HSBC Life Assurance (Malta) Ltd

Annual Report 2020

HSBC
Insurance

The HSBC Group

HSBC Life Assurance (Malta) Ltd. is a fully owned subsidiary of HSBC Bank Malta p.l.c. which is a member of the HSBC Group, whose ultimate parent company is HSBC Holdings plc. Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. The HSBC Group's international network is spread across 64 countries and territories in Europe, Asia, North America, Latin America, and the Middle East and North Africa.

HSBC Life Assurance (Malta) Ltd.
Registered in Malta: C18814
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For the Year Ended 31 December 2020

The directors present their report together with the audited financial statements of HSBC Life Assurance (Malta) Ltd ("the Company") for the year ended 31 December 2020.

Board of directors

The directors of the Company who held office during the year were:

Simon Vaughan Johnson (Chairman) – appointed 28 April 2020
Harpal Karlcut
Muriel Rutland – appointed 12 May 2020
Eric Emoré
Joyce Grech
Maria Louisa sive Marisa Attard
Joanne Aquilina
Andrew Beane – resigned 28 April 2020
Daniel Robinson – resigned 14 February 2020
Stuart Fairbairn – resigned 12 May 2020

Principal activities

The Company is authorised to carry on business of insurance in terms of the Insurance Business Act (Chapter 403 of the Laws of Malta) and is regulated by the Malta Financial Services Act. The principal activity of the Company is to carry on long term business of insurance in and from Malta. The Company is also passported, under the Freedom of Services Legislation into several European countries and is licensed to offer business of insurance in Jersey, Channel Islands.

Business review

During 2020 the Company has seen unprecedented global events.

Throughout the Covid-19 outbreak, the Company has continued to support its customers and adapted its operational processes. The Company has maintained business continuity with high levels of service throughout the Covid-19 outbreak and its people, processes and systems have responded to the changes needed and increased the workload in serving our customers through this time.

Overall the balance sheet and liquidity of the Company have remained strong.

The Company reported a loss before tax of €9.1 million for 2020, compared to a profit before tax of €3.1 million registered in the prior year. This negative variance of €12.2m is mainly attributable to impacts driven by the Covid-19 pandemic which manifested through actuarial losses of €8.4m as a result of worse experience on modelled parameters such as yield and lapses; deterioration of market conditions (including lower interest rates, and wider credit spreads) negatively impacting returns on shareholder's assets by €3.0m; and the impact of the lower value of new business of €1.0m.

Gross written premium for the year was 10% lower than prior year.

The non-linked investments generated a positive return of €3.2 million compared to the €21.9 million in the prior year. This low return is attributable to lower performance in the investment market and the increase of the spreads in 2020.

During the year under review, movements in the Euro swap curve impacted the Company's financial results negatively by €7.3 million, compared to a negative impact of €6.9 million in the prior year. As a result of the with-profits smoothing reserves accumulated in previous years, the Company was able to maintain its philosophy of paying a terminal bonus to eligible policies which matured during the year. The Company also paid a 1.0% revisionary bonus which was declared at the beginning of the year. No top up bonus was declared for 2020. Furthermore, the Board declared a guaranteed bonus of 0.5% for 2021. This is payable to customers net of tax. In line with the bonus philosophy, this rate is based on conservative assumptions, with any shortfall to actual returns made up throughout the final terminal bonus. A discretionary top up bonus may be declared at year end.

At 31 December 2020, total assets were recorded at €906.3 million, a decrease of €32 million from prior year's level. This decrease is largely the result of the negative market movements including the drop in interest rates throughout the portfolio.

At the end of 2020, the Company has an unaudited Solvency Ratio of 180%, being 80% higher than the Solvency Capital Requirement stipulated by the Solvency II regime (2019: 261%).

Future developments

The Company will continue to focus on growth within the core domestic market during 2021, leveraging on the current Maltese economic environment, pensions legislation, increased demand for online services and HSBC's financial planning and wealth management capabilities while being mindful of the challenges brought about by Covid-19 further explained below. The Company is committed to increasing its focus on retirement planning and employer sponsored pension plans, building online capability whilst continuing to meet customers' needs for protection and long-term savings.

Risks and uncertainties

The Company is exposed to financial risk through its financial assets, financial liabilities (investment contracts), reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts, which can be driven by changes in the market value of assets or through changes to expectations on future yields, particularly as a result of prolonged uncertainty due to the ongoing Covid-19 pandemic. Covid-19 may also have a longer term impact on mortality risk which is as yet undetermined or on lapses. Changes to assumptions can materially impact the Company's profit and solvency ratio. This risk is heightened through the period of market volatility that has been brought about because of the Covid-19 outbreak and further information pertaining to sensitivity around changes in assumptions can be found in notes 4,5,17 to the financial statements. An added uncertainty relates to the implications arising from the Company's implementation of IFRS 17. This will bring a fundamental change in the manner in which the financial statements are presented.

The Company is part of the wider HSBC Group and places reliance on the immediate parent bank as the primary distributor of its products. The Company regularly engages with Wealth & Personal Banking within HSBC Bank Malta plc, with regards to agreeing its Annual Operating Plan and monitoring sales performance. Deviations to plan are identified and a collaborative approach is taken to address any shortfalls. Given new business sales are the key contributor to the Company's income this constitutes a key risk to performance and is given high priority. The Covid-19 outbreak has led to changes being made to the Company's Annual Operating Plan to reflect anticipated changes in new business levels.

The current negative interest rate environment and expectations of low interest rates over the longer term also pose a challenge to the Company mainly due to the lack of high quality fixed interest instruments with adequate risk versus return ratios; the volatility in the yield curve can materially impact the Company's profit and solvency ratio. Whilst this creates risk for the Company in not being able to make appropriate returns for both shareholders and customers, it actively engages with asset managers to seek alternative assets, whilst remaining within set risk appetite.

Further information with respect to insurance and financial risks is included in notes 5.1 and 5.2 to the financial statements.

Having considered the uncertainties linked to Covid-19, in light of the Company's level of solvency as well as plans to further improve the capital base, the directors consider the going concern assumption to remain appropriate on the basis of information known to date.

Dividends

The Company did not pay any dividend to shareholders during 2020.

Reserves

The directors propose that the balance of retained earnings amounting to €37.4 million is to be carried forward to the next financial year.

Statement of directors' responsibilities

The directors are required by the Maltese Insurance Business Act, (Chapter 403, Laws of Malta) and the Maltese Companies Act, (Chapter 386, Laws of Malta) to prepare financial statements which give a true and fair view of the state of affairs of the Company at the end of each financial year and of the profit or loss for that year.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal controls relevant to the preparation and the fair presentation of financial statements that are free from material misstatement, whether due to fraud or error and that comply with the Maltese Companies Act, (Chapter 386, Laws of Malta). They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of HSBC Life Assurance (Malta) Ltd for the year ended 31 December 2020 are included in the Annual Report 2020, which is published in hard-copy printed form and is available on the Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Approved by the Board of Directors on 17 February 2021 and signed on its behalf by:

Simon Vaughan Johnson
Chairman

Marisa Attard
Non-executive Director

Registered Office

80 Mill Street

Qormi QRM 3101

Malta

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of HSBC Life Assurance (Malta) Ltd (the Company) as at 31 December 2020, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

HSBC Life Assurance (Malta) Ltd's financial statements, set out on pages 15 to 76, comprise:

- the statement of financial position as at 31 December 2020;
- the statement of changes in equity for the year then ended;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We 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 International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the company are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the company, in the period from 1 January 2020 to 31 December 2020, are disclosed in note 11 to the financial statements.

Our audit approach

Overview

Overall materiality: €568,000 which represents 1% of gross premiums written.

- Measurement of non-linked life insurance contract liabilities and of the present value of in-force business (PVIF)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which the company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	€568,000
How we determined it	1% of gross premiums written
Rationale for the materiality benchmark applied	We chose gross premiums written as reflected in the statement of profit or loss as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the company, and is not as volatile as other profit and loss measures. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted revenue-related benchmarks.

We have applied a higher materiality of €3.1m solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €56,800 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Measurement of non-linked life insurance contract liabilities and of the present value of in-force business (PVIF) Management's valuation of the provisions for the settlement of future non-linked claims attributable to life insurance contracts and of the PVIF involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these items. We focused on this area due to the materiality and subjectivity of the judgements made. Economic assumptions (investment return and associated discount rates) and non-economic assumptions (mortality, lapse rates and expenses associated with servicing policies), including the respective margins applied, are the key inputs to which the carrying amounts of these long-term liabilities and intangible asset are highly sensitive. Changes to assumptions can materially impact the Company's estimates. Future estimation uncertainty is heightened as a result of the ongoing COVID-19 pandemic. Relevant references in the financial statements are: • Significant accounting policies: Notes 3.1 and 3.8; • Critical accounting estimates and judgements: Note 4; • Note on intangible assets: Note 16; and • Note on insurance liabilities: Note 18.	Our audit procedures addressing the valuation of the company's non-linked life insurance contract liabilities and of the PVIF included the following procedures using our actuarial expert team members: • we tested the accuracy of the underlying data utilised for the purposes of measurement by reference to its source; • we applied our industry knowledge and experience in comparing the methodology, models and assumptions used to recognised actuarial practices; and • we tested management's controls in respect of the valuation and assumption setting processes, and we assessed management's key judgements throughout the processes. In respect of the assumptions underlying the measurement of the non-linked life insurance contract liabilities, we performed the following procedures using our actuarial expert team members: • we assessed the assumptions for investment mix and projected investment returns by reference to company-specific and market observable data (2020: EIOPA curve; 2019: Euro swap curve); • we considered the appropriateness of the mortality assumptions by reference to company and industry data on historical mortality experience and expectations of future mortality; and

Key audit matter	How our audit addressed the Key audit matter
	• we tested the future expense assumption by understanding and challenging the basis on which expenses are allocated between new business and renewals and by reference to market observable data (inflation curve). The following procedures in relation to the assumptions underlying the valuation of the PVIF were performed, also through the involvement of our actuarial expert team members: • we leveraged the testing performed in relation to those assumptions that are aligned with the insurance contract liability valuation, reviewing the differences in margins applied between the two; and • we considered the appropriateness of the lapse rate assumptions by reference to company data, considering the results of management's analysis of recent lapse experience. In respect of all the assumptions referred to above, we have reviewed management's approach to setting the assumptions, assessed the assumptions' appropriateness based on internal and external data, and tested management's governance and controls over the assumption basis review. We also reviewed the modelled results and manual adjustments, and we assessed the reasonableness of management's analysis of the changes in the carrying amounts. We also assessed the appropriateness of the disclosures within the financial statements, including reference to related uncertainties brought about by the ongoing COVID-19 pandemic, and sensitivity analysis around the key assumptions. Based on the work performed we found the valuation of the non-linked life insurance contract liabilities and the present value of in-force business to be consistent with the explanations and evidence obtained.

Other information

The directors are responsible for the other information. The other information comprises the Directors' report (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 except as explicitly stated within the *Report on other legal and regulatory requirements*.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), 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.

Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

Auditor's responsibilities for the audit of the financial statements - continued

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- 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, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the company's trade, customers and suppliers, and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The *Annual Report 2020* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the *Annual Report 2020* and the related Directors' responsibilities	Our responsibilities	Our reporting
Directors' report (on pages 1 to 4) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

Area of the *Annual Report 2020* and the related Directors' responsibilities	Our responsibilities	Our reporting
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us. • the financial statements are not in agreement with the accounting records and returns. • we have not received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.	We have nothing to report to you in respect of these responsibilities.

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the Company's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

Appointment

We were first appointed as auditors of the Company on 22 April 2015. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 6 years.

PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

Romina Soler
Partner

17 February 2021

Statement of Financial Position as at 31 December 2020

	Note	2020 €000	2019 €000
Assets			
Property and equipment	14	–	1
Investment property	15	1,600	2,199
Intangible assets	16	41,451	51,525
Financial investments:	17		
– Equities		15,487	17,245
– Debt securities		271,271	263,051
– Collective investment schemes		41,888	45,128
– Net assets held to cover linked liabilities		405,156	424,222
Reinsurance assets	18	80,083	78,945
Current tax assets		1,163	1,393
Insurance and other receivables	19	3,105	4,806
Cash at bank	20	45,072	49,770
Total assets		906,276	938,285
Liabilities			
Insurance contract provisions:	18		
– Claims outstanding		4,767	3,837
– Non-linked business		403,097	410,048
– Linked business		240,166	244,585
Financial liabilities:			
– Investment contracts at fair value through profit or loss	21	170,865	183,706
Reinsurance payables		78	92
Provision for liabilities and charges	22	1,689	1,057
Insurance payables, other payables and deferred income	23	6,600	5,895
Deferred tax liabilities	24	13,616	17,609
Total liabilities		840,878	866,829
Net assets		65,398	71,456

The notes on pages 22 to 76 are an integral part of these financial statements.

Statement of Financial Position as at 31 December 2020 (continued)

	Note	2020 €000	2019 €000
Shareholders' equity			
Share capital	*26.1*	**27,961**	27,961
Retained earnings		**37,473**	43,495
Total shareholders' equity		**65,398**	71,456

The notes on pages 22 to 76 are an integral part of these financial statements.

The financial statements on pages 15 to 76 were approved and authorised for issue by the Board of Directors on 17 February 2021 and signed on its behalf by:

Simon Vaughan Johnson
Chairman

Marisa Attard
Non-executive Director

Statement of Changes in Equity for the year ended 31 December 2020

	Share capital	*Retained earnings*	*Total equity*
	€000	**€000**	**€000**
Balance at 1 January 2019	27,961	54,371	82,332
Comprehensive income for the year			
Profit for the year	–	2,124	2,124
Total comprehensive income for the year	–	2,124	2,124
Transactions with owners, recorded directly in equity			
Dividends (note 27.3)	–	(13,000)	(13,000)
Net distributions to owners	–	(13,000)	(13,000)
Balance at 31 December 2019	27,961	43,495	71,456
Balance at 1 January 2020	**27,961**	**43,495**	**71,456**
Comprehensive income for the year			
Loss for the year	**–**	**(6,058)**	**(6,058)**
Total comprehensive income for the year	**–**	**(6,058)**	**(6,058)**
Balance at 31 December 2020	**27,961**	**37,437**	**65,398**

The notes on pages 22 to 76 are an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020

	Note	2020 €000	2019 €000
Technical Statement			
Earned premiums, net of reinsurance			
Gross premiums written	6	56,800	63,010
Outward reinsurance premiums		(5,420)	(5,302)
Net premiums written		51,380	57,708
Investment contracts fee income	7	1,189	1,299
Investment (loss)/income	8	(13,938)	72,289
		38,631	131,296
Claims incurred and benefits accrued, net of reinsurance			
Claims paid:			
– Gross amount		(55,252)	(57,701)
– Reinsurers' share		2,732	1,406
		(52,520)	(56,295)
Change in provisions for claims:			
– Gross amount	18.3	(930)	(638)
– Reinsurers' share	18.4	515	130
		(415)	(508)
Change in technical provisions, net of reinsurance			
Long term business:			
– Gross amount	18.3	9,397	218
– Reinsurers' share	18.4	625	(6,250)
		10,022	(6,032)
Movement in technical provisions for linked insurance contracts	18.3	4,419	(34,042)
		14,441	(40,074)
Bonuses and rebates, net of reinsurance	18.3	(2,442)	(3,226)
Balance carried forward		(2,305)	31,193

The notes on pages 22 to 76 are an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2020 (continued)

	Note	2020 €000	2019 €000
Technical Statement (continued)			
Balance brought forward		**(2,305)**	31,193
Investment contract benefits	*9.21*	**9,644**	(23,664)
Change in present value of in-force business	*16*	**(10,320)**	(1,865)
Acquisition costs	*10*	**(1,462)**	(1,640)
Administrative expenses	*11*	**(5,975)**	(5,737)
Movement in provision for liabilities and changes	*22*	**(1,010)**	(166)
Net investment management charges		**(84)**	(64)
Balance on the Technical Statement		**(11,512)**	(1,943)

The notes on pages 22 to 76 are an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020 (continued)

	Note	2020 €000	2019 €000
Non-Technical Statement			
Balance on the Technical Statement		**(11,512)**	(1,943)
Investment income	*8*	**1,675**	4,042
Investment management charges		**(91)**	(2)
Administrative expenses		**(428)**	(363)
Commission receivable		**1,261**	1,402
Loss/profit before tax		**(9,095)**	3,136
Tax expense	*13*	**3,037**	(1,012)
Loss/profit for the year – Total Comprehensive Income		**(6,058)**	2,124

The notes on pages 22 to 76 are an integral part of these financial statements.

Statement of Cash Flows for the year ended 31 December 2020

	Note	2020 €000	2019 €000
Cash flows from operating activities			
Insurance premiums received		**57,426**	62,719
Reinsurance premiums paid		**(5,444)**	(5,166)
Fees and commissions received		**2,450**	2,701
Interest received		**4,732**	5,686
Dividends received		**1,793**	2,926
Rental Income from investment property received		**10**	–
Claims and benefits paid as adjusted for movements in claims payable		**(55,453)**	(58,149)
Reinsurance claims received		**2,642**	1,406
Investment contract receipts		**5,240**	9,186
Investment contract benefits paid		**(7,983)**	(14,042)
Payments to employees and suppliers		**(7,098)**	(8,457)
Policyholders' investments portfolio:			
– Acquisition of investments		**(117,038)**	(77,331)
– Proceeds from sale of investments		**112,220**	77,308
Tax paid		**(734)**	(2,717)
Net cash used in operating activities		**(7,237)**	(3,930)
Cash flows from investing activities			
Interest received		**1,149**	1,408
Acquisition of intangible assets		**(282)**	(239)
Shareholder's investments portfolio:			
– Acquisition of investments		**(7,318)**	(13,942)
– Proceeds from sale of investments		**8,990**	22,702
Net cash from investing activities		**2,539**	9,929
Cash flows from financing activities			
Dividends paid	*27.3*	**–**	(13,000)
Cash used in financing activities		**–**	(13,000)
Net decrease in cash and cash equivalents		**(4,698)**	(7,001)
Cash and cash equivalents at 1 January		**49,770**	56,771
Cash and cash equivalents at 31 December	*20*	**45,072**	49,770

The notes on pages 22 to 76 are an integral part of these financial statements.

1 Reporting entity

HSBC Life Assurance (Malta) Ltd ("the Company") is a limited liability Company domiciled and incorporated in Malta.

2 Basis of preparation

2.1 *Statement of compliance*

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. All references in these financial statements to IAS, IFRSs or SIC/IFRIC interpretations refer to those adopted by the EU. They have also been drawn up in accordance with the provisions of the Companies Act, (Chapter 386, Laws of Malta).

The balance sheet is organised in increasing order of liquidity, with additional disclosures on the current or non-current nature of the Company's assets and liabilities provided within the notes to the financial statements.

2.2 *Basis of measurement*

Assets and liabilities are measured at historical cost except for the value of in-force long-term assurance business within intangible assets which is measured at present value, and the following which are measured at fair value:

– financial instruments at fair value through profit or loss;

– investment property.

2.3 *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). These financial statements are presented in euro, which is the Company's functional and presentation currency.

2.4 *Use of estimates and judgements*

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any further periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 4.

2 Basis of preparation *(continued)*

2.5 Standards, interpretations and amendments to published standards effective in 2020

In 2020, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2020. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies and financial statements.

2.6 New standards, interpretations and amendments to published standards not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements. The Company is considering the implications of the below standard on the Company's financial results and position, and the timing of its adoption, taking cognisance of the endorsement process by the European Commission.

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs which are effective after 1 January 2020, some of which have been endorsed for use in the EU. The company expects they will have an insignificant effect, when adopted, on the financial statements of the company. The company has not early adopted any of the amendments effective after 31 December 2020.

Major new IFRSs

IFRS 17 'Insurance Contracts' is an International Financial Reporting Standard (IFRS) that was issued by the International Accounting Standards Board (IASB) in May 2017. IFRS 17 will replace IFRS 4. It establishes the principles for the recognition, measurement, presentation and disclosure of contracts within the scope of the standard.

The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that in scope contracts have on entity's financial position, financial performance and cash flows. IFRS 17 had an effective date of 1 January 2021, delayed to 1 January 2022. On 17th March 2020, the IASB took the decision to defer IFRS 17 implementation by year, with a new effective date of 1 January 2023.

The targeted outcomes of the Company's IFRS 17 programme are:

– compliance with IFRS 17 requirements;

– an optimised business model for an IFRS 17 environment and

– a fit-for-purpose Finance and actuarial operating model and control framework.

During 2021, the IFRS 17 programme will continue in its execution phase, accelerating to ensure readiness for IFRS 17 implementation; 2022 'Transition year' and 2023 (Day-1).

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 *Insurance and investment contracts*

3.1.1 *Classification*

The Company issues contracts that transfer insurance risk and/or financial risk.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Also refer to note 3.1.2.

A number of insurance contracts contain a Discretionary Participation Feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Company; and
- that are contractually based on investment returns on a specified pool of assets held by the Company.

Board policy and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Company may exercise its discretion as to the amount and timing of their payment to contract holders. At least 90% of the eligible investment return must be attributed to contract holders as a group while the amount and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the Approved Actuary.

Long-term insurance contracts with fixed and guaranteed term

These contracts insure events associated with human life (for example death or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission, and are inclusive of policy fees receivable.

Death benefits are recorded as an expense when they are incurred.

3 Significant accounting policies *(continued)*

3.1 Insurance and investment contracts (continued)

3.1.2 Recognition and measurement of contracts

A liability for contract benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined by a discounted cash flow approach incorporating margins for adverse deviations in the assumptions. The liability is based on assumptions as to mortality, maintenance expenses and investment income.

The liabilities are recalculated by the Company at each reporting date using the assumptions established at the measurement date.

Creditor insurance contracts

For the creditor protection business (in run-off since December 2009), premiums are earned or deferred depending on the period of risk that the premiums relate to. Earned premiums are premiums whose risk relates to the accounting period and are recorded as revenue. Unearned premiums are premiums relating to periods of risk subsequent to the accounting period. Premiums are shown before commission.

Claims incurred comprise the settlement of claims paid, including handling costs, and outstanding claims arising from events occurring during the financial year together with adjustments to prior year claims provisions. All claims are recorded on the basis of notifications received up to the reporting date.

Long-term insurance contracts with DPF and unit-linked insurance contracts

These contracts insure human life events (for example death or survival) over a long duration. Premiums are accounted for on a receivable basis, except for premiums relating to linked contracts which are accounted for in the period in which the corresponding liability is established. In this case, insurance premiums are recognised in profit or loss and simultaneously within liabilities. These liabilities are increased by credited interest (in the case of savings with-profit) increase or decrease by changes in unit prices (in the case of unit-linked contracts) and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. These liabilities are the contract holders' account balances.

Savings with-profit contracts contain a DPF that entitles the holders to a credit of bonus declared by the Company from the DPF investment income (i.e. all interest and, realised and unrealised gains and losses arising from assets backing these contracts) accumulated to date. The Company has an obligation to eventually pay to contract holders up to 90% of the DPF eligible investment return. Any portion of this investment return that is not declared as a bonus and credited to the individual contract holders is reserved as a liability for the benefit of all contract holders until declared and credited to them individually in future periods. For contracts with DPF or unit-linked business a further non-unit liability is recorded in respect of any additional mortality and expense risks. This liability is calculated using the same method for contracts with fixed and guaranteed term.

3 Significant accounting policies *(continued)*

3.1 Insurance and investment contracts (continued)

3.1.2 Recognition and measurement of contracts (continued)

Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts as described above are classified as reinsurance contracts held.

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders. Reinsurance commission is recognised as it is received unless the amounts receivable can be reliably measured.

Outward reinsurance premiums are accounted for in profit or loss on an accruals basis. For reinsurance of the creditor protection business (in run-off since December 2009), reinsurance premiums are accounted for and earned in the same manner as the relative premiums, with the un-expensed portion of ceded reinsurance premiums included in reinsurers' share of technical provisions. Reinsurance assets for this run-off portfolio also include recoveries due from reinsurance companies in respect of claims incurred.

Premiums ceded and benefits reimbursed are presented in the primary statements on a gross basis other than for creditor protection business which is fully reinsured. The company is only exposed to credit risk in this respect, and assets and liabilities are therefore not set off.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognised in the same year as the related claim.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist principally of longer term receivables (classified as reinsurance assets) that are dependent on expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company assesses its reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost stipulated in IAS 39. The impairment loss is calculated using an incurred loss approach since these assets are within the scope of IFRS 4 and not IFRS 9. These processes are described in note 3.10.3.

3 Significant accounting policies *(continued)*

3.1 Insurance and investment contracts (continued)

3.1.2 Recognition and measurement of contracts (continued)

Liability adequacy test

Contract liabilities are tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision is made and the Company recognises the deficiency in profit or loss for the year.

Investment contracts

Amounts collected on investment contracts are accounted for using deposit accounting, under which the amounts collected are credited directly to the Statement of Financial Position as an adjustment to the liability to the policyholder.

Investment contracts are financial liabilities whose fair value is dependent on the fair value of underlying financial assets, (also known as unit-linked investment contracts) and are designated at fair value through profit or loss from inception.

The best evidence of the fair value of these financial liabilities at initial recognition is the transaction price (that is, the fair value received).

The Company's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data. For the traditional unit-linked business, the fair value of financial liabilities for investment contracts is determined using the current unit values in which the contractual benefits are denominated. These unit values reflect the fair values of the financial assets contained within the Company's unitised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each contract holder at the end of the reporting period by the unit value for the same date. For a portion of the 2014 acquired business, the fair value of the financial liabilities for investment contracts is determined using the current net asset values of the policies' underlying assets.

When the investment contract has an embedded surrender option, the fair value of the financial liability is never less than the amount payable on surrender.

Some investment contracts issued include the provision of investment management services. These services are accounted for in accordance with IFRS 15, 'Revenue from Contracts with Customers', where the revenue associated with the service component is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. This is achieved by reference to the stage of completion of the transaction and deferring revenue over the duration of the investment contract (note 3.2.2).

The incremental costs directly related to the acquisition of new investment contracts are capitalised and amortised over the period of the provision of the investment management services.

3 Significant accounting policies *(continued)*

3.1 Insurance and investment contracts (continued)

3.1.2 Recognition and measurement of contracts (continued)

Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders which primarily comprise insurance receivables. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that insurance receivables are impaired using the same process adopted for reinsurance assets. The impairment loss is calculated under the same method as described in note 3.10.3 since premium receivables arise from insurance contracts and fall within the scope of IFRS 4 and not IFRS 9.

3.2 Revenue

3.2.1 Insurance and investment contracts

The accounting policy in relation to revenue from insurance and investment contracts is disclosed in note 3.1.

3.2.2 Fees and commission income

Fees and commission income includes fees on investment management services contracts and are recognised in profit or loss as the services are provided. Certain upfront payments received for asset management services ('front-end fees') are deferred and amortised in proportion to the stage of completion of the service for which they were paid.

The Company charges its customers for investment management and other related services using the following different approaches:

– Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis; and

– Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds.

Fees, commission and customer charges other than front end fees vary depending on the net asset value of the assets and the fair value of the customer's underlying assets respectively. The income is calculated periodically as a percentage of these amounts and cannot be clawed back. These fees are therefore recognised in profit or loss when the fees are earned from investment managers or charged to customers respectively.

Surrender charges and policy administration charges are recognised in profit or loss when the service is provided.

3 Significant accounting policies *(continued)*

3.2 Revenue (continued)

3.2.3 Investment income

Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date the Company's right to receive payment is established which, in the case of quoted securities is usually the ex-dividend date.

Rental income from investment property is recognised in profit or loss on a straight line basis over the term of the lease.

Policyholders' fund financial income and expenses are accounted for through the Technical Statement, while shareholders' fund financial income and expenses are accounted for through the non-Technical Statement of Profit or Loss.

3.2.4 Net income from other financial instruments at fair value

Net income from other financial instruments at fair value relates to non-trading derivatives held for risk management purposes that do not form part of a qualifying hedge relationship and financial assets and liabilities designated at fair value through profit or loss. Net income includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

3.3 Employee benefits

3.3.1 Defined contribution plan

The Company contributes towards the State pension defined contribution plan in accordance with local legislation, and to which, it has no commitment beyond the payment of fixed contributions. Obligations for contributions are recognised as employee benefit expense in profit or loss in the periods during which services are rendered by employees.

3.3.2 Share based payment transactions

The company enters into equity-settled share-based payment arrangements with its employees as compensation for services provided by 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 recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to retained earnings.

Fair value is determined by using appropriate valuation models. 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 the award at the date of the award. 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.

3 Significant accounting policies *(continued)*

3.3 Employee benefits (continued)

3.3.3 Termination Benefits

The Company recognises a liability and expense for termination benefits when the company can no longer withdraw the offer of those benefits. For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when the group can no longer withdraw the offer of termination benefits is the earlier of:

– when the employee accepts the offer; and

– when a restriction on the group's ability to withdraw the offer takes effect.

For termination benefits payable as a result of the company decision to terminate an employee's employment, the company can no longer withdraw the offer when it has communicated to the affected employees a plan of termination meeting all of the following criteria:

– actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;

– the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and the expected completion date; and

– the plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

3.4 Tax

Tax expense comprises current and deferred tax. Tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

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

Deferred tax is recognised, using the liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

3 Significant accounting policies *(continued)*

3.5 Foreign currency transactions

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date. Foreign currency gains and losses arising on retranslation are recognised in profit or loss.

Translation differences on financial assets and liabilities held at fair value through profit or loss are reported as part of the fair value gain or loss.

3.6 Property and equipment

3.6.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate components of property and equipment.

The gain or loss on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expense in profit or loss.

3.6.2 Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3.6.3 Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment.

3 Significant accounting policies *(continued)*

3.6 Property and equipment (continued)

3.6.3 Depreciation (continued)

The estimated useful lives for the current and comparative periods are as follows:

– office furniture	10 years
– office equipment	4 years
– computer equipment	3 years
– telecommunication equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.7 Investment property

Property held for long-term rental yields and/or capital appreciation that is not occupied by the Company is classified as investment property.

Investment property comprises land and buildings and is measured at cost on initial recognition and subsequently at fair value with any changes therein recognised in profit or loss. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available the Company uses alternative valuation methods such as the income method, whereby future earnings from the property are capitalised or discounted to present value at an appropriate discount rate which reflects the rate of return a buyer would require to purchase the property. These valuations are reviewed annually by a valuation expert.

Changes in fair values are reported in the profit or loss account.

3.8 Intangible assets

3.8.1 Present value of in-force ('PVIF') long-term assurance business

A prudent valuation of future earnings expected to emerge from life assurance business currently in-force is determined annually by the directors. The value of in-force business is based on the advice of the Company's Approved Actuary. The valuation represents the discounted value of projected future transfers to shareholders from life assurance business currently in-force, after adjusting for the effective rate of taxation. In determining this valuation, assumptions relating to the future mortality, persistency and levels of expenses are based on experience of the type of business concerned. Gross investment returns assumed are based on the market risk free rates which the directors derive from the EIOPA yield curve.

Annual movements in the value of in-force business are recognised in the profit or loss.

3 Significant accounting policies *(continued)*

3.8 Intangible assets (continued)

3.8.2 Deferred acquisition costs

Incremental costs that are incurred in acquiring investment management contracts and creditor protection business are deferred and amortised as the related revenue is recognised. All deferred acquisition costs are reviewed regularly to determine if they are recoverable from future cash flows on the associated contracts.

Deferred acquisition costs that are not deemed to be recoverable are charged to profit or loss. The test for recoverability is performed at a portfolio level, on portfolios of relatively homogeneous contracts. Deferred acquisition costs are amortised in profit or loss on a straight line basis over the estimated useful life of the contract.

3.8.3 Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation is based on the cost of the asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful life for the current and comparative periods of computer software is three years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.9 Financial instruments

3.9.1 Non-derivative financial instruments

Non-derivative financial instruments are recognised initially at fair value and adjusted for any directly attributable costs. Subsequent to initial recognition, financial instruments are measured as described below.

3.9.2 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with contractual maturity of less than three months. Subsequent to initial recognition cash equivalents are measured at amortised cost.

In terms of IFRS 9, assets are measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI).

IFRS 9 introduces a new expected credit loss (ECL) impairment model (note 3.10).

3 Significant accounting policies *(continued)*

3.9 Financial instruments (continued)

3.9.3 Financial instruments at fair value through profit or loss

The Company classifies its investments based on each portfolio's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolios of financial assets are managed and performance is evaluated on a fair value basis. The Company is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Company has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the business model's objective. Consequently, all investments are mandatorily measured at fair value through profit or loss.

3.9.3.1 Recognition and valuation of financial instruments

Regular purchases and sales of investments are recognised on trade date – the date on which the company commits to purchase or sell the investment. All financial instruments are recognised initially at fair value. Fair value is 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. 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, sometimes 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 profit or loss 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 IFRSs offsetting criteria.

The best evidence of fair value is a quoted price in an actively traded principal market. In the event that the market for a financial instrument is not active, and the valuation technique uses only observable market data, the reliability of the fair value measurement is high. However, when valuation techniques include one or more significant unobservable inputs, they rely to a greater extent on management judgement and the fair value derived becomes less reliable. In the absence of observable valuation inputs, due to lack of or a reduced volume of similar transactions, management judgement is required to assess the price at which an arm's length transaction would occur under normal business conditions, in which case management may rely on historical prices for that particular financial instrument or on recent prices for similar instruments.

3 Significant accounting policies *(continued)*

3.9 Financial instruments (continued)

3.9.3 Financial instruments at fair value through profit or loss (continued)

3.9.3.1 Recognition and valuation of financial instruments (continued)

The main assumptions and estimates which management consider when applying a model with valuation techniques are:

– the likelihood and expected timing of future cash flows on the instrument; judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;

– judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Company will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, inter alia:

– the extent to which prices may be expected to represent genuine traded or tradable prices;

– the degree of similarity between financial instruments;

– the degree of consistency between different sources;

– the process followed by the pricing provider to derive the data;

– the elapsed time between the date to which the market data relates and the reporting date; and

– the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, development or validation by independent support functions of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and, where possible, (iv) model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

3 Significant accounting policies *(continued)*

3.9 Financial instruments (continued)

3.9.3 Financial instruments at fair value through profit or loss (continued)

3.9.3.3 Determination of fair value

Fair values are determined according to the following hierarchy:

- Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- 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.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market, the fair value of the total holding of the financial instrument is calculated as the product of the number of units and quoted price. In the event that the market for a financial instrument is not active, a valuation technique is used.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process. Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

3.9.3.4 Valuation techniques

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. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit ('day 1 gain or loss') or greater than 5% of the instrument's carrying value is driven by unobservable inputs. '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). All fair value adjustments are included within the levelling determination.

3 Significant accounting policies *(continued)*

3.9 Financial instruments (continued)

3.9.3 Financial instruments at fair value through profit or loss (continued)

3.9.3.4 Valuation techniques (continued)

Changes in fair value are generally subject to a profit and loss analysis process. This process disaggregates changes in fair value into two high level categories; (i) portfolio changes, such as new transactions or maturing transactions, (ii) market movements, such as changes in foreign exchange rates or equity prices.

3.9.3.5 Basis of valuing assets and liabilities measured at fair value

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Company will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The fair value of investments in other funds that are not quoted in an active market is determined primarily by reference to the latest available redemption price of such units of each investment fund, as determined by the administrator of such fund. The company may make adjustments to the reporting net asset value of various investment funds based on considerations such as:

- Liquidity of the investment fund or its underlying funds;
- The value date of the net asset value provided;
- Any restrictions on redemptions; and
- The basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the investee fund's advisors.

3.9.4 Financial instruments measured at amortised cost

Other financial instruments are subsequently measured at amortised cost using the effective interest method. These mainly comprise of cash and cash equivalents and receivables.

3 Significant accounting policies *(continued)*

3.9 Financial instruments (continued)

3.9.5 Derecognition of financial assets and liabilities

Financial assets are derecognition when the right to receive cash flows from the assets has expired or when the Company has transferred its contractual right to receive the cash flows of the financial assets, and either:

– substantially all the risks and rewards of ownership have been transferred; or

– substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

3.9.6 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.10 Impairment

3.10.1 Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed for impairment at initial recognition. At this stage an impairment allowance is required for expected credit losses resulting from default events that are possible within the next twelve months.

The general principle of IFRS 9's expected credit loss accounting requires that the credit risk of financial instruments within the scope of impairment is to be assessed for significant increase since initial recognition at each balance sheet date. The principle of significant increase in credit risk can be achieved by performing an assessment to compare the risk of default occurring at the reporting date with the risk of default occurring at the date of initial recognition.

The assessment of credit risk and the estimation of expected credit loss, 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 expected credit loss takes into account the time value of money.

3 Significant accounting policies *(continued)*

3.10 Impairment (continued)

3.10.2 Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets and investment property, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.10.3 Reinsurance assets

Impairment on reinsurance assets fall within the scope of IFRS 4 and not IFRS 9, and hence it is calculated using an incurred loss approach as described below.

Reinsurance assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A reinsurance asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that reinsurance assets are impaired can include default or delinquency by a reinsurer and restructuring of an amount due to the Company on terms that the Company would not consider otherwise and indications that a reinsurer will enter bankruptcy.

The Company considers evidence of impairment for reinsurance assets at a specific asset level. All individually significant receivables are assessed for specific impairment.

An impairment loss in respect of a reinsurance asset is calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against reinsurance assets. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3.11 Provision for liabilities and charges

A provision for contingent liabilities and charges is recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

3 Significant accounting policies *(continued)*

3.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

3.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

3.14 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

4 Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are frequently re-evaluated and based on product assessment of historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Policyholder claims and benefits

The estimation of future benefit payments and premiums arising from long-term insurance contracts is the Company's most critical accounting estimate. The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on industry standard mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Company's own experience. The estimated number of deaths determines the value of future benefit payments. The main source of uncertainty is that epidemics such as AIDS, SARS, pandemic flu, swine flu and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Company has significant exposure to mortality risk. The Company is also exposed to the volatility of the yield curve. These risks are heightened in the context of the current ongoing Covid-19 pandemic. New estimates are made each subsequent year to reflect the current long term outlook.

4 Critical accounting estimates and judgements *(continued)*

4.1 *Policyholder claims and benefits (continued)*

Estimates are also made as to future investment income arising from the assets backing long-term insurance. These estimates are based on current market returns as well as expectations about future economic and financial developments. Interest rate assumptions for the purposes of valuing liabilities at reporting date are based on the EIOPA yield curve (2019: Euro swap curve)

Appropriate margins were taken for bond portfolio and equities/property portfolio. If the average future investment returns differ by +/-1% from management's estimates, the insurance liability would decrease by €16,794,000 (2019: €17,011,000) or increase by €27,249,000 (2019: €17,469,000). In this case there is no relief arising from reinsurance contracts held.

If the number of deaths in future years differ by +/-10% from management's estimate, the liability would increase by €1,264,000 (2019: €1,112,000) or decrease by €1,430,000 (2019: €1,296,000). If the expenses in future years differ by +/-10% from management's estimate, the liability would increase by €1,197,000 (2019: €1,215,000) or decrease by €612,000 (2019: €1,060,000). These impacts are calculated before considering changes to other assets and liabilities which may offset the gross impacts of these changes.

Further information is disclosed within notes 5.1 and 18, including in relation to the impact of the change from the Euro swap curve to the EIOPA yield curve.

4.2 *Present value of in-force long-term assurance business (PVIF)*

The PVIF measures the shareholder's share of the future profits that are expected to be earned in future years attributable to the long-term life insurance business in force at the valuation date. Policies classified as investment contracts are excluded. The approach is to take a present value of the expected future shareholder cash flows, discounted using the risk discount rate.

The risk free rate of return used within the valuation is the EIOPA yield curve as at 31st December 2020 allowing adjustments using the Smith Wilson method for (1) Credit Risk Adjustment of 10bps, and (2) the EIOPA yield curve is set to the Last Liquid Point (LLP) of 20 years, and then extrapolated to the Ultimate Forward Rate (UFR) of 3.75% (2019: Set as the Euro swap curve). The risk discount rate is set to the risk free curve with no margins. (2019: risk free curve with an additional 0.5% margin). The impact of the change in curve is disclosed in note 18.

The PVIF valuation assumes lapse rates varying by product and duration in-force that range from 0.2% to 18.3% p.a. (2019: from 0% to 18.3% p.a.). Expense inflation is calculated as a blend of wage inflation and price inflation, with the latter based on an adjusted French inflation curve. This results in a term dependent expense inflation assumption increasing from 1.8% p.a. to 2.2% p.a. (2019: 1.8% p.a. to 2.3% p.a.). The Company has limited lapse experience pertaining to some of its products and therefore draws comparaisons to other internal lapse experience on similar business. This is a source of estimation, uncertainty and as disclosed below a change in lapse assumptions could impact the result of future accounting periods.cDuring the year the Company updated the lapse experience of one of its products and the impact is disclosed in note 18.

4 Critical accounting estimates and judgements *(continued)*

4.2 *Present value of in-force long-term assurance business (PVIF) (continued)*

As the valuation models are based upon assumptions, changing the assumptions will change the resultant estimate of PVIF. In line with the disclosure in Note 4, the Company is exposed to the risk of increased uncertainty to changes in assumptions as a result of the current on going Covid-19 pandemic. The following table shows the increase/(decrease) on the PVIF of reasonably possible changes in the main assumptions across the insurance business:

		PVIF Impact	
		2020	2019
Assumptions	**Movement**	**€000**	€000
Risk free rate	+100 basis points	**3,458**	(445)
Risk free rate	-100 basis points	**(7,375)**	376
Expenses	+10%	**(1,536)**	(1,305)
Expenses	-10%	**1,658**	1,454
Lapse rate	+100 basis points	**4,999**	3,344
Lapse rate	-100 basis points	**(6,710)**	(4,652)

Assumptions are reviewed annually by the Company's Board of Directors.

5 Management of insurance and financial risk

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Company manages these contracts.

5.1 *Insurance risk*

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year and from the estimate established using statistical techniques.

5 Management of insurance and financial risk *(continued)*

5.1 Insurance risk (continued)

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. The Company uses reinsurance appropriately to reduce variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location. For contracts with DPF, the participating nature of these contracts result in a significant portion of the insurance risk being shared with the insured party.

Frequency and severity of claims

For contracts where death or morbidity is the insured risk, the most significant factor that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle resulting in earlier or more claims than expected.

At present these risks do not vary significantly in relation to the location of the risk insured by the Company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. For contracts with DPF, the participating nature of the contracts results in a portion of the insurance risk being reduced over the term of the policy. Investment contracts with DPF carry negligible insurance risk.

The Company manages its insurance risk through strict underwriting limits and claims management; approval procedures for new products and pricing reviews; close monitoring of reinsurance arrangements and monitoring of emerging issues.

The Company's underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. For example, the Company balances death risk across its portfolio. Medical selection is also included in the Company's underwriting procedures, with premium varied to reflect the health condition and family medical history of the applicants.

Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality, and the variability in contract holder behavior. The Company uses appropriate base tables of standard mortality according to the type of contract being written. The Company does not take credit for future lapses in determining the liability of long term contracts. Further details on the process for estimation and other key assumptions, is provided in note 18.2 to these financial statements.

5 Management of insurance and financial risk *(continued)*

5.1 Insurance risk (continued)

The following table provides an analysis of the insurance risk exposures by type of business on a gross of reinsurance basis:

	2020	2019
	€000	€000
Life insurance (non-linked)		
Insurance contracts with discretionary participation feature	**281,786**	295,323
Term assurance and other long-term contracts	**124,808**	117,748
Total non-linked	**406,594**	413,071
Life insurance (linked)	**241,436**	245,399
Liabilities under insurance contracts	**648,030**	658,470

5.2 Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities (investment contracts), reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts,this can be driven by changes in the market value of assets or through changes to expectations on future yields impacting the value of liabilities. The most important components of this financial risk are market risk, credit risk and liquidity risk. This risk is heightened through the period of market volatility that has been brought about because of the Covid-19 outbreak.

For unit-linked insurance and investment contracts, the Company matches all the liabilities on which the unit prices are based with assets in the unit-linked portfolios. There is therefore no direct equity price, currency, credit or interest risk exposure for these contracts which is borne by the Company. The Company is however exposed indirectly for unit-linked insurance and investment contracts as unit price changes will have an impact on the expected management charges the Company are expecting to receive.

5.2.1 General nature of participation feature

The Company offers savings with-profit policies which participate in the investment returns of the with-profit funds. Up to 90% of the eligible investment return is attributed to the contract holders. Policyholders receive regular (revisionary) bonus. A regular bonus rate is declared yearly in advance. This rate may be reviewed upwards during the course of the year based on the performance of the fund. This provides a progressive build-up of guaranteed benefits over the lifetime of the policy. Regular bonuses are set by the Board of Directors on the recommendation of the Approved Actuary. The Company is exposed to adverse market conditions which could lead to the value of assets backing the liabilities to fall below the guaranteed benefit at policy maturity, which could lead to a potential loss to the shareholders.

5 Management of insurance and financial risk *(continued)*

5.2 Financial risk (continued)

5.2.2 Market risk

Market risk can be described as the risk of change in cash flows or fair value of a financial instrument due to changes in interest rates, exchange rates or equity prices.

Interest rate risk

The Company's exposure to interest rate changes is concentrated in its non-linked investment portfolio. Changes in investment values attributable to interest rate changes are mitigated by partially offsetting changes in the economic value of insurance provisions. The Company monitors this exposure through periodic reviews of its asset and liability positions. Estimates of future cash flows, as well as the impact of interest rate fluctuations on its investment portfolio and insurance liabilities, are modelled and reviewed quarterly. The Company minimises interest rate risks primarily by matching estimated future cash outflows to be paid to policyholders by expected cash flows from assets. The pool of investments backing liabilities is managed to duration targets that aim to make the net effect of interest rate changes on assets and liabilities manageable.

Exchange risk

The Company is exposed to currency risk on the shareholder's investment portfolio,to 10% of the investments backing contracts with DPF and to the life insurance portfolio. The net exposure for the Company amounts to €3,533,745 (2019: €3,700,819) and a sensitivity analysis is not deemed necessary on the basis of significance.

Equity price risk

The Company manages the equity risk arising from its holdings of equity securities by setting limits on the maximum market value of equities that it holds. Equity risk is also monitored by estimating the effect of predetermined movements in equity prices on the profit and total net assets of the insurance underwriting business.

Sensitivity analysis

The Company performs various sensitivity analyses as summarised below. An immediate and permanent movement in interest yield curves or equity prices at the reporting date would have the following impact on the profit for the year and net assets at that date:

	Impact on profits and net assets for the year	
	2020	2019
	€000	€000
+100 basis points shift in yield curves	**3,451**	1,505
-100 basis points shift in yield curves	**(19,409)**	(984)
+10 per cent increase in equity prices	**682**	766
-10 per cent decrease in equity prices	**(682)**	(766)

5 Management of insurance and financial risk *(continued)*

5.2 Financial risk (continued)

5.2.3 Credit risk

The Company has exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The main areas where the Company is exposed to credit risk are:

– reinsurers’ share of insurance liabilities;

– amounts due from reinsurers in respect of claims already paid;

– investment portfolios of debt securities;

– insurance and other receivables; and

– call deposits.

Investments in bonds are made within the credit limits permitted within the investment credit risk mandate conferred by HSBC Group.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to investment grade single counterparty, or groups of counterparties, and to geographical and industry segments. Investment credit exposures positions are reviewed on a quarterly basis by the Company’s Asset Liability Committee.

The selection of reinsurers also includes restrictions designed to minimise the risk of credit exposure.

The Company currently manages the majority of reinsurance risk by using reinsurers with a minimum rating of AA+. The creditworthiness of reinsurers is confirmed from public rating information and considered as a part of any tender activity prior to finalisation of any contract for new business.

Insurance and other receivables amount to €3,105,000 (2019: €4,806,000). This balance includes accrued interest amounting to €2,623,000 (2019: €2,701,000) which would follow a similar rating profile to debt securities below.

Cash and cash equivalents held with third party banks amount to €1,956,000 (2019: €1,104,000). Of this amount € 586,000 (2019: €166,000) are held with counterparties that are rated BBB and above. The balance is held with an unrated local bank of good standing. The remaining cash at bank comprises amounts held with the immediate parent Company, HSBC Bank Malta p.l.c. and other related parties. As from 2019, in line with IFRS 9, the company measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 31 December 2020 and 2019 cash deposits were held with reputable counter parties and were due on demand. Management consider the probability of default to be close to zero as the counter parties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance was been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the company.

5 Management of insurance and financial risk *(continued)*

5.2 Financial risk (continued)

5.2.3 Credit risk (continued)

The following table presents the analysis of debt securities by rating agency (Standard and Poor's Rating Agency):

Financial Investments

	Debt securities – Unit-linked		*Debt securities – Others*		*Total*	
	2020	2019	**2020**	2019	**2020**	2019
	€000	€000	**€000**	€000	**€000**	€000
AAA	**–**	–	**4,061**	946	**4,061**	946
AA+ to AA-	**–**	–	**26,582**	25,261	**26,582**	25,261
A+ to A-	**–**	179	**162,531**	162,046	**162,531**	162,225
BBB+ to BBB-	**1,592**	1,422	**61,961**	62,289	**63,553**	63,711
BB+ to B-	**1,474**	1,760	**–**	–	**1,474**	1,760
Unrated	**743**	800	**16,136**	12,509	**16,879**	13,309
Total	**3,809**	4,161	**271,271**	263,051	**275,080**	267,212

The Company is not exposed to credit risk in respect of unit-linked business, although the relevant credit information is disclosed.

5.2.4 Liquidity risk

It is an inherent characteristic of almost all insurance contracts that there is uncertainty over the amount and the timing of settlement of claims liabilities that may arise, and this leads to liquidity risk. As part of the management of this exposure, estimates are prepared for most lines of insurance business of cash flows expected to arise from insurance funds at the reporting date.

The Company actively manages its assets in such a manner as to achieve a competitive rate of return within the prevailing risk objectives delineated by asset liquidity and credit quality, and asset-liability matching. The Company's Asset Liability Committee reviews and approves investment strategies on a periodic basis, ensuring that assets are managed efficiently within approved risk mandates.

5 Management of insurance and financial risk *(continued)*

5.2 Financial risk (continued)

5.2.4 Liquidity risk (continued)

The following table shows the cash flows expected to arise pertaining to insurance and investment liabilities as well as the contractual maturity of financial assets as at reporting date.

	No fixed maturity	*Due within 3 months*	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Total*
	€000	€000	€000	€000	€000	€000
At 31 December 2020						
Financial investments	458,722	–	8,690	115,281	151,109	733,802
Reinsurance assets	80,083	–	–	–	–	80,083
Cash	45,072	–	–	–	–	45,072
	583,877	–	8,690	115,281	151,109	858,957

	On demand	*Due within 3 months*	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Gross nominal outflow*
	€000	€000	€000	€000	€000	€000
At 31 December 2020						
Liabilities to customers:						
– insurance contracts	–	16,471	42,116	202,924	393,998	655,509
– investment contracts	111,261	532	1,489	11,073	37,345	161,700
	111,261	17,003	43,605	213,997	431,343	817,209

5 Management of insurance and financial risk *(continued)*

5.2 Financial risk (continued)

5.2.4 Liquidity risk (continued)

	No fixed maturity	*Due within 3 months*	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Total*
	€000	€000	€000	€000	€000	€000
At 31 December 2019						
Financial investments	482,435	1,990	16,243	105,769	143,209	749,646
Reinsurance assets	78,945	–	–	–	–	78,945
Cash	49,770	–	–	–	–	49,770
	611,150	1,990	16,243	105,769	143,209	878,361

	On demand	*Due within 3 months*	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Gross nominal outflow*
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
At 31 December 2019						
Liabilities to customers:						
– insurance contracts	–	20,937	42,748	203,259	407,440	674,384
– investment contracts	123,814	1,166	4,406	15,058	41,205	185,649
	123,814	22,103	47,154	218,317	448,645	860,033

The methodology used for estimating cash outflows on liabilities to customers can be found below:

– Linked insurance reserves: derived via undiscounted cash flows. No future premiums are assumed and investment returns are not included in the provisions. All decrements are considered.

– Non-linked reserve: derived via undiscounted reserves run-off on a reporting basis. All future premiums are considered and provisions based on all expected decrements. The timing of cash flows is based on the expected run-off of the reserves.

– Linked investment reserves: derived via undiscounted cash flows but only considering contractual maturities and no other form of decrement. When there is no contractual maturity, the reserve is placed within the ‘on demand’ bucket.

5 Management of insurance and financial risk *(continued)*

5.2 Financial risk (continued)

5.2.5 Capital management and allocation

It is the Company's policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements imposed by the MFSA at all times. The Company recognises the impact on shareholder returns of the level of its equity capital employed and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

The annual budget and planning process takes into account projected capital demands with the objective of ensuring regulatory solvency and maintaining capital adequacy at all times. The Company regularly monitors its capital requirements and applies limits to asset balances with respect to asset types and counterparty exposures.

The Company defines its capital as the excess of assets over liabilities as valued in accordance with the respective regulatory requirements. In order to maintain or adjust the capital structure, the Company may issue new shares or capitalise contributions received from its shareholders.

The Company is subject to the requirements of the EU Solvency II directive. The Solvency II regime establishes a set of EU-wide capital requirements, risk management and disclosure standards. The Company must hold eligible own funds to cover the Solvency Capital Requirement (SCR) and eligible basic own funds to cover the Minimum Capital Requirement (MCR). The SCR shall be calculated either in accordance with the standard formula or using a full or partial internal model (PIM) as approved by the Regulator. The Company must immediately inform the Regulator where it observes that its SCR or MCR are no longer complied with or where there is risk of non-compliance in the following six months for SCR and three months for MCR.

The Company opted for the standard formula under the Solvency II regime to calculate the SCR as the assumptions underlying the standard formula are considered to be a good fit for the Company's risk profile. At 31 December 2020, the Company's eligible own funds adequately covered the required SCR, and amounted to €58,599,000 (unaudited) (2019: €62,287,000). The means that the Company has an unaudited Solvency Ratio of 180%, a fall from 261% at 31 December 2019. This fall was primarily driven by the impacts of Covid-19 on the Company's Own Funds and Capital Requirements and changes in assumptions, as outlined in section 18.2.2. Having considered the uncertainties linked to Covid-19, in light of the Company's level of solvency as well as plans to further improve the capital base, the directors consider the going concern assumption to remain appropriate on the basis of information known to date.

6 Premiums

Insurance premiums written by the Company are mainly premiums from direct business received from contracts written in Malta. Insurance premiums are analysed below:

	2020	2019
	€000	€000
Gross premiums written in Malta		
Individual business	**56,115**	61,370
Group/block business	**685**	1,640
	56,800	63,010
Premium:		
Single	**40**	5,046
Periodic	**56,760**	57,964
	56,800	63,010
Insurance contracts:		
Non-participating	**14,723**	14,694
Insurance contracts with DPF	**14,992**	21,816
Premiums for which investment risk is borne by policyholders	**27,085**	26,500
	56,800	63,010

Outward reinsurance premiums relate to non-participating insurance contracts.

7 Investment contracts fee income

	2020	2019
	€000	€000
Fixed fees	**226**	210
Change in deferred income	**(15)**	10
Annual management charges on transferred portfolio	**978**	1,079
	1,189	1,299

8 Investment (loss)/income – net

	2020	2019
	€000	€000
Technical Statement		
Net (losses)/gains from policyholders' unit linked investment held at fair value through profit and loss	(15,804)	53,141
Net gains from financial other assets	2,455	19,131
Net losses from investment property (Note 15)	(599)	–
Rental income from investment property	10	17
	(13,938)	72,289
Non-technical Statement		
Net gains from financial assets	1,675	4,042
	1,675	4,042

9 Investment contract benefits

These comprise single and regular premium individual life non-participating unit-linked business where the investment risk is borne by the policyholder and the insurance risk is not significant. The benefits from unit-linked investment contracts accrue to the account of the contract holder at the fair value of the gains/(losses) arising from the underlying linked assets and are credited/(debited) to financial liabilities – investment contracts at fair value through profit or loss. These contracts are all classified as at fair value through profit or loss and were classified in this category upon initial recognition.

10 Acquisition costs

Acquisition costs include commissions and deferred acquisition costs as follows:

	2020	2019
	€000	€000
Commissions payable	610	659
Change in deferred acquisition costs – Investment contracts	(9)	41
Allocated administrative expenses	861	940
	1,462	1,640

11 Administrative expenses

11.1 Administrative expenses include auditors' remuneration pertaining to the annual statutory audit amounting to €89,400 (2019: €87,151) exclusive of VAT.

Other fees, exclusive of VAT, charged by the appointed independent auditors, comprise:

	2020	2019
	€000	€000
Other assurance services	**57**	58
	57	58

11.2 Profit before tax is stated after charging:

	2020	2019
	€000	€000
Depreciation and amortisation of software	**99**	111
Investment management and administrator fees	**1,906**	2,050
Actuarial services	**407**	512
Computer software licence fees	**293**	384

11.3 Administrative expenses included in the Technical Statement of Profit or Loss and Other Comprehensive Income include commission expenses amounting to €536,000 (2019: €714,000).

12 Personnel expenses

12.1 Personnel expenses incurred by the Company during the year are analysed as follows:

	2020	2019
	€000	€000
Wages, salaries and allowances	**2,108**	2,055
Termination benefits (note 22)	**1**	378
Compulsory social security costs	**114**	111
	2,223	2,544

All employees are seconded from the immediate parent company and other related parties.

Included in salaries is an amount of €201,364 (2019: €254,382) payable to the directors.

12 Personnel expenses *(continued)*

Termination benefits comprise payments and other costs amounting to €843 (2019: €378,000) attributable to the company employees that opted for voluntary early retirement during the year

12.2 The average number of persons employed by the Company during the year is analysed as follows:

	2020	2019
	No.	No.
Operating	**27**	27
Management and administration	**20**	19
	47	46

12.3 Share-based payments

In order to align the interests of employees with those of shareholders, share options in ordinary shares of HSBC Holdings p.l.c. (the "ultimate parent Company") are offered to HSBC Group (the "Group") employees under all-employee share plans and achievement shares awarded to the Group senior management, under discretionary incentives plans. The Company offered two types of share option schemes to its employees.

Under the HSBC Holdings savings-related share option plans, options are offered at nil consideration at an exercise price discounted at a rate of 20 per cent of the market value immediately preceding the date of invitation. The options are exercisable either on the first, third or fifth anniversary of the commencement of the relevant savings contract.

Options awarded up to May 2005 under the HSBC Holdings Group Share Option Plan were offered for nil consideration and granted at market value and were normally exercisable between the third and tenth anniversaries of the date of grant, subject to vesting conditions.

Shares in HSBC Holdings plc awarded under the discretionary HSBC Holdings Group Achievement Share Scheme are offered at nil consideration. Shares are released to individuals after three years provided they remain employed by the Group. There is no performance condition attached to these awards. For those receiving share awards, additional awards will be made during the three year life of the award, representing equivalent value to dividends reinvested in shares. At the end of the three year period, the value of the award will have grown in line with HSBC's total shareholder return over the same period.

13 Tax expense

13.1 Recognised in profit or loss

	2020	2019
	€000	€000
Current tax expense		
Current year	**(956)**	(1,711)
Deferred tax expense		
Origination and reversal of temporary differences	**3,993**	699
	3,037	(1,012)

13.2 Reconciliation of tax expense

	2020	2019
	€000	€000
(Loss)/profit before tax	**(9,095)**	3,136
Income tax using the Company's domestic tax rate of 35%	**3,183**	(1,098)
Tax effect of:		
– tax exempt dividends	**13**	82
– non-deductible expenses	**–**	(2)
– permanent differences	**1**	1
– property valuation tax consequences	**(162)**	–
– other	**2**	5
Total income tax expense in profit or loss	**3,037**	(1,012)

14 Property and equipment

	Office furniture and equipment	*Computer equipment*	*Total*
	€000	**€000**	**€000**
Cost			
Balance at 1 January 2019	119	146	265
Balance at 31 December 2019	119	146	265
Balance at 1 January 2020	119	146	265
Balance at 31 December 2020	**119**	**146**	**265**
Depreciation			
Balance at 1 January 2019	118	146	264
Balance at 31 December 2019	118	146	264
Balance at 1 January 2020	118	146	264
Depreciation charge for the year	1	–	1
Balance at 31 December 2020	**119**	**146**	**265**
Carrying amounts			
At 1 January 2019	1	–	1
At 31 December 2019	1	–	1
At 1 January 2020	1	–	1
At 31 December 2020	**–**	**–**	**–**

15 Investment property

15.1

	2020	2019
	€000	€000
Balance at 1 January	2,199	2,199
Disposals	–	–
Fair value adjustments	(599)	–
Balance at 31 December	1,600	2,199
Cost of acquisition	1,720	1,720

15.2 Investment property is carried at fair value. In estimating fair value, the Directors consider valuations determined by professional valuers who applied recognised valuation techniques, together with open market valuations provided by real estate agents, where this information is available.

The Company has in place set benchmarks to ensure that professional valuers hold the necessary recognised and relevant professional qualifications as well as the knowledge and experience depending on the location and category of the investment property being valued.

The valuation provided by the architect is principally based on expected future earnings to be received from the rental of the property. The main unobservable inputs used by the architect in valuing the investment property include the capitalisation rate which amounted to 5% (2019: 5.25%) and the future rental cash flows. These valuations are considered to be level 3 in the fair value hierarchy.

15.3 At 31 December 2020, investment property comprises of one (2019: one) commercial property. The current use of the property equates to the highest and best use. The property is currently held for rental yield and capital appreciation.

Rental income generated from investment property during the year amounted to €9,667 (2019: €16,500).

16 Intangible assets

	PVIF	*Deferred acquisition costs*	*Computer software*	*Total*
	€000	**€000**	**€000**	**€000**
Carrying amount				
Balance at 1 January 2019	52,723	285	297	53,305
Additions	–	–	238	238
Movements/amortisation through profit or loss:				
– Addition from new business	6,874	175	–	7,049
– Movement in in-force business	(8,739)	–	–	(8,739)
– Amortisation	–	(217)	(111)	(328)
Balance at 31 December 2019	50,858	243	424	51,525
Balance at 1 January 2020	50,858	243	424	51,525
Additions	–	–	282	282
Movements/amortisation through profit or loss:				
– Addition from new business	4,140	153	–	4,293
– Movement in in-force business	(14,460)	–	–	(14,460)
– Amortisation	–	(90)	(99)	(189)
Balance at 31 December 2020	**40,538**	**306**	**607**	**41,451**
Accumulated amortisation				
Balance at 1 January 2019	–	–	1,323	1,323
Balance at 31 December 2019	–	–	1,434	1,434
Balance at 1 January 2020	–	–	1,434	1,434
Balance at 31 December 2020	**–**	**–**	**1,533**	**1,533**

The effect of the theoretical changes in the main economic assumptions on PVIF at the reporting date is analysed in note 4.2.

17 Financial investments

17.1 All assets within this note are carried at fair value through profit or loss except where otherwise stated.

Under IFRS 9, the designation of fair value through profit and loss was mandatory.

Financial investments include:

	2020	2019
	€000	€000
Equity securities – listed	**15,487**	17,245
Debt securities – fixed interest:		
– Government bonds – listed	**152,181**	152,921
– other listed	**119,090**	110,130
	271,271	263,051
Collective investment schemes:		
– listed	**21,736**	21,757
– unlisted	**20,152**	23,371
	41,888	45,128
Unit-linked net financial investments:		
Equities – listed	**23,249**	29,724
Debt securities – Others:		
– listed	**3,220**	3,202
– unlisted	**589**	959
Collective investment schemes:		
– listed	**3,624**	3,536
– unlisted	**374,341**	386,670
Accrued interest	**133**	131
	405,156	424,222
Total	**733,802**	749,646

17 Financial investments *(continued)*

	2020	2019
	€000	€000
Current	8,690	18,233
Non-current	725,112	731,413
	733,802	749,646

Investments with a fixed maturity date (i.e. debt securities) are classified as non-current unless they are expected to mature within twelve months or be realised within twelve months. All other investments without a fixed maturity date are considered to be substantially non-current in nature.

17.2 Fair values

There are certain financial assets and liabilities that are carried at amortised cost. The fair value of these assets and liabilities is not disclosed given that the carrying amount is considered to be a reasonable approximation of fair value because they are either frequently re-priced to current market rates or short term in nature. A detailed analysis of the fair value level splits of financial assets and liabilities is provided in note 25.

18 Insurance liabilities and reinsurance assets

18.1 Analysis of insurance liabilities and reinsurance assets

	2020	2019
	€000	€000
Gross		
Claims outstanding:		
– Non-linked	**3,497**	3,023
– Linked	**1,270**	814
Total claims outstanding – gross	**4,767**	3,837
Long term insurance contracts:		
– Non-linked	**403,097**	410,048
– Linked	**240,166**	244,585
Total long term insurance contracts – gross	**643,263**	654,633
Total insurance liabilities – gross	**648,030**	658,470
Reinsurance assets		
Claims outstanding:		
– Non-linked	**2,553**	2,038
Long term insurance contracts:		
– Non-linked	**78,840**	78,227
Other reinsurance payables	**(1,310)**	(1,320)
Total reinsurance assets	**80,083**	78,945

	2020	2019
	€000	€000
Net		
Claims outstanding:		
– Non-linked	**944**	984
– Linked	**1,270**	814
Total claims outstanding – net	**2,214**	1,798
Long term insurance contracts:		
– Non-linked	**324,257**	331,821
– Linked	**240,166**	244,585
Total insurance liabilities – net	**564,423**	576,406
Other reinsurance payables	**1,310**	1,320
Total insurance contract provisions – net	**567,947**	579,524

18 Insurance liabilities and reinsurance assets *(continued)*

18.1 Analysis of insurance liabilities and reinsurance assets (continued)

Claims outstanding are considered to be current in nature. Long-term insurance contract liabilities are substantially non-current in nature.

18.2 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity

The technical provisions in respect of long-term life insurance contracts are subject to quarterly valuations by the Approved Actuary based on data and information provided by the Company.

18.2.1 Process used for assumptions

For non-linked reserves on protection policies the long-term business provision is calculated on a net premium basis. This involves subtracting the present value of future net premiums from the present value of future benefits payable under a policy until it ceases on maturity or at death if earlier. For the non-unit portion of with-profit and unit-linked business, a discounted cash flow approach is used, with a minimum reserve of the surrender benefit payable on the policies.

The reserves on the acquired creditor contracts are the sum of an unexpired premium reserve, an expense reserve and an outstanding claims reserve. These contracts are 100% reinsured and therefore have no net impact on the Statement of Financial Position.

The principal assumptions underlying the calculation of the long-term business provision are the following:

Mortality

A base mortality table is selected which is most appropriate for each type of contract. The mortality rates reflected in the table below are adjusted by the expected mortality based on a statistical investigation into the Company's mortality experience.

Reserving interest rates

Reserving interest rates for the current and comparative financial periods were determined based on EIOPA yield curve (2019: Euro swap curve) as at reporting dates. Rates for bond portfolio and equities/property portfolio were based on swap curves, which were considered as risk-free, and by adding appropriate margins. The reserving interest rates at different terms for with-profits policy account, non-linked reserves and linked reserves were the weighted average of the constituents of the respective portfolio.

For many of the life insurance products, the interest rate risk is managed through asset/liability management strategies that seek to match the interest rate sensitivity of the assets to that of the underlying liabilities. The overall objective of these strategies is to limit the net change in value of assets and liabilities arising from interest rate movements. While it is more difficult to measure the interest rate sensitivity of the Company's insurance liabilities than those of the related assets, to the extent that the Company can measure such sensitivities, management believes that interest rate movements will generate asset value changes that substantially offset changes in the value of the liabilities relating to the underlying products.

18 Insurance liabilities and reinsurance assets *(continued)*

18.2 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity (continued)

18.2.1 Process used for assumptions (continued)

Renewal expenses and inflation

The current level of renewal expenses is assumed to be an appropriate expense base. Expense inflation is based on the French inflation swap curve modified to estimate future inflation for Malta.

Taxation

The Company has assumed that current tax legislation and rates will not change.

Key assumptions

The principal assumptions used to value the life reserves of the main classes of business were as follows:

At 31 December 2020

Class of business	*Renewal expense (p.a.)*	*Mortality*
Term assurances	**€44.30**	**97.75% TM08 / 97.75%TF08**
Savings Plans	**€44.30**	**97.75% TM08 / 97.75%TF08**
Unit-Linked – Malta portfolio	**€44.30**	**97.75% TM08 / 97.75%TF08**

At 31 December 2019

Class of business	*Renewal expense (p.a.)*	*Mortality*
Term assurances	€44.00	97.75% TM00 / 97.75% TF08
Savings Plans	€44.00	97.75% TM00 / 97.75% TF08
Unit-Linked – Malta portfolio	€44.00	97.75% TM00 / 97.75% TF08

Savings plans and unit-linked policies are valued at the gross value of the policy account together with a non-unit provision. The non-unit provision allows for the future cost of expenses and mortality where these cannot be met from available margins in the plan.

Riders (other than term riders) are valued using approximate methods.

18 Insurance liabilities and reinsurance assets *(continued)*

18.2 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity (continued)

18.2.2 Change in assumptions

Assumptions are adjusted for changes in investment return and policy maintenance expenses to reflect changes in market conditions and experience. The expenses include the impact of setting up an expense overrun provision for the period that per-policy costs are forecast to be higher than current assumptions. In the line 'Economic assumption methodology' reports the impact of using negative yields which the Company started using from Q1 2020 . The effect of changes in current year's assumptions used to measure insurance liabilities and PVIF on current year's profit before tax and balance of insurance liabilities, net of the impact on PVIF, at the reporting date was as follows:

	Gross PVIF increase/ (decrease)	*Liabilities increase/ (decrease)*	*Profit/(loss)*
	€000	**€000**	**€000**
At 31 December 2020			
Economic assumption methodology	**122**	**(4,274)**	**4,396**
Economic other	**(2,402)**	**4,527**	**(6,929)**
Lapse	**(4,326)**	**–**	**(4,326)**
Expenses	**(53)**	**1,121**	**(1,174)**
Margin updates	**(2,686)**	**–**	**(2,686)**
Other	**–**	**67**	**(67)**

During 2020, the Company changed to using an EIOPA yield curve (2019: Euro swap curve). The impact of this change amounted to €4,400,000 and is disclosed within 'Economic other' in the table above. The Company also reflected a change in relation to lapses whereby it gave increased weight to own experience of a newer cohort of business. The impact of this is the main component of the lapse impact in the table above.

	Gross PVIF increase/ (decrease)	*Liabilities increase/ (decrease)*	*Profit/(loss)*
	€000	**€000**	**€000**
At 31 December 2019			
Economic	(2,272)	6,021	(8,293)
Lapse	(1,355)	–	(1,355)
Expenses	426	3,196	(2,770)
Mortality	236	(2,265)	2,501
Expense inflation	6	(93)	99
Other	646	108	538

18 Insurance liabilities and reinsurance assets *(continued)*

18.2 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity (continued)

18.2.3 Sensitivity analysis

As explained in note 4, the Company is exposed to uncertainty including as the result of the ongoing Covid-19 pandemic. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its life assurance contracts. 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 life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

At 31 December 2020	*Movement*	*Reported value of net non-linked insurance liabilities*
	€000	**€000**
Base stress		
Interest rates increasing 100 basis points	**(16,794)**	**307,463**
Interest rates reducing 100 basis points	**27,249**	**351,506**
All mortality and morbidity rates increasing by 10%	**1,264**	**325,521**
All mortality and morbidity rates reducing by 10%	**(1,430)**	**322,828**
All expenses increase by 10%	**1,197**	**325,454**
All expenses reduce by 10%	**(612)**	**323,646**

At 31 December 2019	*Movement*	*Reported value of net non-linked insurance liabilities*
	€000	**€000**
Base stress		
Interest rates increasing 100 basis points	(17,011)	314,823
Interest rates reducing 100 basis points	17,469	349,303
All mortality and morbidity rates increasing by 10%	1,112	332,946
All mortality and morbidity rates reducing by 10%	(1,296)	330,538
All expenses increase by 10%	1,215	333,048
All expenses reduce by 10%	(1,060)	330,774

18 Insurance liabilities and reinsurance assets *(continued)*

18.2 Long-term life insurance contracts – assumptions, change in assumptions and sensitivity (continued)

18.2.3 Sensitivity analysis (continued)

The analysis above has been prepared for a change in variable with all other assumptions remaining constant and ignores changes in the value of any related assets. As described in notes 3 and 5, linked insurance contract liabilities are not exposed to the above assumption changes and have consequently been excluded from the above analysis.

18.3 Movements in insurance liabilities

	2020	2019
	€000	€000
Claims outstanding		
At 1 January	3,837	3,199
Movement for the year taken to profit or loss	930	638
At 31 December	4,767	3,837
Non-linked long-term business		
At 1 January	410,048	407,040
Movement for the year	(6,951)	3,008
At 31 December	403,097	410,048
Linked long-term business		
At 1 January	244,585	210,543
Premiums received	26,489	26,500
Account balances paid on surrender and other terminations during the year	(23,766)	(20,302)
Changes in unit prices and other movements	(7,142)	27,844
At 31 December	240,166	244,585

18 Insurance liabilities and reinsurance assets *(continued)*

18.4 Movements in reinsurance assets

	2020	2019
	€000	€000
Claims outstanding		
At 1 January	2,038	1,908
Movement for the year taken to profit or loss	515	130
At 31 December	2,553	2,038
Non-linked long-term business		
At 1 January	78,215	84,465
Movement for the year	625	(6,250)
At 31 December	78,840	78,215

Linked long-term business

The Company did not cede any of these liabilities to its reinsurers during the current and comparative year.

19 Insurance and other receivables

	2020	2019
	€000	€000
Current portion		
Receivables arising from insurance	446	559
Accrued income and prepayments	2,659	2,777
Other Receivables	–	1,470
	3,105	4,806

Other receivable relates to the receivable from redemption in a fund which is not yet received as at 31 December 2020.

20 Cash and cash equivalents

Balances of cash and cash equivalents are analysed below:

	2020	2019
	€000	€000
Cash at bank		
– Linked business	6,322	4,131
– Non-linked business	38,750	45,639
As per statement of financial position	45,072	49,770
As per statement of cash flows	45,072	49,770

21 Investment contract liabilities

Investment contracts at fair value through profit or loss (unit-linked):

	2020	2019
	€000	€000
At 1 January	183,705	166,342
Premiums received	6,738	9,185
Account balances paid on surrender and other termination during the year	(9,934)	(15,486)
Changes in unit prices and other movements	(9,644)	23,664
At 31 December	170,865	183,705

Surrenders stated above include an amount of €320,555 (2019: €1,710,035) where the company transferred assets to the policy holder instead of cash.

Investment contract liabilities have been designated by the Company as at fair value through profit or loss. The maturity value of these financial liabilities is determined by the fair value of the linked assets, at maturity date. There will be no difference between the carrying amount and the maturity amount at maturity date.

22 Provision for liabilities and charges

The balance constitutes a provision in relation to an onerous contract 2020: €1,689,000 (2019:€679,000) and termination benefits in 2019 amounting to €378,000.

The onerous contract provision results from a closed investment product where related income is based on balances under management, whilst related costs are fixed. The onerous contract provision represents an estimate of future losses and is substantially non-current in nature.

	2020	2019
	€000	€000
Contingent Liability		
At 1 January	**1,057**	891
Increase taken to profit and loss	**1,010**	166
Payment	**(378)**	–
At 31 December	**1,689**	1,057

23 Insurance payables, other payables and deferred income

	2020	2019
	€000	€000
Current Portion		
Direct insurance contract payables	**2,769**	2,891
Amounts due to related parties	**540**	348
Other payables and accrued expenses	**2,865**	2,224
Deferred income	**384**	388
Deferred commission on reinsurance	**42**	44
	6,600	5,895

23.1 Deferred income includes €178,000 (2019: €152,000) deferred under investment management services contracts that are recognised as revenue over the lifetime of the product.

23.2 Amounts due to related parties are unsecured, interest free and payable on demand.

24 Deferred tax assets and liabilities

24.1 *Recognised deferred tax assets and liabilities*

Deferred tax (assets) and liabilities are attributable to the following temporary differences:

	Assets		*Liabilities*		*Net*	
	2020	2019	**2020**	2019	**2020**	2019
	€000	€000	**€000**	€000	**€000**	€000
Property and equipment	**(6)**	(13)	**–**	–	**(6)**	(13)
Investment property	**–**	–	**128**	176	**128**	176
Intangible assets	**–**	–	**14,188**	17,800	**14,188**	17,800
Insurance payables and deferred income	**–**	–	**30**	16	**30**	16
Share-based payments	**(51)**	(51)	**51**	51	**–**	–
Other provisions	**(724)**	(370)	**–**	–	**(724)**	(370)
	(781)	(434)	**14,397**	18,043	**13,616**	17,609

24.2 *Movement in temporary differences during the year*

	2020	2019
	€000	€000
At 1 January	**17,609**	18,308
Recognised in profit or loss	**(3,993)**	(699)
At 31 December	**13,616**	17,609

25 Financial assets and liabilities – basis of valuation

25.1 Fair value valuation

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Company sources alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The table below analyses financial instruments carried at fair value, by valuation method.

	Level 1	Level 2	Level 3	Total
	€000	**€000**	**€000**	**€000**
At 31 December 2020				
Assets				
Equity securities	**38,869**	**–**	**–**	**38,869**
Debt securities	**275,080**	**–**	**–**	**275,080**
Collective investment schemes	**410,804**	**3,675**	**5,374**	**419,853**
Liabilities				
Investment contracts at fair value through profit or loss	**170,865**	**–**	**–**	**170,865**
At 31 December 2019				
Assets				
Equity securities	46,969	–	–	46,969
Debt securities	267,132	80	–	267,212
Collective investment schemes	424,001	4,461	6,872	435,334
Liabilities				
Investment contracts at fair value through profit or loss	182,496	893	317	183,706

25 Financial assets and liabilities – basis of valuation *(continued)*

25.1 Fair value valuation (continued)

The analysis of investment property is included in note 15.

Although the Company believes its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values, especially for Level 3 assets. Nonetheless, management is confident that changing one or more of the assumptions used to reasonably possible alternative assumptions would not change fair value significantly.

The following table shows a reconciliation from the opening balances to the closing balances of financial assets for fair value measurements classified within Level 3 of the fair value hierarchy.

	2020	2019
	€000	€000
Level 3		
Collective investment Schemes		
Financial investments:		
At 1 January	**6,872**	8,153
Purchases	**115**	634
Disposals	**(1,385)**	(2,138)
(Losses)/gains recognised in profit or loss	**(228)**	223
At 31 December	**5,374**	6,872

The Collective Investment Schemes categorised in Level 3 is comprised of an Investment in a European Mid-Market Debt Fund amounting to €5,373,825.

The European Mid-Market Debt Fund consists of predominantly senior debt to European mid-market companies concentrating on primary market transactions, within Western Europe, focusing on the largest economies.

25 Financial assets and liabilities – basis of valuation *(continued)*

25.1 Fair value valuation (continued)

In view of no quoted market prices or observable inputs for modelling the value of collective investment schemes categorised in Level 3, the fair value of the shares held is derived using the net asset value as sourced from the respective custodians. The uncertainty in utilising the net asset value lies in the availability of the financial statements of the alternative funds at 31 December 2020 and their respective audit opinion.

Investment risk on Level 3 assets held to cover linked liabilities totalling to €317,000 last year is borne by the policyholder as it was the decision of the policyholder to invest in these assets.

26 Capital and reserves

26.1 Share capital

	Ordinary shares	
	2020	2019
	No.	No.
On issue at 1 January	**24,007,288**	24,007,288
On issue at 31 December – fully paid	**24,007,288**	24,007,288

At 31 December 2020, the authorised share capital comprised 30,000,000 (2019: 30,000,000) ordinary shares at a par value of €1.164686 each. All issued shares are fully paid up.

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 shares rank equally with regard to the Company's residual assets.

Dividends distributed during 2019 are disclosed in note 27.3.

27 Related party transactions

27.1 Parent and ultimate controlling party

The Company is a wholly owned subsidiary of HSBC Bank Malta p.l.c., the registered address of which is 116, Archbishop Street, Valletta, Malta.

The Company's ultimate parent Company is HSBC Holdings plc, the registered office of which is 8, Canada Square, London E14 5HQ, United Kingdom.

HSBC Bank Malta p.l.c., prepares the consolidated financial statements of the Group of which HSBC Life Assurance (Malta) Ltd forms part. These financial statements are filed and available for public inspection at the Registrar of Companies in Malta.

HSBC Holdings plc in turn prepares the consolidated financial statements of which HSBC Bank Malta p.l.c. and its subsidiaries form part. These consolidated financial statements may be obtained from the ultimate parent Company.

27.2 Transactions with key management personnel

Directors' fees and emoluments are included in administrative expenses and are stated in note 12.

27 Related party transactions *(continued)*

27.3 Other related party transactions

	2020	2019
	€000	€000
Net income		
Fees and commissions income – other related parties	**688**	742
Investment income – parent	**–**	–
Debt security interests income – other related parties	**21**	18
Dividend income – other group	**25**	36

Net income from related party transactions arises from:
– rebates of annual management charges;
– interest receivable on cash balances deposited;
– dividend receivable on equities; and
– interest receivable on bonds.

Expenses		
Fees and commissions expense – parent	**1,337**	1,495
Fees and commission expense – other related parties	**1**	13
Other administrative expense – other related parties	**2,705**	2,217

Expenditure from related party transactions includes expenses incurred for the provision of services by related entities such as custodian and asset administraion, investment management and actuarial services. It also includes commissions payable to group companies in relation to sales of the Company's products. The Company's products are marketed and sold primarily by HSBC Bank Malta p.l.c. through its sales channels.

	2020	2019
	€000	€000
Dividend paid – parent	**–**	13,000

In 2019, a net dividend per share of €0.25 and €0.29 was paid respectively. A dividend payment of €6m was paid in May 2019 and a further dividend of €7m was paid out in December 2019.

Investment in Group Companies

The Company holds one share in HSBC Global Asset Management (Malta) Limited. This share has a par value of €2.329373 and was originally acquired at nil consideration.

27 Related party transactions *(continued)*

27.4 Related party balances

	2020	2019
	€000	€000
Year-end balances with related parties		
Assets		
Insurance and other receivables – other related parties	**101**	34
Cash and cash equivalents – parent	**39,248**	46,664
Cash and cash equivalents – other related parties	**3,847**	2,002
Debt securities – other	**–**	179
Collective investment schemes	**261,592**	279,803
Liabilities		
Insurance and other payables:		
– Parent	**73**	99
– Other related parties	**1,498**	1,177

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