	(504)	-	(32,638)	63,316	112	-	63,428

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

9 Net Investment results (continued)

	2023		2022					
	Life direct participating contracts \$'millions	Life other contracts \$'millions	Non- insurance related \$'millions	Total \$'millions	Life direct participating contracts \$'millions	Life other contracts \$'millions	Non- insurance related \$'millions	Total \$'millions
Represented by:								
Amounts recognised in statement of comprehensive income								
Net finance income from reinsurance contracts held	(32,134)	(504)	-	(32,638)	63,316	112	-	63,428
Total net finance income from reinsurance contracts held	-	1,482	-	1,482	-	(798)	-	(798)
Represented by:								
Amounts recognised in statement of comprehensive income								
Total net investment results	-	1,482	-	1,482	-	(798)	-	(798)
Represented by:								
Amounts recognised in statement of comprehensive income								
	(342)	1,419	941	2,018	1,509	(642)	613	1,480

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

10 Income taxes

(a) Taxation in the income statement represents:

	2023 \$'millions	2022 (restated) \$'millions
Current tax - Hong Kong Profits Tax		
Provision for the year	1,276	576
Over-provision in respect of prior years	(71)	(59)
Provision for transitional tax adjustment (Note i)	630	-
	<u>1,835</u>	<u>517</u>
Current tax - Overseas		
Withholding tax provision for the year	65	(2)
	<u>1,900</u>	<u>515</u>
Deferred tax		
Origination and reversal of temporary differences	(1,080)	3
Total income tax expense	<u><u>820</u></u>	<u><u>518</u></u>

The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: 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.

Note: (i) There is a transitional tax adjustment arising from the one-off increase in taxable profits upon the Company's early adoption of the HKRBC regime. Under the tax regulation, the Company is allowed to spread the adjustment over five years, one-fifth of which is required to be taxed and accrued as current tax (i.e.\$630m) in the assessment year in which HKRBC is early adopted.

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

	2023 \$'millions	%	2022 (restated) \$'millions	%
Profit before taxation	<u><u>5,662</u></u>		<u><u>3,667</u></u>	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	934	16.5	605	16.5
Withholding tax provision for the year	65	1.2	(2)	(0.1)
Over-provision in respect of prior years	(71)	(1.3)	(59)	(1.6)
Tax effect of non-taxable income and non-deductible expenses	(108)	(1.9)	(26)	(0.7)
	<u><u>820</u></u>	<u><u>14.5</u></u>	<u><u>518</u></u>	<u><u>14.1</u></u>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 Dividends

Dividends paid to equity shareholders of the Company in respect of the year.

	2023 \$'millions	2022 \$'millions
Interim dividend declared and paid of \$1.310 (2022: \$0.933) per ordinary share	<u>5,474</u>	<u>3,900</u>

12 Directors' remuneration

	2023 \$'millions	2022 \$'millions
Fees	1	1
Other emoluments	<u>10</u>	<u>9</u>
	<u>11</u>	<u>10</u>

Other emoluments disclosed above includes contributions to retirement benefits of \$546,000 (2022: \$546,000).

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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

13 Investment in a subsidiary

	2023 \$' millions	2022 \$' millions
Unlisted shares, at cost	<u>554</u>	<u>554</u>

Details of the subsidiary as at 31 December 2023 are as follows:

<i>Name of company</i>	<i>Principal place of business</i>	<i>Proportion of ownership interest</i>		<i>Principal activities</i>
		<i>Percentage held directly by the Company</i>	<i>Percentage held indirectly by the Company</i>	
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 (Workshop) Limited	Hong Kong	-	100%	Property Investment and Property Holding

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

14 Fixed assets

	Computer Equipment \$'millions	Equipment, fixtures and fittings \$'millions	Total \$'millions
Cost:			
At 1 January 2023	11	9	20
Additions	-	23	23
	-----	-----	-----
At 31 December 2023	11	32	43
	-----	-----	-----
Accumulated depreciation and impairment losses:			
At 1 January 2023	7	5	12
Charge for this year	2	7	9
	-----	-----	-----
At 31 December 2023	9	12	21
	-----	-----	-----
Net book value:			
At 31 December 2023	2	20	22
	=====	=====	=====

	Computer Equipment \$'millions	Equipment, fixtures and fittings \$'millions	Total \$'millions
Cost:			
At 1 January 2022	11	9	20
	-----	-----	-----
At 31 December 2022	11	9	20
	-----	-----	-----
Accumulated depreciation and impairment losses:			
At 1 January 2022	4	3	7
Charge for this year	3	2	5
	-----	-----	-----
At 31 December 2022	7	5	12
	-----	-----	-----
Net book value:			
At 31 December 2022	4	4	8
	=====	=====	=====

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

15 Interests in structured entities

Included in financial assets designated at FVPL on the Company's balance sheet are certain investments in collective investment schemes (see Note 18) 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 5(c)(ix)) 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 18) and the outstanding capital commitments to invest in private equity funds (see Note 26).

16 Intangible assets

	Software development costs	
	2023 \$'millions	2022 \$'millions
Cost:		
At 1 January	1,235	1,014
Additions	160	221
At 31 December	<u>1,395</u>	<u>1,235</u>
	-----	-----
Accumulated amortisation and impairment losses:		
At 1 January	631	484
Charge for the year	174	147
At 31 December	<u>805</u>	<u>631</u>
	-----	-----
Net book value:		
At 31 December	<u>590</u>	<u>604</u>

HSBC LIFE (INTERNATIONAL) LIMITED

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(Expressed in Hong Kong dollars unless otherwise indicated)

17 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	2023 \$'millions	2022 \$'millions
At January	(206)	(836)
Provision for Hong Kong Profits Tax for the year	(1,276)	(576)
Provision for transitional tax adjustment (Note i)	(630)	-
Overprovision in respect of the prior year	71	59
Withholding tax provision for the year	(65)	2
Tax paid	558	1,146
Others	-	(1)
	<u>(1,548)</u>	<u>(206)</u>
Tax payable	<u>(1,548)</u>	<u>(206)</u>

Note: (i) There is a transitional tax adjustment arising from the one-off increase in taxable profits upon the Company's early adoption of the HKRBC regime. Under the tax regulation, the Company is allowed to spread the adjustment over five years, one-fifth of which is required to be taxed and accrued as current tax (i.e.\$630m) in the assessment year in which HKRBC is early adopted.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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17 Income tax in the balance sheet (continued)
(b) Deferred tax assets/(liabilities) recognised:

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

	Difference between tax and accounting basis \$'millions	Depreciation allowances in excess of related depreciation \$'millions	Share based payment \$'millions	Reinsurance arrangement \$'millions	Impairment provision \$'millions	Total \$'millions
Deferred tax arising from:						
At 1 January 2022 (restated)	2,156	(90)	1	63	3	2,133
Charged to income statement	74	(11)	(1)	(63)	(2)	(3)
Other movement	2	-	-	-	-	2
At 31 December 2022 (restated)	2,232	(101)	-	-	1	2,132
At 1 January 2023	2,232	(101)	-	-	1	2,132
Charged to income statement	1,078	-	2	-	-	1,080
Other movement	(41)	-	-	-	-	(41)
At 31 December 2023	3,269	(101)	2	-	1	3,171

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

18 Investment assets and liabilities

	2023			
<i>Assets</i>	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	-	50,338	-	50,338
Debt securities				
Government bonds	7,428	9,396	99	16,923
Listed corporate bonds	4,733	154,685	4,475	163,893
Unlisted corporate bonds	26,584	109,885	7,556	144,025
	<u>38,745</u>	<u>273,966</u>	<u>12,130</u>	<u>324,841</u>
Collective investment schemes				
Listed	-	1,856	-	1,856
Unlisted	-	100,860	-	100,860
Portfolio cash	-	3,549	-	3,549
	<u>-</u>	<u>106,265</u>	<u>-</u>	<u>106,265</u>
Derivatives	<u>-</u>	<u>496</u>	<u>-</u>	<u>496</u>
Loans and receivables	<u>-</u>	<u>12,886</u>	<u>-</u>	<u>12,886</u>
Amounts due from investment managers	<u>3,978</u>	<u>-</u>	<u>-</u>	<u>3,978</u>
Portfolio cash	<u>5,740</u>	<u>-</u>	<u>-</u>	<u>5,740</u>
Total investment assets	<u><u>48,463</u></u>	<u><u>443,951</u></u>	<u><u>12,130</u></u>	<u><u>504,544</u></u>
Liabilities				
Derivatives	<u>-</u>	<u>734</u>	<u>-</u>	<u>734</u>
Total investment liabilities	<u><u>-</u></u>	<u><u>734</u></u>	<u><u>-</u></u>	<u><u>734</u></u>

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(Expressed in Hong Kong dollars unless otherwise indicated)

18 Investment assets and liabilities (continued)

	2022 (restated)			
	Amortised cost \$'millions	Mandatorily measured at fair value through profit or loss \$'millions	Designated at fair value through profit or loss \$'millions	Total \$'millions
Assets				
Equities				
Listed	-	40,395	-	40,395
Debt securities				
Government bonds	11,464	7,963	287	19,714
Listed corporate bonds	5,587	143,106	5,962	154,655
Unlisted corporate bonds	23,199	102,965	8,847	135,011
	<u>40,250</u>	<u>254,034</u>	<u>15,096</u>	<u>309,380</u>
Collective investment schemes				
Listed	-	2,052	-	2,052
Unlisted	-	86,900	-	86,900
Portfolio cash	-	1,290	-	1,290
	<u>-</u>	<u>90,242</u>	<u>-</u>	<u>90,242</u>
Derivatives				
	-	449	-	449
Loans and receivables				
	-	14,634	-	14,634
Amounts due from investment managers				
	4,040	-	-	4,040
Portfolio cash				
	7,914	-	-	7,914
Total investment assets	<u>52,204</u>	<u>399,754</u>	<u>15,096</u>	<u>467,054</u>
Liabilities				
Derivatives				
	-	601	-	601
Total investment liabilities	<u>-</u>	<u>601</u>	<u>-</u>	<u>601</u>

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(Expressed in Hong Kong dollars unless otherwise indicated)

18 Investment assets and liabilities (continued)

The current portion of investment assets was \$180,875 million (2022: \$163,596 million) and the non-current portion was \$323,669 million (2022: \$303,458 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 5(c).

(a) Fair values

(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, 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.

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18 Investment assets and liabilities (continued)

(a) Fair values (continued)

(i) Determination of fair value (continued)

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).

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.

HSBC LIFE (INTERNATIONAL) LIMITED

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18 Investment assets and liabilities (continued)

(a) Fair values (continued)

(i) Determination of fair value (continued)

d. Investment contracts (continued)

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.

(ii) Analysis of fair value determination

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

At 31 December 2023

	Fair value measurements categorised into			Total \$' millions
	Level 1 \$' millions	Level 2 \$' millions	Level 3 \$' millions	
Recurring fair value measurement				
<i>Financial assets</i>				
Financial assets designated and otherwise mandatorily measured at fair value	111,464	250,028	94,093	455,585
Derivatives	-	496	-	496
<i>Financial liabilities</i>				
Derivatives	-	734	-	734

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18 Investment assets and liabilities (continued)

(a) Fair values (continued)

(ii) Analysis of fair value determination (continued)

At 31 December 2022 (restated)

	Fair value measurements categorised into			Total \$'millions
	Level 1 \$'millions	Level 2 \$'millions	Level 3 \$'millions	
Recurring fair value measurement				
<i>Financial assets</i>				
Designated at fair value through profit or loss	95,509	240,239	78,653	414,401
Derivatives	-	449	-	449
<i>Financial liabilities</i>				
Derivatives	-	601	-	601

Assets designated at FVPL using a valuation technique with significant unobservable inputs principally comprised of private equity investments and mid-market debt funds.

(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 2023 and 2022 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 \$'millions	Fair value \$'millions	Fair value measurements categorised into		
			Level 1 \$'millions	Level 2 \$'millions	Level 3 \$'millions
At 31 December 2023					
Debt securities at amortised costs	38,745	33,914	5,546	28,368	-
At 31 December 2022 (restated)					
Carrying amount					
			Level 1	Level 2	Level 3
			\$'millions	\$'millions	\$'millions
Debt securities at amortised costs	40,250	34,498	10,261	24,237	-

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(Expressed in Hong Kong dollars unless otherwise indicated)

18 Investment assets and liabilities (continued)

(a) Fair values (continued)

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

	Collective investment scheme \$'millions	2023	
		Loans and receivables \$'millions	Debt securities \$'millions
<i>Designated at fair value through profit or loss</i>			
At 1 January	69,428	9,225	-
Payments for purchases	19,161	751	872
Net cash inflow	2,259	-	-
Transfer from Level 2 to Level 3	-	-	179
Net unrealised gains/(loss) recognised in profit or loss during the year	4,247	(1,035)	(58)
Proceeds from distribution	(10,936)	-	-
At 31 December	<u>84,159</u>	<u>8,941</u>	<u>993</u>

	2022 (restated)	
	Collective investment scheme \$'millions	Loans and receivables \$'millions
<i>Designated at fair value through profit or loss</i>		
At 1 January	59,428	10,299
Payments for purchases	21,134	916
Net cash inflow	(151)	-
Net unrealised gains/(loss) recognised in profit or loss during the year	2,533	(1,990)
Proceeds from distribution	(13,516)	-
At 31 December	<u>69,428</u>	<u>9,225</u>

The gains/(losses) are recognised in *Net investment income* of the statement of comprehensive income.

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Investment assets and liabilities (continued)

(a) 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:

	2023			2022 (restated)		
	Reflected in profit or loss		Reflected in equity	Reflected in profit or loss		Reflected in equity
	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	15,714	(15,714)	15,714	(15,714)	11,379	(11,379)
- Fixed income	-	-	-	-	385	(385)
	15,714	(15,714)	15,714	(15,714)	11,764	(11,764)
Price - Net asset value	15,714	(15,714)	15,714	(15,714)	11,764	(11,764)

Unobservable parameters used to determine fair value for private equities 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 including, for example, multiples for comparable listed companies and discounts for marketability.

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(Expressed in Hong Kong dollars unless otherwise indicated)

18 Investment assets and liabilities (continued)

(a) Fair values (continued)

(vi) Transfers between Level 1 and Level 2

Transfers between levels during the reporting period:

	Designated and otherwise mandatorily measured at fair value	Derivatives
	\$'millions	\$'millions
Transfers from Level 1 to Level 2	592	-
Transfers from Level 2 to Level 1	2,727	-

(b) 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:

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(Expressed in Hong Kong dollars unless otherwise indicated)

18 Investment assets and liabilities (continued)

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

	Amounts subject to enforceable netting arrangements			Amounts not offset in the balance sheet			Net amount \$'millions	Amounts not subject to enforceable netting arrangements \$'millions	Balance sheet total \$'millions
	Effects of offsetting in the balance sheet	Amounts subject to enforceable netting arrangements	Amounts not offset in the balance sheet	Financial instruments \$'millions	Non-cash collateral \$'millions	Cash collateral \$'millions			
At 31 December 2023									
Financial assets									
Derivatives	Gross amounts \$'millions	Amounts offset \$'millions	Amounts reported in the balance sheet \$'millions	Financial instruments \$'millions	Non-cash collateral \$'millions	Cash collateral \$'millions	496	-	496
	505	(9)	496	-	-	-	496	-	496
Financial liabilities									
Derivatives	743	(9)	734	-	-	(715)	1,449	-	734
	743	(9)	734	-	-	(715)	1,449	-	734
At 31 December 2022									
Financial assets									
Derivatives	530	(81)	449	-	-	-	449	-	449
	530	(81)	449	-	-	-	449	-	449
Financial liabilities									
Derivatives	682	(81)	601	-	-	(905)	1,506	-	601
	682	(81)	601	-	-	(905)	1,506	-	601

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Investment assets and liabilities (continued)

(b) 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.

(c) Underlying items of contracts with direct participation features

Underlying items

The following table sets out the composition and the fair value of underlying items of the Company's participating contracts with direct participation features at the reporting date:

Direct Participating contracts	2023	2022
	\$'millions	\$'millions
Financial investments		
- Equities	49,548	39,289
- Debt securities	270,288	252,833
- Collective Investment schemes	95,796	81,267
- Derivatives	503	513
- Loans and receivables	10,865	11,654
- Amount due from investment manager	(394)	3,358
- Portfolio cash	7,683	6,412
Derivative liabilities	(730)	(677)
	<u>433,559</u>	<u>394,649</u>

HSBC LIFE (INTERNATIONAL) LIMITED

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19 Insurance contracts and reinsurance contracts held

(a) Movements in carrying amounts - Analysis by remaining coverage and incurred claims

Insurance contracts - Life direct participating contracts

	2023				2022			
	Liabilities for remaining coverage		Liabilities for	Total	Liabilities for remaining coverage		Liabilities for	Total
	Excluding loss component	Loss component	incurred claims		Excluding loss component	Loss component	incurred claims	
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	
Opening assets	-	-	-	-	-	-	-	
Opening liabilities	410,629	31	3,872	414,532	444,936	147	1,107	
Net opening balance	410,629	31	3,872	414,532	444,936	147	1,107	
Insurance revenue								
Contracts under fair value approach	(1,574)	-	-	(1,574)	(1,894)	-	-	
Contracts under the modified retrospective approach	-	-	-	-	-	-	-	
Other contracts	(4,995)	-	-	(4,995)	(3,023)	-	-	
Total insurance revenue	(6,569)	-	-	(6,569)	(4,917)	-	(4,917)	
Insurance service expenses								
Incurred claims and other insurance service expenses	-	(21)	1,896	1,875	-	(1)	1,750	
Amortisation of insurance acquisition cash flows	866	-	-	866	119	-	-	
Losses and reversal of losses on onerous contracts	-	3	-	3	-	61	-	
Adjustments to liabilities for incurred claims	-	-	1	1	-	-	16	
Total insurance service expenses	866	(18)	1,897	2,745	119	60	1,766	
Investment components	(27,289)	-	27,289	-	(16,765)	-	16,765	
Insurance service result	(32,992)	(18)	29,186	(3,824)	(21,563)	60	18,531	
Net finance income from insurance contracts	32,134	-	-	32,134	(63,316)	-	-	
Effect of movements in exchange rates	602	-	2	604	38	-	-	
Total changes in the statement of comprehensive income	(256)	(18)	29,188	28,914	(84,841)	60	18,531	
Cash flows								
Premiums received	51,623	-	-	51,623	52,547	-	-	
Claims and other insurance service expenses paid, including investment components	443	-	(31,934)	(31,491)	262	-	(15,766)	
Insurance acquisition cash flows	(3,475)	-	-	(3,475)	(2,451)	-	-	
Transfer	15	(15)	-	-	176	(176)	-	
Total cash flows	48,606	(15)	(31,934)	16,657	50,534	(176)	(15,766)	
Net closing balance	458,979	(2)	1,126	460,103	410,629	31	3,872	
Closing assets	-	-	-	-	-	-	-	
Closing liabilities	458,979	(2)	1,126	460,103	410,629	31	3,872	
Net closing balance	458,979	(2)	1,126	460,103	410,629	31	3,872	

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(Expressed in Hong Kong dollars unless otherwise indicated)

19 Insurance contracts and reinsurance contracts held (continued)

(a) Movements in carrying amounts - Analysis by remaining coverage and incurred claims (continued)

Insurance contracts - Life other contracts

	2023				2022			
	Liabilities for remaining coverage Excluding loss component \$'millions	Loss component \$'millions	Liabilities for incurred claims \$'millions	Total \$'millions	Liabilities for remaining coverage Excluding loss component \$'millions	Loss component \$'millions	Liabilities for incurred claims \$'millions	Total \$'millions
Opening assets	-	-	-	-	-	-	-	-
Opening liabilities	13,222	492	309	14,023	15,171	426	204	15,801
Net opening balance	13,222	492	309	14,023	15,171	426	204	15,801
Insurance revenue								
Contracts under fair value approach	(85)	-	-	(85)	(95)	-	-	(95)
Contracts under the modified retrospective approach	-	-	-	-	-	-	-	-
Other contracts	(1,585)	-	-	(1,585)	(1,489)	-	-	(1,489)
Total insurance revenue	(1,670)	-	-	(1,670)	(1,584)	-	-	(1,584)
Insurance service expenses								
Incurred claims and other insurance service expenses	-	(109)	1,438	1,329	-	(57)	1,350	1,293
Amortisation of insurance acquisition cash flows	112	-	-	112	60	-	-	60
Losses and reversal of losses on onerous contracts	-	9	-	9	-	165	-	165
Adjustments to liabilities for incurred claims	-	-	(6)	(6)	-	-	32	32
Total insurance service expenses	112	(100)	1,432	1,444	60	108	1,382	1,550
Investment components	(4,433)	-	4,433	-	(1,931)	-	1,931	-
Insurance service result	(5,991)	(100)	5,865	(226)	(3,455)	108	3,313	(34)
Net finance income from insurance contracts	486	18	-	504	(122)	10	-	(112)
Effect of movements in exchange rates	(1)	5	-	4	(456)	(28)	16	(468)
Total changes in the statement of comprehensive income	(5,506)	(77)	5,865	282	(4,033)	90	3,329	(614)
Cash flows								
Premiums received	2,109	-	-	2,109	2,165	-	-	2,165
Claims and other insurance service expenses paid, including investment components	1	-	(5,812)	(5,811)	6	-	(3,224)	(3,218)
Insurance acquisition cash flows	(130)	-	-	(130)	(111)	-	-	(111)
Transfer	52	(52)	-	-	24	(24)	-	-
Total cash flows	2,032	(52)	(5,812)	(3,832)	2,084	(24)	(3,224)	(1,164)
Net closing balance	9,748	363	362	10,473	13,222	492	309	14,023
Closing assets	(827)	-	21	(806)	-	-	-	-
Closing liabilities	10,575	363	341	11,279	13,222	492	309	14,023
Net closing balance	9,748	363	362	10,473	13,222	492	309	14,023

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Insurance contracts and reinsurance contracts held (continued)

(a) Movements in carrying amounts - Analysis by remaining coverage and incurred claims (continued)

Reinsurance contracts held- Life other contracts

	2023				2022			
	Assets for remaining coverage Excluding loss recovery component \$'millions	Loss recovery component \$'millions	Assets for incurred claims \$'millions	Total \$'millions	Assets for remaining coverage Excluding loss recovery component \$'millions	Loss recovery component \$'millions	Assets for incurred claims \$'millions	Total \$'millions
Opening assets	23,552	234	1,436	25,222	22,453	-	1,360	23,813
Opening liabilities	(2,860)	-	(589)	(3,449)	(4,082)	-	(895)	(4,977)
Net opening balance	20,692	234	847	21,773	18,371	-	465	18,836
Allocation of reinsurance premiums paid	(3,328)	-	-	(3,328)	(3,681)	-	-	(3,681)
Recoveries of incurred claims and other insurance service expenses	-	-	3,451	3,451	-	-	3,401	3,401
Recoveries or reversals of recoveries of losses on onerous underlying contracts	152	(194)	-	(42)	(201)	234	-	33
Adjustment to assets for incurred claims	-	-	(3)	(3)	-	-	10	10
Total amounts recoverable from reinsurer	152	(194)	3,448	3,406	(201)	234	3,411	3,444
Net finance expenses from reinsurance contracts held	1,482	-	-	1,482	(798)	-	-	(798)
Investment components	(986)	-	986	-	-	-	-	-
Effect of changes in non-performance risk of reinsurers	3	-	-	3	4	-	-	4
Effect of movements in exchange rates	(44)	-	-	(44)	(220)	-	(18)	(238)
Total changes in the statement of comprehensive income	(2,721)	(194)	4,434	1,519	(4,896)	234	3,393	(1,269)
Cash flows								
Premiums paid	5,153	-	-	5,153	7,217	-	-	7,217
Claims and other recoverable received	-	-	(2,633)	(2,633)	-	-	(3,011)	(3,011)
Total cash flows	5,153	-	(2,633)	2,520	7,217	-	(3,011)	4,206
Net closing balance	23,124	40	2,648	25,812	20,692	234	847	21,773
Closing assets	26,618	40	3,152	29,810	23,552	234	1,436	25,222
Closing liabilities	(3,494)	-	(504)	(3,998)	(2,860)	-	(589)	(3,449)
Net closing balance	23,124	40	2,648	25,812	20,692	234	847	21,773

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Insurance and reinsurance contracts held (continued)

(b) Movements in carrying amounts - Analysis by measurement component

Insurance contracts - Life direct participating contracts

	Estimates of present value of future cash flows \$'millions	Risk adjustment for non- financial risk \$'millions	2023 Contractual service margin		Other Contracts \$'millions	Total \$'millions
			Contract under fair value approach \$'millions	Contracts under modified retrospecti ve approach \$'millions		
Opening assets	-	-	-	-	-	-
Opening liabilities	381,527	729	16,530	-	15,746	414,532
Net opening balance	381,527	729	16,530	-	15,746	414,532
Changes in the statement of profit or loss						
Changes that relate to current services						
CSM recognised for services provided	-	-	(757)	-	(3,134)	(3,891)
Change in risk adjustment for non-financial risk for risk expired	-	(52)	-	-	-	(52)
Experience adjustments	116	-	-	-	-	116
Changes that relate to future services						
Contracts initially recognised in the year	(7,858)	96	-	-	7,764	2
Changes in estimates that adjust the CSM	(7,926)	800	3,214	-	3,912	-
Changes in estimates that result in losses and reversal of losses on onerous contracts	-	-	-	-	-	-
Changes that relate to past services						
Adjustments to liabilities for incurred claims	1	-	-	-	-	1
Insurance service result	(15,667)	844	2,457	-	8,542	(3,824)
Net finance expenses from insurance contracts	32,134	-	-	-	-	32,134
Effect of movements in exchange rates	401	-	11	-	192	604
Total changes in the statement of comprehensive income	16,868	844	2,468	-	8,734	28,914
Cash flows						
Premiums received	51,623	-	-	-	-	51,623
Claims and other insurance service expenses paid, including investment components	(31,491)	-	-	-	-	(31,491)
Insurance acquisition cash flows	(3,475)	-	-	-	-	(3,475)
Total cash flows	16,657	-	-	-	-	16,657
Net closing balance	415,052	1,573	18,998	-	24,480	460,103
Closing assets	-	-	-	-	-	-
Closing liabilities	415,052	1,573	18,998	-	24,480	460,103
Net closing balance	415,052	1,573	18,998	-	24,480	460,103

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Insurance and reinsurance contracts held (continued)

(b) Movements in carrying amounts - Analysis by measurement component (continued)

Insurance contracts - Life direct participating contracts (continued)

	Estimates of present value of future cash flows \$'millions	Risk adjustment for non- financial risk \$'millions	2022 Contractual service margin			Total \$'millions
			Contract under fair value approach \$'millions	Contracts under modified retrospecti ve approach \$'millions	Other Contracts \$'millions	
Opening assets	-	-	-	-	-	-
Opening liabilities	408,990	940	26,174	-	10,086	446,190
Net opening balance	408,990	940	26,174	-	10,086	446,190
Changes in the statement of profit or loss						
Changes that relate to current services						
CSM recognised for services provided	-	-	(940)	-	(2,011)	(2,951)
Change in risk adjustment for non-financial risk for risk expired	-	(54)	-	-	-	(54)
Experience adjustments	(44)	-	-	-	-	(44)
Changes that relate to future services						
Contracts initially recognised in the year	(4,552)	65	-	-	4,489	2
Changes in estimates that adjust the CSM	5,732	(220)	(8,689)	-	3,177	-
Changes in estimates that result in losses and reversal of losses on onerous contracts	60	(1)	-	-	-	59
Changes that relate to past services						
Adjustments to liabilities for incurred claims	16	-	-	-	-	16
Insurance service result	1,212	(210)	(9,629)	-	5,655	(2,972)
Net finance expenses from insurance contracts	(63,316)	-	-	-	-	(63,316)
Effect of movements in exchange rates	49	(1)	(15)	-	5	38
Total changes in the statement of comprehensive income	(62,055)	(211)	(9,644)	-	5,660	(66,250)
Cash flows						
Premiums received	52,547	-	-	-	-	52,547
Claims and other insurance service expenses paid, including investment components	(15,504)	-	-	-	-	(15,504)
Insurance acquisition cash flows	(2,451)	-	-	-	-	(2,451)
Total cash flows	34,592	-	-	-	-	34,592
Net closing balance	381,527	729	16,530	-	15,746	414,532
Closing assets	-	-	-	-	-	-
Closing liabilities	381,527	729	16,530	-	15,746	414,532
Net closing balance	381,527	729	16,530	-	15,746	414,532

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Insurance and reinsurance contracts held (continued)

(b) Movements in carrying amounts - Analysis by measurement component (continued)

Insurance contracts - Life other contracts

	Estimates of present value of future cash flows \$'millions	Risk adjustment for non- financial risk \$'millions	2023 Contractual service margin			Total \$'millions
			Contract under fair value approach \$'millions	Contracts under modified retrospecti ve approach \$'millions	Other Contracts \$'millions	
Opening assets	-	-	-	-	-	-
Opening liabilities	13,231	53	320	-	419	14,023
Net opening balance	13,231	53	320	-	419	14,023
Changes in the statement of profit or loss						
Changes that relate to current services						
CSM recognised for services provided	-	-	(42)	-	(150)	(192)
Change in risk adjustment for non-financial risk for risk expired	-	(53)	-	-	-	(53)
Experience adjustments	16	-	-	-	-	16
Changes that relate to future services						
Contracts initially recognised in the year	(437)	96	-	-	361	20
Changes in estimates that adjust the CSM	32	41	(13)	-	(60)	-
Changes in estimates that result in losses and reversal of losses on onerous contracts	(15)	4	-	-	-	(11)
Changes that relate to past services						
Adjustments to liabilities for incurred claims	(6)	-	-	-	-	(6)
Insurance service result	(410)	88	(55)	-	151	(226)
Net finance expenses from insurance contracts	484	-	4	-	16	504
Effect of movements in exchange rates	2	-	2	-	-	4
Total changes in the statement of comprehensive income	76	88	(49)	-	167	282
Cash flows						
Premiums received	2,109	-	-	-	-	2,109
Claims and other insurance service expenses paid, including investment components	(5,811)	-	-	-	-	(5,811)
Insurance acquisition cash flows	(130)	-	-	-	-	(130)
Total cash flows	(3,832)	-	-	-	-	(3,832)
Net closing balance	9,475	141	271	-	586	10,473
Closing assets	(806)	-	-	-	-	(806)
Closing liabilities	10,281	141	271	-	586	11,279
Net closing balance	9,475	141	271	-	586	10,473

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Insurance and reinsurance contracts held (continued)

(b) Movements in carrying amounts - Analysis by measurement component (continued)

Insurance contracts - Life other contracts (continued)

	Estimates of present value of future cash flows \$'millions	Risk adjustment for non- financial risk \$'millions	2022 Contractual service margin			Total \$'millions
			Contract under fair value approach \$'millions	Contracts under modified retrospecti ve approach \$'millions	Other Contracts \$'millions	
Opening assets	-	-	-	-	-	-
Opening liabilities	14,921	56	371	-	453	15,801
Net opening balance	14,921	56	371	-	453	15,801
Changes in the statement of profit or loss						
Changes that relate to current services						
CSM recognised for services provided	-	-	(55)	-	(99)	(154)
Change in risk adjustment for non-financial risk for risk expired	-	(65)	-	-	-	(65)
Experience adjustments	(12)	-	-	-	-	(12)
Changes that relate to future services						
Contracts initially recognised in the year	(149)	72	-	-	92	15
Changes in estimates that adjust the CSM	28	(2)	6	-	(32)	-
Changes in estimates that result in losses and reversal of losses on onerous contracts	155	(5)	-	-	-	150
Changes that relate to past services						
Adjustments to liabilities for incurred claims	32	-	-	-	-	32
Insurance service result	54	-	(49)	-	(39)	(34)
Net finance expenses from insurance contracts	(122)	-	3	-	7	(112)
Effect of movements in exchange rates	(458)	(3)	(5)	-	(2)	(468)
Total changes in the statement of comprehensive income	(526)	(3)	(51)	-	(34)	(614)
Cash flows						
Premiums received	2,165	-	-	-	-	2,165
Claims and other insurance service expenses paid, including investment components	(3,218)	-	-	-	-	(3,218)
Insurance acquisition cash flows	(111)	-	-	-	-	(111)
Total cash flows	(1,164)	-	-	-	-	(1,164)
Net closing balance	13,231	53	320	-	419	14,023
Closing assets	13,231	53	320	-	419	14,023
Closing liabilities	13,231	53	320	-	419	14,023
Net closing balance	13,231	53	320	-	419	14,023

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Insurance and reinsurance contracts held (continued)

(b) Movements in carrying amounts - Analysis by measurement component (continued)

Reinsurance contracts held - Life other contracts

	Estimates of present value of future cash flows \$*millions	Risk adjustment for non- financial risk \$*millions	2023 Contractual service margin			Total \$*millions
			Contract under fair value approach \$*millions	Contracts under modified retrospecti ve approach \$*millions	Other Contracts \$*millions	
Opening assets	25,198	26	(2)	-	-	25,222
Opening liabilities	(3,137)	152	(249)	-	(215)	(3,449)
Net opening balance	22,061	178	(251)	-	(215)	21,773
Changes in the statement of profit or loss						
Changes that relate to current services						
CSM recognised for services received	-	-	(253)	-	355	102
Change in risk adjustment for non-financial risk for risk expired	-	(23)	-	-	-	(23)
Experience adjustments	39	-	-	-	-	39
Changes that relate to future services						
Contracts initially recognised in the year	(38)	41	-	-	(8)	(5)
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM	-	-	-	-	(11)	(11)
Changes in estimates that adjust the CSM	(265)	38	499	-	(272)	-
Changes in estimates that do not adjust the contractual service margin	(22)	1	-	-	-	(21)
Changes that relate to past services						
Adjustments to assets for incurred claims	(3)	-	-	-	-	(3)
Net income/(expenses) from reinsurance contracts	(289)	57	246	-	64	78
Net finance income/(expenses) from reinsurance contracts held	1,488	-	(6)	-	-	1,482
Effect of changes in non-performance risk of reinsurers	3	-	-	-	-	3
Effect of movements in exchange rates	(40)	-	127	-	(131)	(44)
Total changes in the statement of comprehensive income	1,162	57	367	-	(67)	1,519
Cash flows						
Premiums paid	5,153	-	-	-	-	5,153
Claims and other recoverable received	(2,633)	-	-	-	-	(2,633)
Total cash flows	2,520	-	-	-	-	2,520
Net closing balance	25,743	235	116	-	(282)	25,812
Closing assets	29,275	497	223	-	(185)	29,810
Closing liabilities	(3,532)	(262)	(107)	-	(97)	(3,998)
Net closing balance	25,743	235	116	-	(282)	25,812

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Insurance and reinsurance contracts held (continued)

(b) Movements in carrying amounts - Analysis by measurement component (continued)

Reinsurance contracts held - Life other contracts (continued)

	Estimates of present value of future cash flows \$'millions	Risk adjustment for non- financial risk \$'millions	2022 Contractual service margin			Total \$'millions
			Contract under fair value approach \$'millions	Contracts under modified retrospecti ve approach \$'millions	Other Contracts \$'millions	
Opening assets	23,604	20	189	-	-	23,813
Opening liabilities	(4,675)	244	(546)	-	-	(4,977)
Net opening balance	18,929	264	(357)	-	-	18,836
Changes in the statement of profit or loss						
Changes that relate to current services						
CSM recognised for services received	-	-	(198)	-	-	(198)
Change in risk adjustment for non-financial risk for risk expired	-	(32)	-	-	-	(32)
Experience adjustments	(59)	-	-	-	-	(59)
Changes that relate to future services						
Contracts initially recognised in the year	219	39	-	-	(215)	43
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM	-	-	-	-	-	-
Changes in estimates that adjust the CSM	(212)	(100)	312	-	-	-
Changes in estimates that do not adjust the contractual service margin	(10)	9	-	-	-	(1)
Changes that relate to past services						
Adjustments to assets for incurred claims	10	-	-	-	-	10
Net income/(expenses) from reinsurance contracts	(52)	(84)	114	-	(215)	(237)
Net finance income/(expenses) from reinsurance contracts held	(794)	-	(4)	-	-	(798)
Effect of changes in non-performance risk of reinsurers	4	-	-	-	-	4
Effect of movements in exchange rates	(232)	(2)	(4)	-	-	(238)
Total changes in the statement of comprehensive income	(1,074)	(86)	106	-	(215)	(1,269)
Cash flows						
Premiums paid	7,217	-	-	-	-	7,217
Claims and other recoverable received	(3,011)	-	-	-	-	(3,011)
Total cash flows	4,206	-	-	-	-	4,206
Net closing balance	22,061	178	(251)	-	(215)	21,773
Closing assets	25,198	26	(2)	-	-	25,222
Closing liabilities	(3,137)	152	(249)	-	(215)	(3,449)
Net closing balance	22,061	178	(251)	-	(215)	21,773

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Insurance and reinsurance contracts held (continued)

(c) Effect of contracts initially recognised in the year (continued)

Insurance contracts - Life other contracts

	Profitable contracts issued \$'millions	2023 Onerous contracts issued \$'millions	Total \$'millions
Estimates of present value of cash outflows			
- Insurance acquisition cash flows	79	2	81
- Claims and other insurance service expenses payable	2,118	436	2,554
Estimates of present value of cash inflows	(2,654)	(418)	(3,072)
Risk adjustment for non-financial risk	96	-	96
CSM	361	-	361
Losses recognised on initial recognition	-	20	20

	Profitable contracts issued \$'millions	2022 Onerous contracts issued \$'millions	Total \$'millions
Estimates of present value of cash outflows			
- Insurance acquisition cash flows	41	26	67
- Claims and other insurance service expenses payable	1,463	483	1,946
Estimates of present value of cash inflows	(1,666)	(496)	(2,162)
Risk adjustment for non-financial risk	70	2	72
CSM	92	-	92
Losses recognised on initial recognition	-	15	15

Reinsurance contracts held - Life other contracts

	2023 \$'millions	2022 \$'millions
Estimates of present value of cash inflows	(6,954)	(7,412)
Estimates of present value of cash outflows	6,992	7,193
Risk adjustment for non-financial risk	(41)	(39)
Income recognised on initial recognition	(5)	43
CSM	(8)	(215)

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Insurance and reinsurance contracts held (continued)

(d) 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.

(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.

(iii) Lapse

Lapse rates are generally dependent on distribution channel, policy duration and types of contracts. An annual investigation is performed to ascertain the appropriateness with the Company's actual experience.

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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 Insurance and reinsurance contracts held (continued)

(d) Process used to determine assumptions (continued)

Sensitivity to changes in variables (continued)

Impact on reported profits to changes in key variables

	2023				2022			
	Effect on CSM \$'million	Effect on profit after tax (Gross) \$'million	Effect on total equity (Gross) \$'million	Effect on total equity (Net) \$'million	Effect on CSM \$'million	Effect on profit after tax (Gross) \$'million	Effect on total equity (Gross) \$'million	Effect on total equity (Net) \$'million
10% increase in mortality and/or morbidity rates	(1,239)	36	36	(26)	(1,050)	19	19	(37)
10% decrease in mortality and/or morbidity rates	1,283	(42)	(42)	26	1,098	(24)	(24)	39
10% increase in lapse rates	(1,267)	(17)	(17)	(31)	(641)	(29)	(29)	(40)
10% decrease in lapse rates	1,296	16	16	33	635	30	30	40
10% increase in expense rates	(100)	(5)	(5)	(5)	(62)	(4)	(4)	(4)
10% decrease in expense rates	97	5	5	5	60	4	4	4

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.

20 Sundry debtors and prepayments

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

21 Cash and cash equivalents

	2023 \$'millions	2022 \$'millions
Deposits with banks	72	218
Cash at bank and on hand	3,390	4,388
	<hr/>	<hr/>
Cash and cash equivalents in the balance sheet and the statement of cash flow	3,462	4,606
	<hr/> <hr/>	<hr/> <hr/>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

22 Subordinated loan

		2023 \$'millions	2022 \$'millions
Amount owed to an immediate holding company			
Nominal value:	Description:		
HK\$780 million	Floating rate subordinated loan due 27 November 2029	780	780
HK\$1,362 million	Floating rate subordinated loan due 15 November 2028	-	1,362
HK\$780 million	Floating rate subordinated loan due 23 December 2031	780	780
		<u>1,560</u>	<u>2,922</u>
Representing:			
- Measured at amortised cost		<u>1,565</u>	<u>2,944</u>
		2023 \$'millions	2022 \$'millions
Reconciliation of subordinated loan arising from financing activities			
At 1 January		2,944	2,930
Cash items:			
-Repayment of subordinated loan		(1,362)	-
Non-cash items:			
-Finance costs		(199)	(73)
-Amortisation of interest		182	87
		<u>(17)</u>	<u>14</u>
At 31 December		<u>1,565</u>	<u>2,944</u>

HSBC LIFE (INTERNATIONAL) LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

(Expressed in Hong Kong dollars unless otherwise indicated)

23 Liabilities under investment contracts issued

	2023 \$'millions	2022 \$'millions
Total liabilities under investment contracts issued - fair value	<u>29,616</u>	<u>31,043</u>

Analysis of movements in liabilities under investment contracts issued

	Non-linked		Linked		Total	
	2023 \$'millions	2022 \$'millions	2023 \$'millions	2022 \$'millions	2023 \$'millions	2022 \$'millions
Balance at 1 January	25,535	28,165	5,508	6,839	31,043	35,004
Benefits paid	(6,556)	(8,072)	(555)	(679)	(7,111)	(8,751)
Benefits incurred	5,266	5,520	545	(594)	5,811	4,926
Fees charges	(69)	(78)	(58)	(58)	(127)	(136)
Balance at 31 December	<u>24,176</u>	<u>25,535</u>	<u>5,440</u>	<u>5,508</u>	<u>29,616</u>	<u>31,043</u>

24 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 repayable on demand.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 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.

(b) Share capital

	2023		2022	
	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	<u>4,178</u>	<u>4,178</u>	<u>4,178</u>	<u>4,178</u>
Issued and fully paid:				
At 1 January	4,178	4,178	4,178	4,178
Shares issued of \$1 each	-	-	-	-
At 31 December	<u>4,178</u>	<u>4,178</u>	<u>4,178</u>	<u>4,178</u>

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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 Capital commitments

The outstanding capital commitments not provided for in the financial statements as at 31 December 2023 amounted to \$50,024 million (2022: \$32,779 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.

27 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

	2023 \$'millions	2022 \$'millions
Amounts due from/(to)		
- Fellow subsidiary companies	394	17
- The immediate holding company	(31)	53
- Intermediate holding companies	(1,591)	(2,835)
- Fellow subsidiary companies	(136)	(408)
- The ultimate holding company	(3)	(6)
- The subsidiary company	3,597	3,593
Cash and cash equivalents		
- An intermediate holding company	3,398	4,542
Repurchase agreements	(8,725)	(10,192)
	<u> </u>	<u> </u>

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

	2023		2022	
	Intermediate holding company \$'millions	Fellow subsidiary companies \$'millions	Intermediate holding company \$'millions	Fellow subsidiary companies \$'millions
Debt securities	-	-	-	-
Collective investments schemes	-	19,641	-	11,769
Derivatives	(377)	-	(219)	-
Loans and receivables	-	-	-	-
Amounts due from investment managers	-	-	-	-
Portfolio cash	5,710	-	8,840	-
	<u>5,333</u>	<u>19,641</u>	<u>8,621</u>	<u>11,769</u>

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27 Material related party transactions (continued)

(c) Investment income

	2023			2022		
	Intermediate holding company \$'millions	Fellow subsidiary company \$'millions	Subsidiary companies \$'millions	Intermediate holding company \$'millions	Fellow subsidiary company \$'millions	Subsidiary companies \$'millions
Interest income	193	12	108	45	36	64
Net income/ (loss) from investment assets mandatorily or otherwise designated at fair value through profit or loss	-	738	-	-	(1,409)	-
Net realised & unrealised gain on derivatives	(259)	-	-	1,987	-	-
Interest expense	(602)	-	-	(148)	-	-
	<u>(668)</u>	<u>750</u>	<u>108</u>	<u>1,884</u>	<u>(1,373)</u>	<u>64</u>

(d) Sales of services

	2023			2022		
	Ultimate holding company \$'millions	Intermediate holding company \$'millions	Fellow subsidiary companies \$'millions	Ultimate holding company \$'millions	Intermediate holding company \$'millions	Fellow subsidiary companies \$'millions
Gross insurance premium income	-	658	647	-	600	635
Reinsurers' share of claims & benefits incurred	-	-	678	-	-	600
Other administration and support services	-	23	34	-	23	33
	<u>-</u>	<u>681</u>	<u>1,359</u>	<u>-</u>	<u>623</u>	<u>1,268</u>

(e) Purchase of services

	2023			2022		
	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	-	-	612	-	-	571
Gross claims and benefits incurred	-	-	14	-	-	9
Acquisition costs	-	2,886	-	-	2,279	22
Investment management fees	-	4	350	-	5	547
Other administration and support services	-	606	5	-	614	108
	<u>-</u>	<u>3,496</u>	<u>981</u>	<u>-</u>	<u>2,898</u>	<u>1,257</u>

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(Expressed in Hong Kong dollars unless otherwise indicated)

27 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 \$28 million (2022: \$202 million) and the amount of excess to return to the fellow subsidiary company during the year was \$0.5 million (2022: \$5.2 million) respectively. The amounts outstanding as at 31 December are included in Note 27(a).

(g) Key management compensation

	2023 \$'millions	2022 \$'millions
Short-term employee benefits	35	45
Post-employment benefits	3	3
Share-based payments	3	2
Total	<u>41</u>	<u>50</u>

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(g)(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 2023 amounted to \$87 million and \$3 million respectively (2022: \$86 million and \$5 million respectively).

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28 Parent and ultimate holding company

At 31 December 2023, the Directors consider the parent of the company to be HSBC Insurance (Asia) Limited, a company incorporated in Hong Kong. The ultimate holding company of the Company is HSBC Holdings plc, a company incorporated in England. HSBC Holdings plc produces financial statements that are available for public use at <https://www.hsbc.com> or may be obtained from 8 Canada Square, London E14 5HQ, United Kingdom.

29 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2023

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, and a new standard which is not yet effective for the year ended 31 December 2023 and which has not been adopted in the financial statements. These include the following which may be relevant to the Company.

	Effective for accounting periods beginning on or after
Classification of Liabilities as current or non-current – Amendments to HKAS 1	1 January 2024
Non-current liabilities with covenants – Amendments to HKAS 1	1 January 2024
Lease liability in a Sale and Leaseback – Amendments to HKFRS 16	1 January 2024
Supplier finance arrangements – Amendments to HKAS 7 and HKFRS 7	1 January 2024
Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (Revised))	1 January 2024
Lack of Exchangeability – Amendments to HKAS 21	1 January 2025
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments) – Amendments to HKFRS 10 and HKAS 28	Undetermined

The Company is in the process of making an assessment of what the impact of these developments 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 financial statements.