

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2024

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 2024.

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 12 to the financial statements.

Business Review

No business review is presented for 2024. 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 2024 and the state of the Company’s affairs as at that date are set out in the financial statements on pages 8 to 102.

Reserves

Profit attributable to shareholders, before dividends, of HK\$5,871 million (2023: HK\$4,842 million) has been transferred to reserves. Other movements in reserves are set out in the statement of changes in equity.

Interim dividends of HK\$8,954 million (2023: HK\$5,474 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 2024 (2023: HK\$Nil).

Share capital

The balance of the Company’s authorised and issued share capital as at 31 December 2024 is HK\$4,178 million (2023: 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 (2023: HK\$Nil).

Fixed assets

Movements in fixed assets during the year are set out in note 13 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** GT Hingston	24 April 2024 (as Chairman)	10 April 2024 (as Chairman and Director)
PS Tsang	26 August 2024 (as Director)	
PJ Blackmore	18 October 2024 (as Director)	
X Fang		
S Katsaitis		6 May 2024 (as Director)
MM Lau		
YY Yeung		
B Nikzad Abbasabadi*		
CF Yam*		
HM Knight*		

* 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 11 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 Holdings Savings-related share option plan (UK), the HSBC Share Plan 2011 and the HSBC International Employee Share Purchase Plan ("ShareMatch").

During the year, all directors acquired or were awarded shares in HSBC Holdings plc under the terms of the HSBC Share Plan 2011. S Katsaitis, X Fang and YY Yeung also acquired shares in HSBC Holdings plc under ShareMatch. PJ Blackmore also acquired shares in HSBC Holdings plc by exercising options under HSBC Holdings Savings-related share option plan (UK).

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.

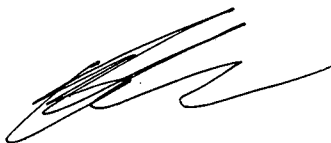
Management contracts

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, 16 April 2025

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 8 to 102, comprise:

- the balance sheet as at 31 December 2024;
- 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 2024, 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 are responsible for overseeing the Company's financial reporting process.

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)

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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



羅兵咸永道

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)

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.

A handwritten signature in dark ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 16 April 2025

HSBC LIFE (INTERNATIONAL) LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2024 (Expressed in Hong Kong dollars)

	Note	2024 \$'millions	2023 \$'millions
Insurance revenue		10,139	8,239
Insurance service expenses		(4,969)	(4,189)
Net income from reinsurance contracts held		215	81
Insurance service results	6	5,385	4,131
Interest income from financial assets not measured at FVPL		994	721
Net gain from financial assets measured at FVPL		22,493	33,372
Change in expected credit losses		1	33
Movement in investment contract liabilities		(1,442)	(933)
Finance costs		(99)	(182)
Other net investment (loss)/income		(423)	163
Net investment income	8	21,524	33,174
Net finance expenses from insurance contracts		(20,119)	(32,638)
Net finance income from reinsurance contracts held		525	1,482
Net insurance finance expenses	8	(19,594)	(31,156)
Net investment results	8	1,930	2,018
Net insurance and investment results	8	7,315	6,149
Net fee income	7	91	115
Other operating income		22	41
Other operating expenses	5	(754)	(643)
Profit before taxation		6,674	5,662
Income tax charge	9	(803)	(820)
Profit and total comprehensive income for the year		5,871	4,842

The notes on pages 14 to 102 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 10.

HSBC LIFE (INTERNATIONAL) LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2024

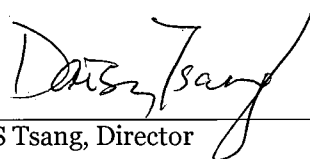
(Expressed in Hong Kong dollars)

	Note	2024 \$'millions	2023 \$'millions
Assets			
Deferred tax assets	16	6,212	3,171
Intangible assets	15	636	590
Fixed assets	13	21	22
Investment properties		88	88
Investment in a subsidiary	12	554	554
Reinsurance contract assets	18	22,620	29,810
Insurance contract assets	18	139	806
Investment assets	17	529,421	504,544
Other receivables			
- Amounts due from fellow subsidiaries	27	26	394
- Sundry debtors and prepayments	19	43	53
- Amounts due from intermediate holding companies	27	-	33
- Amounts due from immediate holding company	27	-	2
- Amounts due from a subsidiary	27	3,597	3,597
Cash and cash equivalents	20	6,124	3,462
Total assets		569,481	547,126
Liabilities			
Subordinated loan	21	1,565	1,565
Insurance contract liabilities	18	498,471	471,382
Reinsurance contract liabilities	18	2,387	3,998
Liabilities under investment contracts issued	22	29,083	29,616
Investment liabilities	17	573	734
Repurchase agreements	27	9,225	8,725
Other payables			
- Amount due to an intermediate holding company	27	73	59
- Amounts due to fellow subsidiaries	27	155	136
- Amount due to ultimate holding company	27	5	3
- Amounts due to immediate holding company	27	2	33
Creditors and accruals	23	2,097	2,730
Current taxation	16	2,734	1,548
Total liabilities		546,370	520,529
Net assets		23,111	26,597
Shareholders' equity			
Share capital	25	4,178	4,178
Reserves		18,933	22,419
Total shareholders' equity		23,111	26,597

The financial statements on pages 8 to 102 were approved by the Board of Directors on 16 April 2025 and were signed on its behalf.



ECL Moncreiffe, Chairman



PS Tsang, Director

The notes on pages 14 to 102 form part of these financial statements.

HSBC LIFE (INTERNATIONAL) LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2024 (Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company				Total \$'millions
		Share capital \$'millions	Share premium \$'millions	Share-based payment reserve \$'millions	Retained profits \$'millions	
Balance at 1 January 2024		4,178	89	80	22,250	26,597
Changes in equity for 2024						
Profit for the year		-	-	-	5,871	5,871
Total comprehensive income		-	-	-	5,871	5,871
Dividends declared in respect of current year	10	-	-	-	(8,954)	(8,954)
Other adjustments		-	-	-	(403)	(403)
Balance at 31 December 2024		4,178	89	80	18,764	23,111

HSBC LIFE (INTERNATIONAL) LIMITED

STATEMENT OF CHANGES IN EQUITY (continued) FOR THE YEAR ENDED 31 DECEMBER 2024 (Expressed in Hong Kong dollars)

		<i>Attributable to equity shareholders of the Company</i>				
	Note	Share capital	Share premium	Share-based payment reserve	Retained profits	Total
		\$'millions	\$'millions	\$'millions	\$'millions	\$'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	10	-	-	-	(5,474)	(5,474)
Other adjustments		-	-	-	216	216
Balance at 31 December 2023		4,178	89	80	22,250	26,597

The notes on pages 14 to 102 form part of these financial statements.

HSBC LIFE (INTERNATIONAL) LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2024

(Expressed in Hong Kong dollars)

	Note	2024 \$'millions	2023 \$'millions
Operating activities			
Profit before taxation		6,674	5,662
Adjustments for:			
- Depreciation and amortisation	13, 15	217	183
- Net insurance finance expenses		19,594	31,156
- Net gain from financial assets measured at FVPL		(22,493)	(33,372)
- Interest income from financial assets not measured at FVPL		(994)	(721)
- Change in expected credit loss		(1)	(33)
- Share-based payment expenses		-	4
- Interest income on subordinated loan	21	-	(17)
- Other adjustments for non-cash items		(486)	250
Operating profit before changes in working capital		2,511	3,112
Changes in:			
- Net change in insurance and reinsurance contract assets/liabilities		13,741	6,826
- Increase in investment assets backing insurance contracts		(4,263)	(7,375)
- Decrease in liabilities under investment contracts issued		(533)	(1,427)
- Increase in sundry debtors and prepayments		(17,628)	(16,246)
- Decrease/(increase) in amounts due from fellow subsidiaries		368	(377)
- Decrease in amount due from immediate holding company		2	51
- Decrease in amount due from intermediate holding companies		33	203
- Increase/(decrease) in amount due to an intermediate holding company		14	(68)
- Increase in amounts due from a subsidiary		-	(4)
- Increase in amounts due to fellow subsidiaries		19	-
- Increase/(decrease) in amount due to ultimate holding company		2	(3)
- (Decrease)/increase in amount due to immediate holding company		(31)	33
- (Decrease)/increase in creditors and accruals		(633)	2,638
Interest received		13,365	13,051
Dividends received		4,604	3,668
Cash generated from operations carried forward		11,571	4,082

HSBC LIFE (INTERNATIONAL) LIMITED

STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2024
(Expressed in Hong Kong dollars)

	Note	2024 \$'millions	2023 \$'millions
Cash generated from operations brought forward		11,571	4,082
Tax paid			
- Hong Kong Profits Tax paid		(2,578)	(558)
Net cash generated from operating activities		8,993	3,524
Investing activities			
Payments for purchase of fixed assets	13	(5)	(23)
Payments for purchase of intangible assets	15	(254)	(160)
Purchase of investments		(5,603)	(14,100)
Proceeds from sale or redemption of investments		7,322	17,523
Interest received		663	395
Net cash generated from investing activities		2,123	3,635
Financing activities			
Dividends paid to equity shareholders of the Company		(8,954)	(5,474)
Proceeds/(repayment) from repurchase agreement		500	(1,467)
Repayment from subordinated loan	21	-	(1,362)
Net cash used in financing activities		(8,454)	(8,303)
Net increase/(decrease) in cash and cash equivalents		2,662	(1,144)
Cash and cash equivalents at 1 January		3,462	4,606
Cash and cash equivalents at 31 December	20	6,124	3,462

The notes on pages 14 to 102 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 12 to the financial statements.

The primary financial statements on pages 7 to 12 and notes 1 to 30 thereto have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") as issued by the Hong Kong Institute of Certified Public Accountants. HKFRSs comprise the following authoritative literature:

- Hong Kong Financial Reporting Standards
- Hong Kong Accounting Standards
- 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 Company has not applied any new or 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;
- investment properties subsequently measured at fair value as explained in Note 1(e);
- insurance contracts issued and reinsurance contracts held measured on a current value basis as explained in Note 1(f); and
- share-based payment transactions measured at fair value as explained in Note 1(g)(iii).

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

A 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 a subsidiary, 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 subsidiary's economic performance and the cash flows generated such as dividends received from the subsidiary 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 statement of comprehensive income.

(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 (2023: 60th 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 results

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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

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

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 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. Changes in the fair value of the investment (including interest) are recognised in the statement of comprehensive income. 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 ("Repo"), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Repo 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 statement of comprehensive income 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 or expenses.

(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 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 statement of comprehensive income. 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 4(c)(ii)(1);

Stage 2 - Financial assets which are considered to have experienced a significant increase in credit risk (see note 4(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 4(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 4(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 statement of comprehensive income 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) Dividends

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 4(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; and
- investment in a subsidiary.

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 statement of comprehensive income 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 statement of comprehensive income 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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Material accounting policies (continued)

(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.

Transactions in foreign currencies are translated at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Hong Kong dollars at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollars at foreign exchange rates ruling at the dates the fair value was measured.

2 Changes in accounting standards, amendments and interpretation

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

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

3 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 material 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.

Insurance contracts

Determination of the fair value of insurance contract liabilities

Under the VFA, 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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 Critical estimates and judgements (continued)

Insurance contracts (continued)

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

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:

- (i) The discount rate was derived with an allowance for an 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 the 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 an 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 2024		At 31 DEC 2023	
	HKD	USD	HKD	USD
Rate 10Y (%)	4.32	5.16	4.02	4.47
Rate 20Y(%)	4.42	5.51	4.21	4.91

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(Expressed in Hong Kong dollars unless otherwise indicated)

4 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.

The monitoring of the risks within the insurance business is carried out by the Insurance Risk Team. The Company's risk stewardship sub-functions support the Insurance Risk Team in their respective area of expertise.

(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 solvency 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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 Risk and capital management (continued)

(c) Key risk types

(i) Market risk

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

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.

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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 Risk and capital management (continued)

(c) Key risk types (continued)

(i) Market risk (continued)

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

Product features

The Company writes unit-linked life insurance policies, which provide policyholders with life insurance protection and investment options in a variety of funds. One of the linked products provides guaranteed minimum death benefit and guaranteed minimum accumulation benefit, in addition to life insurance protection. Premiums received are deposited into the chosen funds after deduction of premium fees, if applicable. Other charges for the cost of insurance, 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.

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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 Risk and capital management (continued)

(c) Key risk types (continued)

(i) Market risk (continued)

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

Product features

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

Management of risks

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

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

- for products with DPF, adjusting dividends to manage the liabilities to policyholders and the effect is that a significant portion of the market risk is borne by the policyholders;
- asset and liability matching where asset portfolios are structured to support projected liability cash flows. The Company manages its assets using an approach that considers asset quality, diversification, cash flow matching, liquidity, volatility and target investment return. It is not always possible to match asset and liability durations due to uncertainty over the receipt of all future premiums and the timing of claims; and also because the forecast payment dates of liabilities may exceed the duration of the longest dated investments available. The Company uses models to assess the effect of a range of future scenarios on the values of financial assets and associated liabilities, and the Asset and Liability Management Committee employ the outcomes in determining how to best structure asset holdings to support liabilities;
- using derivatives to protect against adverse market movements or better match liability cash flows;
- for new products with investment guarantees, considering the cost when determining the level of premiums or the price structure;
- periodically reviewing products identified as higher risk, which contain investment guarantees and embedded optionality features linked in savings and investment products for active management;
- exiting, to the extent possible, investment portfolios whose risk is considered unacceptable; and
- repricing premiums charged to policyholders.

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(Expressed in Hong Kong dollars unless otherwise indicated)

4 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 17 and Note 18 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 4(c)(ii)(1)), with 100% of the exposure being neither past due nor impaired (2023: 100%). Assessment for impairment under HKFRS 9 is set out in accounting policy in Note 1(j)(v).

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 4(c)(ii)(5).

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NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 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.

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(Expressed in Hong Kong dollars unless otherwise indicated)

4 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
<u>Investment grade</u>	
Strong	A- and above
Good (Medium)	BBB+ to BBB-
<u>Sub-Investment grade</u>	
Satisfactory (Medium)	BB+ to B and unrated
Sub-standard	B- to C
Credit-impaired	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.

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(Expressed in Hong Kong dollars unless otherwise indicated)

4 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 commitments and other credit commitments, or financial guarantees (that are not accounted for under HKFRS 17) and similar contracts.

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4 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.

At 31 December 2024	Gross carrying amount					Allowance for ECL			ECL	
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	Total	Charge for the year
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
-Debt securities										
- Government	7,484	-	-	-	7,484	-	-	-	-	-
- Corporate	18,660	-	-	-	18,660	(7)	-	-	(7)	1
- Banks	8,648	-	-	-	8,648	(1)	-	-	(1)	-
-Other assets at amortized cost*										
	22,979	-	-	-	22,979	-	-	-	-	-
Total	57,771	-	-	-	57,771	(8)	-	-	(8)	1

During the year, the Company does not have any credit exposures arising from loan commitments 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).

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4 Risk and capital management (continued)

(c) Key risk types (continued)

(ii) Credit risk (continued)

(5) Credit risk concentrations (continued)

At 31 December 2023	Gross carrying amount					Allowance for ECL				ECL Charge for the year	
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI		Total
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
-Debt securities											
- Government	7,428	-	-	-	7,428	-	-	-	-	-	-
- Corporate	21,228	-	-	-	21,228	(7)	-	-	-	(7)	-
- Banks	10,098	-	-	-	10,098	(2)	-	-	-	(2)	(2)
-Other assets at amortized cost*	17,259	-	-	-	17,259	-	-	-	-	-	-
Total	56,013	-	-	-	56,013	(9)	-	-	-	(9)	(2)

During the year, the Company does not have any credit exposures arising from loan commitments 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).

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(Expressed in Hong Kong dollars unless otherwise indicated)

4 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.

At 31 December 2024	Gross carrying					Total	Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit impaired			
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Debt securities	31,966	2,826	-	-	-	34,792	(8)	34,784
- Stage 1	31,966	2,826	-	-	-	34,792	(8)	34,784
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-
Other assets at amortised cost*	22,979	-	-	-	-	22,979	-	22,979
- Stage 1	22,979	-	-	-	-	22,979	-	22,979
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- POCI	-	-	-	-	-	-	-	-
Total	54,945	2,826	-	-	-	57,771	(8)	57,763
- Stage 1	54,945	2,826	-	-	-	57,771	(8)	57,763
- 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).

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(Expressed in Hong Kong dollars unless otherwise indicated)

4 Risk and capital management (continued)

(c) Key risk types (continued)

(ii) Credit risk (continued)

(5) Credit risk concentrations (continued)

At 31 December 2023	Gross carrying						Net \$'millions
	Strong \$'millions	Good \$'millions	Satisfactory \$'millions	Sub-standard \$'millions	Credit impaired \$'millions	Total \$'millions	
Debt securities	35,875	2,879	-	-	-	38,754	38,745
- Stage 1	35,875	2,879	-	-	-	38,754	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	56,004
- Stage 1	53,134	2,879	-	-	-	56,013	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).

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(Expressed in Hong Kong dollars unless otherwise indicated)

4 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 2024	38,754	(9)	-	-	-	-	-	-	38,754	(9)
New financial assets originated or purchased	1,250	-	-	-	-	-	-	-	1,250	-
Changes to risk parameters (model inputs)	(604)	-	-	-	-	-	-	-	(604)	-
Assets derecognised	(4,608)	1	-	-	-	-	-	-	(4,608)	1
At 31 December 2024	34,792	(8)	-	-	-	-	-	-	34,792	(8)

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(Expressed in Hong Kong dollars unless otherwise indicated)

4 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 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)	-
At 31 December 2023	38,754	(9)	-	-	-	-	-	-	38,754	(9)

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(Expressed in Hong Kong dollars unless otherwise indicated)

4 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.

	2024 \$'millions	2023 \$'millions
ECL based exposures at 31 Dec	57,771	56,013
Central scenario	6	6
Upside scenario	4	4
Downside scenario 1 scenario	9	10
Downside scenario 2 scenario	54	58

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)

4

Risk and capital management (continued)

(ii) Credit risk (continued)

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

At 31 December 2024

	<i>Neither past due nor impaired</i>				Past due not impaired \$'millions	Impaired \$'millions	Impairment allowances \$'millions	Total \$'millions
	Strong \$'millions	Medium \$'millions	Sub- standard \$'millions					
Reinsurance contracts assets								
Life others	22,620	-	-	-	-	-	-	22,620
Total	22,620	-	-	-	-	-	-	22,620

At 31 December 2023

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

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 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:

	2024				
	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)	503,000	205,218	21,785	62,288	213,709
Other assets	3,666	3,666	-	-	-
Loans and receivables	12,067	994	1,639	2,496	6,938
Amounts due from investment managers	4,028	4,028	-	-	-
Portfolio cash	9,161	9,161	-	-	-
Cash and cash equivalents	6,124	6,124	-	-	-
Derivatives	1,165	1,009	-	7	149
	<u>539,211</u>	<u>230,200</u>	<u>23,424</u>	<u>64,791</u>	<u>220,796</u>
Financial liabilities (excluding investment contracts)					
Subordinated loan	1,565	-	-	784	781
Repurchase agreement	9,225	9,225	-	-	-
Other payables	2,332	2,332	-	-	-
Derivatives	573	397	46	112	18
	<u>13,695</u>	<u>11,954</u>	<u>46</u>	<u>896</u>	<u>799</u>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 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)

	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>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 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

	2024		2023	
	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	478,928	492,476	432,625	460,103
Life other contracts	5,064	5,995	9,375	11,279
At 31 Dec	483,992	498,471	442,000	471,382

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 Risk and capital management (continued)

(c) Key risk types (continued)

(iii) Liquidity risk (continued)

(2) Liabilities under insurance and investment contracts (continued)

Investment Contracts:

		2024			
	Total \$'millions	One year or less \$'millions	1 - 2 years \$'millions	2 - 5 years \$'millions	More than 5 years \$'millions
Investment contracts					
- Non-linked	23,439	98	-	-	23,341
- Linked	5,644	109	-	-	5,535
	<u>29,083</u>	<u>207</u>	<u>-</u>	<u>-</u>	<u>28,876</u>
		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>

(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)

4 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)

4 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	(22,781)	(4,616)	15,088	16,887	18,349	57,174	108,828	249,515	438,444
Life other contracts	3,305	200	2,031	41	(35)	(178)	(178)	157	5,343
Reinsurance contracts	(6,051)	(1,280)	(1,242)	(941)	(839)	(7,003)	(4,505)	1,622	(20,239)
At 31 Dec 2024	(25,527)	(5,696)	15,877	15,987	17,475	49,993	104,145	251,294	423,548
Remaining contractual									
Life direct participating contracts	4,881	4,420	4,023	3,690	3,384	13,016	12,924	6,247	52,585
Life other contracts	162	137	114	91	74	206	156	70	1,010
Reinsurance contracts	103	42	38	31	24	24	(28)	(9)	225
At 31 Dec 2024	5,146	4,599	4,175	3,812	3,482	13,246	13,052	6,308	53,820
	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

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 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)

4 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:

	2024			
	Exposure in USD \$'millions	Exposure in HKD \$'millions	Exposure in other currencies \$'millions	Total \$'millions
<i>In millions of HKD equivalent</i>				
Financial assets				
Loans and receivables	7,666	3,370	1,031	12,067
Debt securities	199,972	114,077	3,192	317,241
Equity	25,574	11,756	26,472	63,802
Derivatives	(608)	43,578	(41,805)	1,165
Collective investment schemes	98,340	7,547	16,070	121,957
Amounts due from investment managers	2,484	1,454	90	4,028
Portfolio cash	5,369	3,273	519	9,161
Cash and cash equivalents	3,323	1,797	1,004	6,124
Other assets (including Prepayment and other receivables)	101	3,629	(64)	3,666
	<u>342,221</u>	<u>190,481</u>	<u>6,509</u>	<u>539,211</u>
Financial liabilities				
Liabilities under investment contracts	6,120	22,513	450	29,083
Other liabilities (including accrual and other payables)	140,051	(182,842)	45,123	2,332
Derivatives	2,241	(1,564)	(104)	573
Repurchase agreement	9,225	-	-	9,225
	<u>157,637</u>	<u>(161,893)</u>	<u>45,469</u>	<u>41,213</u>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 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)

	2023			
	Exposure in USD \$'millions	Exposure in HKD \$'millions	Exposure in other currencies \$'millions	Total \$'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)

4 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 4(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 2024, of the total non-linked investment contracts, an aggregate fund value of \$21,004 million (2023: \$21,358 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 \$27 million (2023: \$165 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 \$232 million (2023: \$248 million) increase in the value of assets backing investment contract liabilities. This entire amount \$232 million (2023: \$248 million) would accrue to policyholders' fund value, which will also lead to an increase in the company's investment contract liabilities. In addition, there will be an increase in fair value of capital and minimum return guarantee liabilities which results in a reduction of profit after taxation of \$75 million (2023: \$56 million). Therefore, the aggregate impact is a reduction of profit after taxation or shareholders' equity of \$75 million (2023: \$56 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)

4 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.

	2024			2023		
	Effect on profit after tax	Effect on CSM	Effect on total equity	Effect on profit after tax	Effect on CSM	Effect on total equity
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
+100 basis point parallel shift in yield curves	(294)	(1,892)	(294)	(72)	(1,122)	(72)
-100 basis point parallel shift in yield curves	47	(107)	47	(23)	(1,384)	(23)
+100 basis point shift in credit spreads	(695)	(5,434)	(695)	(372)	(5,059)	(372)
-100 basis point shift in credit spreads	659	5,415	659	434	4,525	434
10% increase in growth assets ¹	194	1,766	194	434	4,525	434
10% decrease in growth assets ¹	(224)	(2,068)	(224)	(192)	(2,199)	(192)
10% increase in US dollar exchange rate compared with all currencies	125	402	125	960	2,603	960
10% decrease in US dollar exchange rate compared with all currencies	(17)	(53)	(17)	(960)	(2,603)	(960)

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)

4 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 4(c).

At 31 December 2024, the equity securities (including collective investment schemes) backing non-linked insurance contracts were recorded at their fair value of \$168,875 million (2023: \$116,519 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 (2023: \$127 million).

5 Other operating expenses

	2024 \$'millions	2023 \$'millions
Auditors' remuneration		
- Statutory audit	16	15
- Audit-related services	9	11
Rental expenses	35	38
Personnel expenses		
- Wages and salaries	544	496
- Contributions to defined contribution plans	43	41
Share-based payment expenses		
- Share awards	-	4
Legal and professional fee	63	22
Marketing expenses	253	131
Other administrative expenses	803	728
Depreciation	9	9
	<hr/>	<hr/>
	1,775	1,495
Less: cost directly attributable to the insurance business	(1,021)	(852)
	<hr/>	<hr/>
	754	643
	<hr/>	<hr/>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

6 Insurance service results

	2024			2023		
	Life direct participating contracts ¹	Life Other ^{2,3}	Total	Life direct participating contracts ¹	Life Other ^{2,3}	Total
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Contracts issued						
Insurance revenue						
Amounts relating to changes in liabilities for remaining coverage						
- CSM recognised for services provided	4,870	254	5,124	3,891	192	4,083
- Change in risk adjustment for non-financial risk for risk expired	121	56	177	52	53	105
- Expected incurred claims and other insurance service expenses	2,051	1,304	3,355	1,760	1,313	3,073
- Others	5	-	5	-	-	-
Recovery of insurance acquisition cash flows	1,377	101	1,478	866	112	978
Total insurance revenue for contracts	8,424	1,715	10,139	6,569	1,670	8,239
Insurance service expenses						
Claims and benefits	(1,904)	(1,505)	(3,409)	(1,875)	(1,329)	(3,204)
Losses on onerous insurance contracts	(12)	(35)	(47)	(3)	(9)	(12)
Amortisation of insurance acquisition cash flows	(1,377)	(101)	(1,478)	(866)	(112)	(978)
Adjustments to liabilities for incurred claims	(39)	4	(35)	(1)	6	5
Total insurance service expenses for contracts issued	(3,332)	(1,637)	(4,969)	(2,745)	(1,444)	(4,189)
Net expense from reinsurance contracts held	-	215	215	-	81	81
Insurance service results	5,092	293	5,385	3,824	307	4,131

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)

7

Net fees income

	Investment contracts (non-linked)		Investment Contracts (linked)		Service contracts		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Net fee income	41	69	32	58	18	(12)	91	115

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 Net insurance and investment results

	2024				2023			
	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
Total net investment income	20,305	334	885	21,524	31,792	441	941	33,174
Represented by:								
Amounts recognised in statement of comprehensive income	20,305	334	885	21,524	31,792	441	941	33,174
Net finance (expenses) from insurance contracts								
Changes in fair value of underlying items of direct participating contracts	(20,398)	-	-	(20,398)	(31,792)	-	-	(31,792)
Effect of risk mitigation option	569	-	-	569	(342)	-	-	(342)
Interest accreted	-	(265)	-	(265)	-	(521)	-	(521)
Effect of changes in interest rates and other financial assumptions	-	(25)	-	(25)	-	44	-	44
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	-	-	-	-	-	(27)	-	(27)
Total net finance expenses from insurance contracts	(19,829)	(290)	-	(20,119)	(32,134)	(504)	-	(32,638)
Represented by:								
Amounts recognised in statement of comprehensive income	(19,829)	(290)	-	(20,119)	(32,134)	(504)	-	(32,638)

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 Net insurance and investment results (continued)

	2024				2023			
	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
Total net finance income from reinsurance contracts held								
Represented by:								
Amounts recognised in statement of comprehensive income	-	525	-	525	-	1,482	-	1,482
Total net investment results	476	569	885	1,930	(342)	1,419	941	2,018
Represented by:								
Amounts recognised in statement of comprehensive income	476	569	885	1,930	(342)	1,419	941	2,018
Total net insurance and investment results	5,568	862	885	7,315	3,482	1,726	941	6,149
Represented by:								
Amounts recognised in statement of comprehensive income	5,568	862	885	7,315	3,482	1,726	941	6,149

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

(Expressed in Hong Kong dollars unless otherwise indicated)

9 Income taxes**(a) Taxation in the statement of comprehensive income represents:**

	2024 \$'millions	2023 \$'millions
Current tax - Hong Kong Profits Tax		
Provision for the year	2,910	1,276
Under/(over) provision in respect of prior years	314	(71)
Provision for transitional tax adjustment (Note i)	647	630
	<u>3,871</u>	<u>1,835</u>
Current tax - Overseas		
Withholding tax provision for the year	(43)	65
	<u>3,828</u>	<u>1,900</u>
Deferred tax		
Origination and reversal of temporary differences	(3,025)	(1,080)
	<u>803</u>	<u>820</u>

The provision for Hong Kong Profits Tax for 2024 is calculated at 16.5% (2023: 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.

On 20 June 2023, legislation was substantively enacted in the UK, the jurisdiction of INHK's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' Global Minimum Tax model rules (the 'model rules') of the Organisation for Economic Cooperation and Development ('OECD') under the Inclusive Framework on Base Erosion and Profit Shifting ('BEPS') and a Qualified Domestic Minimum top-up tax ('QDMTT'), with effect from 1 January 2024.

Under these rules, a top-up tax liability arises where the effective tax rate of the Group's operations in a jurisdiction, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15%. Any top-up tax arising in relation to jurisdictions in which a QDMTT applies will be payable to the tax authority in that jurisdiction. Where there is no QDMTT, the top-up tax is payable by HSBC Holdings plc, being INHK's ultimate parent, to the UK tax authority.

The Hong Kong government has issued the draft Pillar Two legislations including a QDMTT, which shall be effective from 1 January 2025 once substantively enacted during 2025. Based on the Group's forecasts, no significant top-up tax liability is expected to arise in INHK. Nonetheless, the impact is dependent upon the ongoing evolution of rules and guidance in Hong Kong.

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.\$647m) in the assessment year in which HKRBC is early adopted.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

9 Income taxes (continued)

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

	2024		2023	
	\$'millions	%	\$'millions	%
Profit before taxation	<u>6,674</u>		<u>5,662</u>	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	1,101	16.5	934	16.5
Withholding tax provision for the year	(43)	(0.6)	65	1.2
Under/(over) provision in respect of prior years	314	4.7	(71)	(1.3)
Tax effect of non-taxable income and non-deductible expenses	2,456	36.8	972	17.2
Origination and reversal of temporary differences	(3,025)	(45.4)	(1,080)	(19.1)
	<u>803</u>	<u>12.0</u>	<u>820</u>	<u>14.5</u>

10 Dividends

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

	2024	2023
	\$'millions	\$'millions
Interim dividends declared and paid of \$2.143 (2023: \$1.310) per ordinary share	<u>8,954</u>	<u>5,474</u>

11 Directors' remuneration

	2024	2023
	\$'millions	\$'millions
Fees	1	1
Other emoluments	7	10
	<u>8</u>	<u>11</u>

Other emoluments disclosed above includes contributions to retirement benefits of \$339,000 (2023: \$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)

12 Investment in a subsidiary

	2024 \$' millions	2023 \$' millions
Unlisted shares, at cost	554	554

Details of the subsidiaries as at 31 December 2024 are as follows:

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

13 Fixed assets

	Computer Equipment \$'millions	Equipment, fixtures and fittings \$'millions	Total \$'millions
Cost:			
At 1 January 2024	11	32	43
Addition	-	5	5
Write-off	(9)	-	(9)
	<hr/>	<hr/>	<hr/>
At 31 December 2024	2	37	39
	<hr/>	<hr/>	<hr/>
Accumulated depreciation and impairment losses:			
At 1 January 2024	9	12	21
Charge for this year	-	9	9
Write-off	(7)	(5)	(12)
	<hr/>	<hr/>	<hr/>
At 31 December 2024	2	16	18
	<hr/>	<hr/>	<hr/>
Net book value:			
At 31 December 2024	-	21	21
	<hr/>	<hr/>	<hr/>

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

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

14 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 17) 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 4(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 17) and the outstanding capital commitments to invest in private equity funds (see Note 26).

15 Intangible assets

	Software development costs	
	2024 \$'millions	2023 \$'millions
Cost:		
At 1 January	1,395	1,235
Additions	254	160
At 31 December	1,649	1,395
Accumulated amortisation and impairment losses:		
At 1 January	805	631
Charge for the year	208	174
At 31 December	1,013	805
Net book value:		
At 31 December	636	590

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

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Income tax in the balance sheet**(a) Current taxation:**

	2024 \$'millions	2023 \$'millions
At January	(1,548)	(206)
Provision for Hong Kong Profits Tax for the year	(2,829)	(1,276)
Provision for transitional tax adjustment (Note 9(a))	(664)	(630)
Overprovision in respect of the prior year	(314)	71
Withholding tax provision for the year	43	(65)
Tax paid	2,578	558
	<hr/>	<hr/>
Tax payable	(2,734)	(1,548)
	<hr/>	<hr/>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

16 Income tax in the balance sheet (continued)

(b) Deferred tax assets

The components of deferred tax assets 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	Impairment provision \$'millions	Total \$'millions
Deferred tax arising from:					
At 1 January 2024	3,269	(101)	2	1	3,171
Charged to statement of comprehensive income	3,052	(10)	(1)	-	3,041
At 31 December 2024	6,321	(111)	1	1	6,212
At 1 January 2023	2,232	(101)	-	1	2,132
Charged to statement of comprehensive income	1,078	-	2	-	1,080
Other movement	(41)	-	-	-	(41)
At 31 December 2023	3,269	(101)	2	1	3,171

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

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 Investment assets and liabilities

2024				
Assets	Amortised cost \$'millions	Mandatorily measured at fair value through profit or loss \$'millions	Designated at fair value through profit or loss \$'millions	Total \$'millions
Equities				
Listed	-	63,802	-	63,802
	-----	-----	-----	-----
Debt securities				
Government bonds	7,484	7,220	119	14,823
Listed corporate bonds	4,867	160,359	5,002	170,228
Unlisted corporate bonds	22,433	102,768	6,989	132,190
	-----	-----	-----	-----
	34,784	270,347	12,110	317,241
	-----	-----	-----	-----
Collective investment schemes				
Listed	-	1,901	-	1,901
Unlisted	-	118,685	-	118,685
Portfolio cash	-	1,371	-	1,371
	-----	-----	-----	-----
	-	121,957	-	121,957
	-----	-----	-----	-----
Derivatives	-	1,165	-	1,165
	-----	-----	-----	-----
Loans and receivables	-	12,067	-	12,067
	-----	-----	-----	-----
Amounts due from investment managers	4,028	-	-	4,028
	-----	-----	-----	-----
Portfolio cash	9,161	-	-	9,161
	-----	-----	-----	-----
Total investment assets	<u>47,973</u>	<u>469,338</u>	<u>12,110</u>	<u>529,421</u>
	-----	-----	-----	-----
Liabilities				
Derivatives	-	573	-	573
	-----	-----	-----	-----
Total investment liabilities	<u>-</u>	<u>573</u>	<u>-</u>	<u>573</u>
	-----	-----	-----	-----

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 Investment assets and liabilities (continued)

2023				
Assets	Amortised cost \$'millions	Mandatorily measured at fair value through profit or loss \$'millions	Designated at fair value through profit or loss \$'millions	Total \$'millions
Equities				
Listed	-	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
	38,745	273,966	12,130	324,841
Collective investment schemes				
Listed	-	1,856	-	1,856
Unlisted	-	100,860	-	100,860
Portfolio cash	-	3,549	-	3,549
	-	106,265	-	106,265
Derivatives	-	496	-	496
Loans and receivables	-	12,886	-	12,886
Amounts due from investment managers	3,978	-	-	3,978
Portfolio cash	5,740	-	-	5,740
Total investment assets	48,463	443,951	12,130	504,544
Liabilities				
Derivatives	-	734	-	734
Total investment liabilities	-	734	-	734

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 Investment assets and liabilities (continued)

The current portion of investment assets was \$220,410 million (2023: \$180,875 million) and the non-current portion was \$309,011 million (2023: \$323,669 million).

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

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

(a) 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 (e.g. market valuation for similar entities quoted in active market).

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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 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. Equity options are valued using valuation models. Valuation models calculate the present value of expected future cash flows, together with the observable market data, including prices, available from exchange, dealers and brokers for the equity-linked investments.

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 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 2024

	Fair value measurements categorised into			Total
	Level 1	Level 2	Level 3	
	\$'millions	\$'millions	\$'millions	\$'millions
Recurring fair value measurement				
<i>Financial assets</i>				
Financial assets designated and otherwise mandatorily measured at fair value	138,749	236,846	104,688	480,283
Derivatives	-	1,165	-	1,165
<i>Financial liabilities</i>				
Derivatives	-	573	-	573

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 Investment assets and liabilities (continued)

(a) Fair values (continued)

(ii) Analysis of fair value determination (continued)

At 31 December 2023

	Fair value measurements categorised into			Total
	Level 1	Level 2	Level 3	
	\$'millions	\$'millions	\$'millions	\$'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

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 2024 and 2023 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount	Fair value	Fair value measurements categorised into		
			Level 1	Level 2	Level 3
At 31 December 2024	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Debt securities at amortised costs	34,784	29,775	6,601	23,174	-
	<u>34,784</u>	<u>29,775</u>	<u>6,601</u>	<u>23,174</u>	<u>-</u>
	Carrying amount	Fair value	Fair value measurements categorised into		
			Level 1	Level 2	Level 3
At 31 December 2023	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Debt securities at amortised costs	38,745	33,914	5,546	28,368	-
	<u>38,745</u>	<u>33,914</u>	<u>5,546</u>	<u>28,368</u>	<u>-</u>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 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	2024 Loans and receivables \$'millions	Debt securities \$'millions
<i>Designated at fair value through profit or loss</i>			
At 1 January	84,159	8,941	993
Payments for purchases	32,138	390	147
Net cash inflow	(2,178)	-	-
Transfer from Level 2 to Level 3	-	-	44
Net unrealised gains/(loss) recognised in profit or loss during the year	4,351	1,179	(999)
Proceeds from distribution	(22,962)	(1,515)	-
At 31 December	<u>95,508</u>	<u>8,995</u>	<u>185</u>

	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>

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

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 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:

	Valuation techniques	Significant unobservable inputs	2024				2023			
			Reflected in profit or loss		Reflected in equity		Reflected in profit or loss		Reflected in equity	
			Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Financial assets designated at fair value through profit or loss			\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
- Private equities and mid-market debt funds			4,353	(4,431)	4,353	(4,431)	15,714	(15,714)	15,714	(15,714)
	Price - Net asset value	Fund Valuation	4,353	(4,431)	4,353	(4,431)	15,714	(15,714)	15,714	(15,714)

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.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 Investment assets and liabilities (continued)

(a) Fair values (continued)

(vi) Transfers between Level 1 and Level 2

Transfers between levels during the reporting period:

2024	Designated and otherwise mandatorily measured at fair value	\$'millions
Transfers from Level 1 to Level 2		1,523
Transfers from Level 2 to Level 1		10,273
2023	Designated and otherwise mandatorily measured at fair value	\$'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:

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 Investment assets and liabilities (continued)

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

Amounts subject to enforceable netting arrangements							
Effects of offsetting in the balance sheet				Amounts not offset in the balance sheet			
	Gross amounts \$'millions	Amounts offset \$'millions	Amounts reported in the balance sheet \$'millions	Financial instruments \$'millions	Non-cash collateral \$'millions	Cash collateral \$'millions	
At 31 December 2024							
Financial assets							
Derivatives	1,221	(56)	1,165	-	-	-	1,165
	1,221	(56)	1,165	-	-	-	1,165
Financial liabilities							
Derivatives	629	(56)	573	-	-	(614)	1,187
	629	(56)	573	-	-	(614)	1,187
At 31 December 2023							
Financial assets							
Derivatives	505	(9)	496	-	-	-	496
	505	(9)	496	-	-	-	496
Financial liabilities							
Derivatives	743	(9)	734	-	-	(715)	1,449
	743	(9)	734	-	-	(715)	1,449

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

(Expressed in Hong Kong dollars unless otherwise indicated)

17 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	2024 \$'millions	2023 \$'millions
Financial investments		
- Equities	62,914	49,548
- Debt securities	265,105	270,288
- Collective Investment schemes	113,331	95,796
- Derivatives	1,143	503
- Loans and receivables	10,738	10,865
- Amount due from investment manager	3,310	(394)
- Portfolio cash	6,649	7,683
Derivative liabilities	(573)	(730)
	<u>462,617</u>	<u>433,559</u>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Insurance contracts and reinsurance contracts held

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

Insurance contracts - Life direct participating contracts

	2024				2023			
	Liabilities for remaining coverage		Liabilities for incurred claims	Total	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component			Excluding loss component	Loss component		
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Opening assets	-	-	-	-	-	-	-	-
Opening liabilities	458,979	(2)	1,126	460,103	410,629	31	3,872	414,532
Net opening balance	458,979	(2)	1,126	460,103	410,629	31	3,872	414,532
Insurance revenue								
Contracts under fair value approach	(2,705)	-	-	(2,705)	(1,574)	-	-	(1,574)
Other contracts	(5,719)	-	-	(5,719)	(4,995)	-	-	(4,995)
Total insurance revenue	(8,424)	-	-	(8,424)	(6,569)	-	-	(6,569)
Insurance service expenses								
Incurred claims and other insurance service expenses	-	(1)	1,905	1,904	-	(21)	1,896	1,875
Amortisation of insurance acquisition cash flows	1,377	-	-	1,377	866	-	-	866
Losses and reversal of losses on onerous contracts	-	12	-	12	-	3	-	3
Adjustments to liabilities for incurred claims	-	-	39	39	-	-	1	1
Total insurance service expenses	1,377	11	1,944	3,332	866	(18)	1,897	2,745
Investment components	(27,585)	-	27,585	-	(27,289)	-	27,289	-
Insurance service result	(34,632)	11	29,529	(5,092)	(32,992)	(18)	29,186	(3,824)
Net finance income from insurance contracts	19,829	-	-	19,829	32,134	-	-	32,134
Effect of movements in exchange rates	(2,282)	-	(15)	(2,297)	602	-	2	604
Total changes in the statement of comprehensive income	(17,085)	11	29,514	12,440	(256)	(18)	29,188	28,914
Cash flows								
Premiums received	55,265	-	-	55,265	51,623	-	-	51,623
Claims and other insurance service expenses paid, including investment components	136	-	(30,846)	(30,710)	443	-	(31,934)	(31,491)
Insurance acquisition cash flows	(4,622)	-	-	(4,622)	(3,475)	-	-	(3,475)
Transfer	4	(4)	-	-	15	(15)	-	-
Total cash flows	50,783	(4)	(30,846)	19,933	48,606	(15)	(31,934)	16,657
Net closing balance	492,677	5	(206)	492,476	458,979	(2)	1,126	460,103
Closing assets	-	-	-	-	-	-	-	-
Closing liabilities	492,677	5	(206)	492,476	458,979	(2)	1,126	460,103
Net closing balance	492,677	5	(206)	492,476	458,979	(2)	1,126	460,103

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 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

	2024				2023			
	Liabilities for remaining coverage		Liabilities for incurred claims	Total	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component			Excluding loss component	Loss component		
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Opening assets	(827)	-	21	(806)	-	-	-	-
Opening liabilities	10,575	363	341	11,279	13,222	492	309	14,023
Net opening balance	9,748	363	362	10,473	13,222	492	309	14,023
Insurance revenue								
Contracts under fair value approach	(82)	-	-	(82)	(85)	-	-	(85)
Other contracts	(1,633)	-	-	(1,633)	(1,585)	-	-	(1,585)
Total insurance revenue	(1,715)	-	-	(1,715)	(1,670)	-	-	(1,670)
Insurance service expenses								
Incurred claims and other insurance service expenses	-	(237)	1,742	1,505	-	(109)	1,438	1,329
Amortisation of insurance acquisition cash flows	101	-	-	101	112	-	-	112
Losses and reversal of losses on onerous contracts	-	35	-	35	-	9	-	9
Adjustments to liabilities for incurred claims	-	-	(4)	(4)	-	-	(6)	(6)
Total insurance service expenses	101	(202)	1,738	1,637	112	(100)	1,432	1,444
Investment components	(6,162)	-	6,162	-	(4,433)	-	4,433	-
Insurance service result	(7,776)	(202)	7,900	(78)	(5,991)	(100)	5,865	(226)
Net finance income from insurance contracts	282	8	-	290	486	18	-	504
Effect of movements in exchange rates	(135)	-	4	(131)	(1)	5	-	4
Total changes in the statement of comprehensive income	(7,629)	(194)	7,904	81	(5,506)	(77)	5,865	282
Cash flows								
Premiums received	3,224	-	-	3,224	2,109	-	-	2,109
Claims and other insurance service expenses paid, including investment components	1	-	(7,826)	(7,825)	1	-	(5,812)	(5,811)
Insurance acquisition cash flows	(97)	-	-	(97)	(130)	-	-	(130)
Transfer	10	(10)	-	-	52	(52)	-	-
Total cash flows	3,138	(10)	(7,826)	(4,698)	2,032	(52)	(5,812)	(3,832)
Net closing balance	5,257	159	440	5,856	9,748	363	362	10,473
Closing assets	(188)	28	21	(139)	(827)	-	21	(806)
Closing liabilities	5,445	131	419	5,995	10,575	363	341	11,279
Net closing balance	5,257	159	440	5,856	9,748	363	362	10,473

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 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

	2024				2023			
	Assets for remaining coverage		Assets for incurred claims	Total	Assets for remaining coverage		Assets for incurred claims	Total
	Excluding loss recovery component	Loss recovery component			Excluding loss recovery component	Loss recovery component		
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Opening assets	26,618	40	3,152	29,810	23,552	234	1,436	25,222
Opening liabilities	(3,494)	-	(504)	(3,998)	(2,860)	-	(589)	(3,449)
Net opening balance	23,124	40	2,648	25,812	20,692	234	847	21,773
Allocation of reinsurance premiums paid	(2,566)	-	-	(2,566)	(3,328)	-	-	(3,328)
Recoveries of incurred claims and other insurance service expenses	-	-	2,746	2,746	-	-	3,451	3,451
Recoveries or reversals of recoveries of losses on onerous underlying contracts	8	3	-	11	152	(194)	-	(42)
Adjustment to assets for incurred claims	-	-	22	22	-	-	(3)	(3)
Total amounts recoverable from reinsurer	8	3	2,768	2,779	152	(194)	3,448	3,406
Net finance expenses from reinsurance contracts held	525	-	-	525	1,482	-	-	1,482
Investment components	(4,017)	-	4,017	-	(986)	-	986	-
Effect of changes in non-performance risk of reinsurers	2	-	-	2	3	-	-	3
Effect of movements in exchange rates	(310)	-	(17)	(327)	(44)	-	-	(44)
Total changes in the statement of comprehensive income	(6,358)	3	6,768	413	(2,721)	(194)	4,434	1,519
Cash flows								
Premiums paid	680	-	-	680	5,153	-	-	5,153
Claims and other recoverable received	-	-	(6,672)	(6,672)	-	-	(2,633)	(2,633)
Total cash flows	680	-	(6,672)	(5,992)	5,153	-	(2,633)	2,520
Net closing balance	17,446	43	2,744	20,233	23,124	40	2,648	25,812
Closing assets	20,137	43	2,440	22,620	26,618	40	3,152	29,810
Closing liabilities	(2,691)	-	304	(2,387)	(3,494)	-	(504)	(3,998)
Net closing balance	17,446	43	2,744	20,233	23,124	40	2,648	25,812

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Insurance contracts 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	Risk adjustment for non- financial risk	2024 Contractual service margin Contract under fair value approach \$'millions	Other Contracts \$'millions	Total \$'millions
	\$'millions	\$'millions			
Opening assets	-	-	-	-	-
Opening liabilities	415,052	1,573	18,998	24,480	460,103
Net opening balance	415,052	1,573	18,998	24,480	460,103
Changes in the statement of comprehensive income					
Changes that relate to current services					
CSM recognised for services provided	-	-	(2,094)	(2,776)	(4,870)
Change in risk adjustment for non-financial risk for risk expired	-	(121)	-	-	(121)
Experience adjustments	(149)	-	-	-	(149)
Other movements recognised in insurance service result	-	-	276	(279)	(3)
Changes that relate to future services					
Contracts initially recognised in the year	(10,677)	115	-	10,562	-
Changes in estimates that adjust the CSM	(3,279)	(112)	(37)	3,428	-
Changes in estimates that result in losses and reversal of losses on onerous contracts	12	-	-	-	12
Changes that relate to past services					
Adjustments to liabilities for incurred claims	39	-	-	-	39
Insurance service result	(14,054)	(118)	(1,855)	10,935	(5,092)
Net finance expenses from insurance contracts	19,829	-	-	-	19,829
Effect of movements in exchange rates	(2,316)	(8)	380	(353)	(2,297)
Total changes in the statement of comprehensive income	3,459	(126)	(1,475)	10,582	12,440
Cash flows					
Premiums received	55,265	-	-	-	55,265
Claims and other insurance service expenses paid, including investment components	(30,710)	-	-	-	(30,710)
Insurance acquisition cash flows	(4,622)	-	-	-	(4,622)
Total cash flows	19,933	-	-	-	19,933
Net closing balance	438,444	1,447	17,523	35,062	492,476
Closing assets	-	-	-	-	-
Closing liabilities	438,444	1,447	17,523	35,062	492,476
Net closing balance	438,444	1,447	17,523	35,062	492,476

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Insurance contracts 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	Risk adjustment for non- financial risk	2023 Contractual service margin		
			Contract under fair value approach \$'millions	Other Contracts \$'millions	Total \$'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 comprehensive income					
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)

18 Insurance contracts and reinsurance contracts held (continued)

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

Insurance contracts - Life other contracts

	2024 Contractual service margin				
	Estimates of present value of future cash flows \$'millions	Risk adjustment for non- financial risk \$'millions	Contract under fair value approach \$'millions	Other Contracts \$'millions	Total \$'millions
Opening assets	(806)	-	-	-	(806)
Opening liabilities	10,281	141	271	586	11,279
Net opening balance	9,475	141	271	586	10,473
Changes in the statement of comprehensive income					
Changes that relate to current services					
CSM recognised for services provided	-	-	(34)	(220)	(254)
Change in risk adjustment for non-financial risk for risk expired	-	(56)	-	-	(56)
Experience adjustments	200	-	-	-	200
Changes that relate to future services					
Contracts initially recognised in the year	(484)	105	-	380	1
Changes in estimates that adjust the CSM	20	(34)	(34)	48	-
Changes in estimates that result in losses and reversal of losses on onerous contracts	40	(5)	-	-	35
Changes that relate to past services					
Adjustments to liabilities for incurred claims	(4)	-	-	-	(4)
Insurance service result	(228)	10	(68)	208	(78)
Net finance expenses from insurance contracts	264	-	4	22	290
Effect of movements in exchange rates	(118)	-	12	(25)	(131)
Total changes in the statement of comprehensive income	(82)	10	(52)	205	81
Cash flows					
Premiums received	3,224	-	-	-	3,224
Claims and other insurance service expenses paid, including investment components	(7,825)	-	-	-	(7,825)
Insurance acquisition cash flows	(97)	-	-	-	(97)
Total cash flows	(4,698)	-	-	-	(4,698)
Net closing balance	4,695	151	219	791	5,856
Closing assets	(648)	101	-	408	(139)
Closing liabilities	5,343	50	219	383	5,995
Net closing balance	4,695	151	219	791	5,856

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Insurance contracts 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	2023 Contractual service margin		
			Contract under fair value approach \$'millions	Other Contracts \$'millions	Total \$'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 comprehensive income					
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)

18 Insurance contracts 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	2024 Contractual service margin		
			Contract under fair value approach \$'millions	Other Contracts \$'millions	Total \$'millions
Opening assets	29,275	497	223	(185)	29,810
Opening liabilities	(3,532)	(262)	(107)	(97)	(3,998)
Net opening balance	25,743	235	116	(282)	25,812
Changes in the statement of comprehensive income					
Changes that relate to current services					
CSM recognised for services received	-	-	(34)	(32)	(66)
Change in risk adjustment for non-financial risk for risk expired	-	(22)	-	-	(22)
Experience adjustments	269	-	-	-	269
Changes that relate to future services					
Contracts initially recognised in the year	(341)	46	-	296	1
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM	-	-	-	2	2
Changes in estimates that adjust the CSM	261	(37)	(124)	(100)	-
Changes in estimates that do not adjust the contractual service margin	9	(2)	-	-	7
Changes that relate to past services					
Adjustments to assets for incurred claims	22	-	-	-	22
Net income/(expenses) from reinsurance contracts	220	(15)	(158)	166	213
Net finance income/(expenses) from reinsurance contracts held	530	-	(1)	(4)	525
Effect of changes in non-performance risk of reinsurers	2	-	-	-	2
Effect of movements in exchange rates	(264)	(1)	(66)	4	(327)
Total changes in the statement of comprehensive income	488	(16)	(225)	166	413
Cash flows					
Premiums paid	680	-	-	-	680
Claims and other recoverable received	(6,672)	-	-	-	(6,672)
Total cash flows	(5,992)	-	-	-	(5,992)
Net closing balance	20,239	219	(109)	(116)	20,233
Closing assets	22,467	48	298	(193)	22,620
Closing liabilities	(2,228)	171	(407)	77	(2,387)
Net closing balance	20,239	219	(109)	(116)	20,233

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Insurance contracts and reinsurance contracts held (continued)

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

Reinsurance contracts held - Life other contracts (continued)

	2023 Contractual service margin				
	Estimates of present value of future cash flows \$'millions	Risk adjustment for non- financial risk \$'millions	Contract under fair value approach \$'millions	Other Contracts \$'millions	Total \$'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 comprehensive income					
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)

18 Insurance contracts and reinsurance contracts held (continued)

(c) Effect of contracts initially recognised in the year

Insurance contracts - Life direct participating contracts

	Profitable contracts issued \$'millions	2024 Onerous contracts issued \$'millions	Total \$'millions
Estimates of present value of cash outflows			
- Insurance acquisition cash flows	5,410	-	5,410
- Claims and other insurance service expenses payable	61,855	5	61,860
Estimates of present value of cash inflows	(77,942)	(5)	(77,947)
Risk adjustment for non-financial risk	115	-	115
CSM	10,562	-	10,562
Losses recognised on initial recognition	-	-	-
	Profitable contracts issued \$'millions	2023 Onerous contracts issued \$'millions	Total \$'millions
Estimates of present value of cash outflows			
- Insurance acquisition cash flows	3,971	2	3,973
- Claims and other insurance service expenses payable	48,274	104	48,378
Estimates of present value of cash inflows	(60,104)	(105)	(60,209)
Risk adjustment for non-financial risk	95	1	96
CSM	7,764	-	7,764
Losses recognised on initial recognition	-	2	2

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Insurance contracts and reinsurance contracts held (continued)

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

Insurance contracts - Life other contracts

	Profitable contracts issued \$'millions	2024 Onerous contracts issued \$'millions	Total \$'millions
Estimates of present value of cash outflows			
- Insurance acquisition cash flows	52	-	52
- Claims and other insurance service expenses payable	4,100	30	4,130
Estimates of present value of cash inflows	(4,637)	(29)	(4,666)
Risk adjustment for non-financial risk	105	-	105
CSM	380	-	380
Losses recognised on initial recognition	-	1	1

	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

Reinsurance contracts held - Life other contracts

	2024 \$'millions	2023 \$'millions
Estimates of present value of cash inflows	(2,163)	(6,954)
Estimates of present value of cash outflows	2,504	6,992
Risk adjustment for non-financial risk	(46)	(41)
Income recognised on initial recognition	1	(5)
CSM	296	(8)

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 Insurance contracts 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)

18 Insurance contracts 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

	Effect on CSM (Net) (Note i) \$'million	Effect on profit after tax (Gross) (Note i) \$'million	2024 Effect on profit after tax (Net) (Note ii) \$'million	Effect on total equity (Gross) (Note i) \$'million	Effect on total equity (Net) (Note ii) \$'million	Effect on CSM (Net) (Note i) \$'million	Effect on profit after tax (Gross) (Note i) \$'million	2023 Effect on profit after tax (Net) (Note ii) \$'million	Effect on total equity (Gross) (Note i) \$'million	Effect on total equity (Net) (Note ii) \$'million
5% increase in mortality and/or morbidity rates	(265)	(20)	(31)	(20)	(31)	(261)	18	(14)	18	(14)
5% decrease in mortality and/or morbidity rates	271	16	28	16	28	258	(21)	13	(21)	13
10% increase in lapse rates	(1,164)	(46)	(52)	(46)	(52)	(1,098)	(17)	(31)	(17)	(31)
10% decrease in lapse rates	1,154	40	48	40	48	1,110	16	33	16	33
10% increase in expense rates	(70)	(7)	(7)	(7)	(7)	(100)	(5)	(5)	(5)	(5)
10% decrease in expense rates	70	7	7	7	7	97	5	5	5	5

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.

During 2024, we have revised the sensitivity to mortality and morbidity rate from 10% to 5% to align with reasonably foreseeable changes, and the comparative have been restated accordingly.

Note:

(i) the 'gross' sensitivity impacts are provided before considering the impacts of reinsurance contracts held as risk mitigation.

(ii) the 'net' sensitivity impacts are provided after considering the impacts of reinsurance contracts held as risk mitigation.

19 Sundry debtors and prepayments

Sundry debtor are expected to be recovered within one year.

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 Cash and cash equivalents

	2024 \$'millions	2023 \$'millions
Deposits with banks	73	72
Cash at bank and on hand	6,051	3,390
	<hr/>	<hr/>
Cash and cash equivalents in the balance sheet and the statement of cash flow	6,124	3,462
	<hr/>	<hr/>

21 Subordinated loan

	2024 \$'millions	2023 \$'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\$780 million Floating rate subordinated loan due 23 December 2031	780	780
	<hr/>	<hr/>
	1,560	1,560
	<hr/>	<hr/>
Representing:		
- Measured at amortised cost	1,565	1,565
	<hr/>	<hr/>

	2024 \$'millions	2023 \$'millions
Reconciliation of subordinated loan arising from financing activities		
At 1 January	1,565	2,944
Cash items:		
-Repayment of subordinated loan	-	(1,362)
-Finance costs	(99)	(199)
Non-cash items:		
-Amortisation of interest	99	182
	<hr/>	<hr/>
At 31 December	1,565	1,565
	<hr/>	<hr/>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

22 Liabilities under investment contracts issued

	2024 \$'millions	2023 \$'millions
Total liabilities under investment contracts issued		
- fair value	<u>29,083</u>	<u>29,616</u>

Analysis of movements in liabilities under investment contracts issued

	Non-linked		Linked		Total	
	2024	2023	2024	2023	2024	2023
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Balance at 1 January	24,176	25,535	5,440	5,508	29,616	31,043
Benefits paid	(6,871)	(6,556)	(804)	(555)	(7,675)	(7,111)
Benefits incurred	6,180	5,266	1,043	545	7,223	5,811
Fees charges	(46)	(69)	(35)	(58)	(81)	(127)
Balance at 31 December	<u>23,439</u>	<u>24,176</u>	<u>5,644</u>	<u>5,440</u>	<u>29,083</u>	<u>29,616</u>

23 Creditors and accruals

Creditors and accruals are expected to be settled within one year.

	2024 \$'millions	2023 \$'millions
Accrued liabilities	612	565
Accounts payable	1,474	2,149
Other liabilities	11	16
	<u>2,097</u>	<u>2,730</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") and the Bermuda Insurance Act 1978 (the "Act"). The Company has established an internal solvency (assets as a proportion of liabilities) benchmark that exceeds the minimum requirements of the IO and the Act 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

	2024		2023	
	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 2024 amounted to \$57,118 million (2023: \$50,024 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

	2024 \$'millions	2023 \$'millions
Amounts due (to)/from		
- Fellow subsidiary companies	(129)	258
- The immediate holding company	(2)	(31)
- Intermediate holding companies	(73)	(26)
- The ultimate holding company	(5)	(3)
- The subsidiary company	3,597	3,597
Cash and cash equivalents		
- An intermediate holding company	6,057	3,398
Repurchase agreements		
- An intermediate holding company	(9,225)	(8,725)
Subordinated loan		
- An intermediate holding company	(1,565)	(1,565)

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

	2024		2023	
	Intermediate holding company \$'millions	Fellow subsidiary companies \$'millions	Intermediate holding company \$'millions	Fellow subsidiary companies \$'millions
Debt securities	-	-	-	-
Collective investments schemes	-	21,139	-	19,641
Derivatives	726	-	(377)	-
Loans and receivables	-	-	-	-
Amounts due from investment managers	-	-	-	-
Portfolio cash	9,053	-	5,710	-
	<u>9,779</u>	<u>21,139</u>	<u>5,333</u>	<u>19,641</u>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

27 Material related party transactions (continued)

(c) Investment income

	2024			2023		
	Intermediate holding company	Fellow subsidiary company	Subsidiary companies	Intermediate holding company	Fellow subsidiary company	Subsidiary companies
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Interest income	220	-	108	193	12	108
Net income from investment assets mandatorily or otherwise designated at fair value through profit or loss	-	1,424	-	-	738	-
Net realised & unrealised gain on derivatives	2,564	-	-	(259)	-	-
Interest expense	(419)	-	-	(602)	-	-
	<u>2,365</u>	<u>1,424</u>	<u>108</u>	<u>(668)</u>	<u>750</u>	<u>108</u>

(d) Sales of services

	2024			2023		
	Ultimate holding company	Intermediate holding company	Fellow subsidiary companies	Ultimate holding company	Intermediate holding company	Fellow subsidiary companies
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Gross insurance premium income	-	687	718	-	658	647
Reinsurers' share of claims & benefits incurred	-	-	426	-	-	678
Other administration and support services	-	26	18	-	23	34
	<u>-</u>	<u>713</u>	<u>1,162</u>	<u>-</u>	<u>681</u>	<u>1,359</u>

(e) Purchase of services

	2024			2023		
	Ultimate holding company	Intermediate holding company	Fellow subsidiary companies	Ultimate holding company	Intermediate holding company	Fellow subsidiary companies
	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions	\$'millions
Reinsurers' share of gross insurance premium income	-	-	440	-	-	612
Gross claims and benefits incurred	-	-	24	-	-	14
Acquisition costs	-	3,510	-	-	2,886	-
Investment management fees	-	3	399	-	4	350
Other administration and support services	-	741	8	-	606	5
	<u>-</u>	<u>4,254</u>	<u>871</u>	<u>-</u>	<u>3,496</u>	<u>981</u>

HSBC LIFE (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(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 \$4 million (2023: \$28 million) and the amount of excess to return to the fellow subsidiary company during the year was \$0.5 million (2023: \$0.5 million) respectively. The amounts outstanding as at 31 December are included in Note 27(a).

(g) Key management compensation

	2024 \$'millions	2023 \$'millions
Short-term employee benefits	40	35
Post-employment benefits	3	3
Share-based payments	4	3
Total	<u>47</u>	<u>41</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 2024 amounted to \$80 million and \$5 million respectively (2023: \$80 million and \$3 million respectively).

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(Expressed in Hong Kong dollars unless otherwise indicated)

28 Parent and ultimate holding company

At 31 December 2024, the Directors consider the parent of the Company to be HSBC Insurance (Asia) Limited, a Company incorporated in Hong Kong, and the ultimate controlling party of the Company to be HSBC Holdings plc, a company incorporated in the United Kingdom. The parent does not produce financial statements available for public use, while the ultimate controlling party of the Company produces financial statements that are available for public use.

29 Possible impacts of amendments, new standards, and amendments and annual improvements to HKFRSs or interpretations issued but that are not yet effective for the year ended 31 December 2024

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 2024 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
Lack of Exchangeability – Amendments to HKFRS 1 and HKAS 21	1 January 2025
Classification and Measurement of Financial Instruments – Amendments to HKFRS 7 and HKFRS 9	1 January 2026
Annual Improvements to HKFRS Accounting Standards – Volume 11 – Amendments to HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKAS 7	1 January 2026
Presentation and Disclosure in Financial Statements – HKFRS 18	1 January 2027
Subsidiaries without Public Accountability: Disclosures – HKFRS 19	1 January 2027
Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause – Amendments to Hong Kong Interpretation 5	1 January 2027
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.

30 Non-adjusting event after the reporting period

Subsequent to the financial year-end date, the Company has declared and paid out a dividend amounted to \$778 million to equity shareholders of the Company on 1 April 2025. This dividend declaration is a non-adjusting event as it does not affect the financial position at the reporting date but is significant enough to warrant disclosure. The payment of this dividend reflects the Company's commitment to returning value to its shareholders and will be accounted for in the next reporting period.