HSBC INSURANCE (SINGAPORE) PTE. LIMITED

(Incorporated in Singapore. Registration Number: 195400150N)

ANNUAL REPORT

For the financial year ended 31 December 2019

HSBC INSURANCE (SINGAPORE) PTE. LIMITED
(Incorporated in Singapore)

ANNUAL REPORT
For the financial year ended 31 December 2019

Contents

DIRECTORS' STATEMENT

For the financial year ended 31 December 2019

The directors present their statement to the member together with the audited financial statements for the financial year ended 31 December 2019.

In the opinion of the directors,

(a) the financial statements as set out on pages 6 to 76 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Company for the financial year covered by the financial statements; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are as follows:

Vazquez Carlos M
Paul Stewart Menzies
Anthony William Cripps
Eric, Jean Marie, Armand Emore
Babak Nikzad Abbasabadi
Raghujit Singh Narula

Directors' interests in shares or debentures

The directors who held office at the end of the financial year have been granted exemption from compliance with Section 201(16) and paragraph 9 of the Twelfth Schedule of the Companies Act, Chapter 50 (the Act). Full detailed information regarding directors' interests in shares or debentures of the Company or of related corporations, either at the beginning of the financial year, or at the end of the financial year, can be obtained at the registered office of the Company, at 10 Marina Boulevard, Marina Bay Financial Centre Tower 2, Level 48-01 Singapore 018983.

HSBC Holdings plc (the ultimate holding company) maintains Employee Share Plans schemes, under which eligible employees including directors of the Company were granted Share Options and Discretionary Awards of shares in HSBC Holdings plc. Details of Employee Plans can be found from the Annual Report of HSBC Holdings plc. which is publicly available on the website.

Directors' interests in shares or debentures (continued)

Except for the Employee Share Plans, neither at the end of, nor at any time during the financial year, was the Company a party to any arrangement whose objects were, or one whose object was, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Except for salaries, bonuses and fees and those benefits that are disclosed in this report and in Note 25 to the financial statements, since the end of the last financial year, no director has received or become entitled to receive, a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Share options

No options were granted during the financial year to subscribe for unissued shares of the Company.

No shares were issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

Independent Auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept reappointment.

On behalf of the directors

Vazquez Carlos M
Director

Anthony William Cripps
Director

26 March 2020

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBER OF HSBC INSURANCE (SINGAPORE) PTE. LIMITED
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Report on the Audit of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements of HSBC Insurance (Singapore) Pte. Limited ("the Company") are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the financial position of the Company as at 31 December 2019 and of the financial performance, changes in equity and cash flows of the Company for the financial year ended on that date.

What we have audited

The financial statements of the Company comprise:
- the statement of comprehensive income for the financial year ended 31 December 2019;
- the balance sheet as at 31 December 2019;
- the statement of changes in equity for the financial year then ended;
- the statement of cash flows for the financial year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). 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 Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Other Information

Management is responsible for the other information. The other information comprises the Directors' Statement 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.

Other Information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include 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 SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors 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.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP

Public Accountants and Chartered Accountants
Singapore, 26 March 2020

HSBC INSURANCE (SINGAPORE) PTE. LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the financial year ended 31 December 2019

	Notes	**2019** **$'000**	2018 $'000
Gross written premiums	6	**874,887**	685,985
Gross written premiums ceded to reinsurers	6	**(187,185)**	(106,785)
Net premiums	6	**687,702**	579,200
Fee and commission income	7	**8,674**	217,386
Investment income	8	**336,020**	105,974
Other operating income		**4,839**	4,040
Net income before policyholder claims, benefits incurred and expenses		**1,037,235**	906,600
Gross policyholder claims and benefits incurred	9	**(1,119,676)**	(615,955)
Reinsurers' share of policyholder claims and benefits incurred	9	**69,324**	(4,231)
Net policyholder claims and benefits incurred	9	**(1,050,352)**	(620,186)
Acquisition costs	10	**(78,650)**	(66,012)
(Provision for)/reversal of impairment on financial assets		**(1,751)**	579
Investment expense		**(11,328)**	(9,796)
Administrative and other expenses		**(53,633)**	(43,731)
Interest expense		**(2,202)**	-
Net currency exchange gains/(losses)		**30,843**	(39,722)
(Loss)/Profit before tax		**(129,838)**	127,732
Income tax credit/(expense)	12	**24,055**	(21,311)
(Loss)/Profit for the year	11	**(105,783)**	106,421
Total comprehensive (loss)/income for the year		**(105,783)**	106,421

The accompanying notes form an integral part of these financial statements.

HSBC INSURANCE (SINGAPORE) PTE. LIMITED

BALANCE SHEET
As at 31 December 2019

	Notes	2019 $'000	2018 $'000
Assets			
Property, plant and equipment	14	**643**	682
Deferred tax assets	13	**2,822**	12,509
Current tax recoverable		**30,263**	-
Financial assets	15		
- Debt securities		**4,921,118**	4,542,505
- Collective investment schemes		**1,220,512**	1,136,678
- Derivative financial instruments		**17,881**	23,150
- Policy loans		**20,635**	16,218
Reinsurers' share of insurance and investment contracts including those with DPF provisions	19	**47,920**	2,117,805
Insurance receivables	16	**1,438**	1,660
Other receivables	17	**64,605**	55,751
Cash and cash equivalents	18	**169,328**	122,857
Total assets		**6,497,165**	8,029,815
Equity			
Share capital	22	**75,000**	75,000
Capital reserve	24	**1,557**	1,542
Retained earnings		**435,110**	640,893
Total equity		**511,667**	717,435
Liabilities			
Insurance payables	20	**93,562**	2,138,376
Other payables	21	**31,620**	25,479
Current tax payable		**-**	52,562
Financial liabilities			
- Derivative financial instruments		**5,503**	11,740
Insurance and investment contracts including those with DPF provisions	19	**5,754,187**	5,084,223
Subordinated loan	28	**100,626**	-
Total liabilities		**5,985,498**	7,312,380
Total equity and liabilities		**6,497,165**	8,029,815

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2019

	Note	Share capital $'000	Capital reserve $'000	Retained earnings $'000	Total equity $'000
At 1 January 2019		75,000	1,542	640,893	717,435
Total comprehensive loss for the year					
Loss for the year		-	-	(105,783)	(105,783)
Total comprehensive loss for the year		-	-	(105,783)	(105,783)
Dividend	23	-	-	(100,000)	(100,000)
Value of employee services received for issue of share options/grants in ultimate holding company		-	482	-	482
Recharged by ultimate holding company		-	(467)	-	(467)
Total transactions with owners, recognised directly in equity		-	15	(100,000)	(99,985)
At 31 December 2019		**75,000**	**1,557**	**435,110**	**511,667**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the financial year ended 31 December 2019

	Share capital $'000	Capital reserve $'000	Retained earnings $'000	Total equity $'000
At 1 January 2018	75,000	1,434	534,472	610,906
Total comprehensive income for the year				
Profit for the year	-	-	106,421	106,421
Total comprehensive income for the year	-	-	106,421	106,421
Transactions with owners, recognised directly in equity				
Value of employee services received for issue of share options/grants in ultimate holding company	-	408	-	408
Recharged by ultimate holding company	-	(300)	-	(300)
Total transactions with owners, recognised directly in equity	-	108	-	108
At 31 December 2018	**75,000**	**1,542**	**640,893**	**717,435**

The accompanying notes form an integral part of these financial statements.

HSBC INSURANCE (SINGAPORE) PTE. LIMITED

STATEMENT OF CASH FLOWS
For the financial year ended 31 December 2019

	Notes	**2019** **$'000**	2018 $'000
Cash flows from operating activities			
(Loss)/Profit before tax		**(129,838)**	127,733
Adjustments for:			
Equity-settled share-based payment transactions		**482**	408
Depreciation of property, plant and equipment	14	**175**	103
Gain on sale of investments	8	**(49,262)**	(30,966)
Dividend income	8	**(8,022)**	(5,542)
Interest income	8	**(199,806)**	(182,692)
Interest expense		**2,202**	-
Fair value (gain)/loss on investments	8	**(139,166)**	167,735
Net loss/(gain) on foreign exchange	8	**60,236**	(54,509)
Provision for/(reversal of) impairment on financial assets		**1,751**	(579)
		(461,248)	21,691
Changes in working capital:			
Net insurance and investment contracts with DPF provisions		**2,740,589**	303,008
Insurance receivables		**222**	204
Other receivables		**(3,756)**	2,430
Insurance payables		**(2,044,814)**	(127,364)
Other payables		**5,804**	(2,795)
Policy loans		**(4,418)**	(4,056)
Cash generated from operations		**232,379**	193,118
Dividends received		**8,020**	5,536
Acquisition of investments		**(1,144,416)**	(1,708,486)
Proceeds from sale of investments		**904,160**	1,275,747
Interest received		**196,964**	180,344
Tax paid		**(49,874)**	(23,729)
Net cash generated from/(used in) operating activities		**147,233**	(77,470)
Cash flows from investing activities			
Acquisition of investments		**(108,948)**	(7,940)
Proceeds from sale of investments		**8,165**	14,379
Interest received		**1,734**	771
Acquisition of property, plant and equipment	14	**(137)**	(19)
Net cash (used in)/provided by investing activities		**(99,186)**	7,191
Cash flows from financing activities			
Proceeds from subordinated loan		**100,000**	-
Dividends paid		**(100,000)**	-
Interest paid		**(1,576)**	-
Net cash used in financing activities		**(1,576)**	-
Net increase/(decrease) in cash and equivalents		**46,471**	(70,279)
Cash and cash equivalents at 1 January		**122,857**	193,136
Cash and cash equivalents at 31 December	18	**169,328**	122,857

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the financial year ended 31 December 2019

Reconciliation of liabilities arising from financing activities

	1 January 2019 $'000	Proceeds from borrowings $'000	Interest expense $'000	Interest payment $'000	31 December 2019 $'000
Subordinated loan	-	100,000	2,202	(1,576)	100,626

1. General information

HSBC Insurance (Singapore) Pte. Limited ("the Company") is incorporated and domiciled in Singapore. The address of its registered office was 21 Collyer Quay #10-02, HSBC Building, Singapore 049320. The Company has changed its registered address to 10 Marina Boulevard, Marina Bay Financial Centre Tower 2, Level 48-01 Singapore 018983 on 16 March 2020.

The principal activities of the Company are those of transacting life insurance business.

The immediate holding company is HSBC Insurance (Asia-Pacific) Holdings Limited, a company incorporated in Hong Kong SAR. The ultimate holding company is HSBC Holdings plc, a company incorporated in England.

2. Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") under the historical cost convention, except as disclosed in the accounting policies below.

The assets and liabilities of the Company that relate to the insurance business carried on in Singapore are subject to the requirements of the Insurance Act. Such assets and liabilities are accounted for in the books of the respective insurance funds established under Section 17 of the Insurance Act. The net assets of the Company held in the insurance funds must be sufficient to meet the solvency requirements stipulated in Section 18 at all times. Assets held in the insurance funds may be withdrawn only if the withdrawal meets the requirements stipulated in Section 17 and the Company continues to be able to meet the solvency requirements of Section 18.

The assets and liabilities of the Company that do not relate to the insurance business are accounted for in the Shareholder's Fund.

Interpretations and amendments to published standards effective in 2019

On 1 January 2019, the Company adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

2. Basis of preparation (continued)

2.2 Functional and presentation currency

Unless otherwise stated, the financial statements are presented in Singapore dollars, which is the Company's functional currency (i.e. currency of the primary environment in which the entity operates). All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

2.3 Use of estimates and judgements

The preparation of these financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. 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 future periods affected.

The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.4 Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for all significant fair value measurements and reports directly to the Chief Financial Officer.

2. Basis of preparation (continued)

2.4 Measurement of fair values (continued)

The valuation team regularly reviews significant unobservable inputs if applicable and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of FRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 5.7 – Financial risk.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for new accounting standards implemented in the current financial year.

3.1 Classification of contracts

(i) Insurance contracts

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

(ii) Investment contracts

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

(iii) Insurance and investment contracts including those with discretionary participation features (DPF)

Both insurance and investment contracts may contain discretionary participation features. A contract with a discretionary participation feature is a contractual right held by a policyholder to receive as a supplement to guaranteed minimum payments, additional payments that are likely to be a significant portion of the total contractual payments, and whose amount or timing is contractually at the discretion of the issuer based on the performance of a specified pool of contracts or a specified type of contract.

The discretionary element of these contracts has been included in the policy reserves and subjected to a liability adequacy test as described in Note 3.8.

The amount of distributable surplus allocated to shareholders in respect of the above contracts is in accordance with the Insurance Regulations of Singapore and limited to 1/9th of the bonuses allocated to policyholders. Unallocated surpluses are retained and classified as policy reserves.

3. Significant accounting policies (continued)

3.2 Recognition and measurement of life insurance and investment contracts including those with discretionary participation features

(i) Premiums and commissions

Premium is recognised as income when due from policyholders except for linked business where premiums are recognised when the liability arising from those premiums are created. The corresponding commission payable and reinsurance premium outwards (where applicable) is accounted for on the same basis. Premiums from linked policies comprise amounts used to purchase units in linked funds and to purchase life insurance protection.

(ii) Claims

Claims incurred reflect the cost of all claims arising during the year, including policyholder cash dividends payable upon policy anniversary.

Provision is made for all the full estimated costs less reinsurance recoveries of all claims notified but not settled at the reporting date, using the best information available at the time.

(iii) Embedded derivatives in insurance contracts

Guarantees inherent in some insurance contracts issued by the Company that do transfer significant insurance risk to the Company are not separated and measured at fair value.

The Company has taken advantage of the exemptions available in FRS 104 not to separate and fair value a policyholder's option to surrender an insurance contract for a fixed amount even if the exercise price differs from the carrying amount of the host insurance liability, and not to separate and fair value options to surrender insurance contracts with a DPF.

(iv) Commission

Commission expense is incurred or accrued for premiums paid or due within the grace period of one month before the financial year end.

3.3 Recognition and measurement of investment contracts

Amounts collected on investment contracts, which primarily involve the transfer of financial risk are accounted for using deposit accounting, under which the amounts collected less directly attributable transaction costs are credited directly to the balance sheet as an adjustment to the liability to the policyholder. Claims incurred are adjusted directly against the fair value of investment contract liability.

3. Significant accounting policies (continued)

3.4 Long-term business provision

The long-term business provision has been computed having due regards to the principles pursuant to Singapore Insurance Act (Cap 142). In particular, a prospective discounted cash flow valuation method that is consistent with the Singapore Risk Based Capital methodology has been adopted for all major classes of business, with the exception of linked contracts where the unit reserves are based on the market value of the related assets. Within the long-term provision, an explicit provision is made for vested bonuses and a provision is also made for future reversionary and terminal bonuses.

3.5 Investment contract liabilities

Investment contract liabilities are measured at fair value. For these contracts, transaction costs that are directly attributable to the issue of the financial liability are deducted from the fair value of the consideration received when determining its initial measurement.

3.6 Reinsurance

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if, and only if, there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

The Company ceded 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 assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers' are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy. Additionally, the Company had a financial reinsurance treaty with an external reinsurer which was terminated on 31 December 2019. This was a funds withheld coinsurance arrangement and the expense and risk charge paid by the Company at the end of the treaty was calculated based on the insurance contract liability valued under MAS regulations. Therefore, the amounts recoverable from reinsurer reflected in the financial statements were the same as the amount calculated under MAS regulations.

3. **Significant accounting policies** (continued)

3.7 Receivables and payables related to insurance contracts and investment contracts

Insurance receivables and insurance payables are recognised when due. These include amounts due to and from insurance and reinsurance contract holders. They are measured on initial recognition at the fair value of the consideration receivable or payable. Subsequent to initial recognition, receivables and payables are measured at amortised cost, using the effective interest rate method.

The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognises that impairment loss in profit or loss. The Company gathers objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets. Insurance receivables and insurance payables are derecognised based on the same derecognition criteria as financial assets and liabilities respectively, as described in Note 3.15 and Note 3.16.

3.8 Liabilities and related assets under liability adequacy test

Insurance contracts and investment contracts, including those with discretionary participation features are tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liabilities. Where a shortfall is identified, an additional provision is made and the Company recognises the deficiency in the profit or loss.

The liability adequacy test is performed on each insurance fund.

3. Significant accounting policies (continued)

3.9 Revenue

Revenue comprises the following:

(i) Earned premiums from insurance and investment contracts.

The accounting policies for the recognition of revenue from insurance and investment contracts are disclosed in Note 3.2.

(ii) Fee and commission income

Fee income comprises annual management charges received on funds managed through investment-linked policies. Fee income is recognised on an accrual basis based on the daily net asset value of the respective investment linked fund.

Reinsurance commission is recognised on a basis that is consistent with the recognition of the costs incurred on the acquisition of the underlying insurance contracts. Profit commission in respect of reinsurance contracts is recognised on an accrual basis.

Other commissions received or receivable, which do not require the Company to render further services, are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies. However, when it is probable that the Company will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognised as revenue over the period during which the services are provided.

3.10 Investment income

Net investment income comprises interest income, dividend income, net gains/losses on the disposal financial assets, net foreign currency gains/losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and gains/losses on hedging instruments that are recognised in profit or loss.

Interest income from financial assets is recognised using the effective interest rate method. Dividend income is recognised when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Company, and the amount of the dividend can be reliably measured.

3. Significant accounting policies (continued)

3.11 Employee benefits

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(i) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid.

(ii) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(iii) Share-based payment transactions

The Company's ultimate holding company grants share options to its employees, including the Company's employees. The fair value of share options granted is recognised as an employee expense, with a corresponding increase in capital reserve. The fair value is measured at grant date and spread over the vesting period during which the employees unconditionally become entitled to the share options.

The fair value is measured at grant date using a binomial lattice model methodology. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total expense is spread over the vesting period, taking into account the probability that the option will vest.

At each reporting date, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year under review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest, with a corresponding adjustment to the capital reserve.

3. Significant accounting policies (continued)

3.12 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of an asset or liability that affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax is measured at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Current and deferred income taxes are recognised as income or expenses in profit or loss, except to the extent that the tax arises from a transaction which is recognised directly in equity.

The Company accounts for investment tax credits (for example, productivity and innovative credit) similar to accounting for other tax credits where deferred tax asset is recognised for unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credit can be utilised.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3. Significant accounting policies (continued)

3.13 Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

Depreciation is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives. The estimated useful lives are as follows:

	Useful lives
Furniture, fittings and equipment	5 years
Computer equipment	3 to 5 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

3.14 Impairment of non-financial assets

Property, plant and equipment are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing of assets, recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

If the recoverable amount of the asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

3. **Significant accounting policies** (continued)

3.14 Impairment of non-financial assets (continued)

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of accumulated depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset is recognised in profit or loss.

3.15 Financial assets

The Company classifies its financial assets into the following measurement categories:

• Amortised cost; and
• Fair value through profit or loss (FVPL).

The classification of debt instruments depends on the Company's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial assets.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Company reclassifies debt instruments when and only when its business model for managing those assets changes.

(i) *At initial recognition*

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

3. Significant accounting policies (continued)

3.15 Financial assets (continued)

(ii) At subsequent measurement

a) Financial assets measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include debt securities, cash and cash equivalents, policy loans, insurance and other receivables.

The Company accounts for regular way amortised cost financial assets using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

Accordingly, this group of financial assets are measured at amortised cost subsequent to initial recognition.

A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets are recognised using the effective interest rate method. Foreign exchange gains and losses are also recognised within investment income in the profit or loss.

The Company assesses on a forward looking basis the expected credit losses (“ECL”) associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

At initial recognition, allowance is required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 12 months (’12-month ECL’). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’).

Financial assets where 12-month ECL is recognised are considered to be ‘stage 1’; financial assets that are considered to have experienced a significant increase in credit risk are in ‘stage 2’; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in ‘stage 3’.

3. **Significant accounting policies** (continued)

3.15 Financial assets (continued)

(ii) At subsequent measurement (continued)

b) Financial assets measured at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading (acquired for the purpose of selling in the short term) or is designated as such upon initial recognition.

Financial assets are designated at fair value through profit or loss if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Designated financial assets are recognised when the Company enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Subsequent changes in fair values are recognised in investment income in profit or loss.

Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Interest income, dividend income and foreign exchange gains and losses arising from investments in debt securities, collective investment schemes and derivative financial instruments are recognised in profit and loss, all under investment income.

On disposal, the differences between the carrying amount and sales proceed is recognised in profit or loss.

3. **Significant accounting policies** (continued)

3.16 Financial liabilities

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

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

Financial assets and liabilities are offset and the net amount presented in the balance sheet 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.

The Company classifies non-derivative financial liabilities into the other financial liabilities, which comprise insurance and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

3.17 Derivative financial instruments

A derivative financial instrument for which no hedge accounting is applied is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value. Changes in its fair value are recognised in profit or loss. The Company does not apply hedge accounting for its derivative financial instruments.

3.18 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). Otherwise, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

3. Significant accounting policies (continued)

3.19 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.20 Borrowings

Borrowings are presented as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which case they are presented as non-current liabilities.

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

3.21 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the balance sheet. For cash subjected to restriction, assessment is made on the economic substance of the restriction and whether they meet the definition of cash and cash equivalents.

3.22 Dividends

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

3.23 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

3. Significant accounting policies (continued)

3.24 Key management personnel

Key management personnel of the Company are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity.

3.25 Foreign currency

Transactions in foreign currencies (i.e. transactions in a currency other than the functional currency) are translated to Singapore dollars using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to Singapore dollars at the exchange rate at that date. The foreign currency gain or loss on monetary items is the total of currency exchange differences resulting from the settlement of transaction in foreign currencies and from the retranslation of monetary assets and liabilities denominated in foreign currencies at the end of the financial year.

Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Singapore dollars at the exchange rate at the date that the fair value was determined.

The foreign exchange gains and losses relating to investments are recognised within investment income in the Statement of Comprehensive Income.

All other foreign exchange gains and losses are presented within ‘Net currency exchange gains/losses” in the Statement of Comprehensive Income.

4. Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Ultimate liability arising under long-term insurance contracts

The determination of the liabilities under long-term insurance contracts is based on the Singapore Risk Based Capital methodology. The liabilities are calculated by way of a discounted cash flow method on a policy-by-policy level. The valuation generally involves a projection of future cash flows using realistic assumptions and then discounting these cash flow streams at appropriate interest rates.

4. Critical accounting estimates, assumptions and judgements (continued)

4.1 Ultimate liability arising under long-term insurance contracts (continued)

The prospective projections of cash flow streams include the following parameters:

- Mortality and morbidity benefits
- Survival and maturity benefits
- Surrender benefits
- Distribution costs
- Management expenses
- Policy charges
- Premium payments
- Persistency

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The assumptions are reviewed to ensure that they are consistent with observable market prices or other published information, and take into account the recent experience or expected future outlook for the business. Additional provision is included in the valuation to allow for any adverse deviation from the best estimate experience.

In general, the policy liabilities of a single policy is the sum of the value of expected future payments less expected future receipts arising from the policy discounted using the risk free discount rates plus any provision made for adverse deviation from the expected experience.

For those classes of non-linked business where policyholders participate in profits, the policy liabilities of the Participating Fund as a whole are taken to be the highest of:

- The sum of the best estimate liabilities (including a provision for adverse deviation) for each policy in the fund, determined by discounting the guaranteed and non-guaranteed cash flows at the best estimate rate of returns;
- The sum of the minimum condition liabilities for each policy in the fund, determined by discounting the guaranteed cash flows using the risk free discount rates; or
- The policy assets which represent the value of assets backing the policy liabilities.

The non-guaranteed cash flows specifically refer to:

- Future distribution to policyholders by way of bonuses
- Future transfers to shareholders
- Future tax payable on distribution to policyholders

4. Critical accounting estimates, assumptions and judgements (continued)

4.1 Ultimate liability arising under long-term insurance contracts (continued)

For universal life policies, the insurance contract liabilities are calculated as the higher of the following on an individual policy basis:

- The value obtained by projecting the cash flows under the policy at the minimum guaranteed crediting rate and discounting at the risk-free rate; or
- The value obtained by projecting the cash flows under the policy at the current crediting rate and discounting at the best estimate investment return.

Assumptions

Mortality

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

A base mortality table is selected which is most appropriate for each type of contract. The mortality rates reflected in this table are adjusted to reflect the expected mortality based on a statistical investigation of mortality into the Company's experience over the most recent nine years.

Where there is adequate data of sufficient quality to be statistically credible, the mortality statistics generated by the data are used in preference to using an adjusted base mortality table. An allowance may be made for future mortality improvements for contracts that insure survivorship. This allowance is based on trends identified in the data and on the mortality investigations performed by independent actuarial bodies.

Morbidity

The incidence of disability is derived with reference to the Company's reinsurers' risk premium rates. These are adjusted to calculate the best estimate of morbidity based on an investigation into the Company's experience, where this is appropriate.

Persistency

The Company performs an investigation into its experience over the last six years. Statistical methods are applied to the data produced by this investigation in order to determine persistency rates appropriate to the product types and duration. These rates are adjusted to a best estimate of persistency rates by taking account of any trends in the data.

4. Critical accounting estimates, assumptions and judgements (continued)

4.1 Ultimate liability arising under long-term insurance contracts (continued)

Assumptions (continued)

Discount rates

Effective 1 January 2013, the Company has adopted the new long term risk-free discount rate basis in valuing Singapore Dollar denominated liabilities which resulted from the MAS Notice 319 (Amendment) 2012.

For Universal Life United States Dollar denominated liabilities, effective 1 February 2017, MAS has required the Company to adopt the risk-free discount rates. These rates are based on market risk-free yields for periods up to the last liquid point of 30 years and are linearly extrapolated to the ultimate forward rate of 3.5% applicable in year 60 and beyond.

The best estimate rate of return is set on active basis with reference to market risk-free yields and market or book bond yields.

Provision for adverse deviation

A provision for adverse deviation ("PAD") as directed by the MAS, is included relating to the inherent uncertainty in the best estimate value of policy liabilities.

Renewal expenses and inflation

The current level of renewal expenses is assumed to be an appropriate expense base. Expense inflation is assumed to be 2.0%.

Taxation

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

Changes in assumptions and sensitivity to changes in variables

Assumptions are adjusted for changes in mortality, morbidity, lapse rates, investment return, policy maintenance expenses and expense inflation to reflect anticipated changes in market conditions and mortality experience and price inflation.

The Company re-runs its valuation models on various bases. 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 assumptions can be expected to impact on life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

4. Critical accounting estimates, assumptions and judgements (continued)

4.1 Ultimate liability arising under long-term insurance contracts (continued)

Sensitivity to changes in key variables

	Change in profit after taxes and equity $'000	**Change in Capital Adequacy Ratio (CAR) %**
2019		
10% increase in mortality/morbidity rates	(19,649)	(6)
10% decrease in mortality/morbidity rates	19,086	6
10% increase in lapse rates	(1,273)	11
10% decrease in lapse rates	1,434	(11)
10% increase in policy maintenance expense rates	(16,034)	(7)
10% decrease in policy maintenance expense rates	15,975	7

	Change in profit after taxes and equity $'000	**Change in Capital Adequacy Ratio (CAR) %**
2018		
10% increase in mortality/morbidity rates	(11,327)	(3)
10% decrease in mortality/morbidity rates	10,966	2
10% increase in lapse rates	(2,968)	8
10% decrease in lapse rates	3,164	(8)
10% increase in policy maintenance expense rates	(10,769)	(3)
10% decrease in policy maintenance expense rates	10,720	3

The analysis above has been prepared for a change in one variable with all other variables remaining constant. The Company recognised that some of the assumptions are interdependent but it will be difficult to analyse such interdependencies. However, the analysis assumes that the rate of inflation is correlated to the investment return, so the Company believes that the liability for claims reported in the balance sheet is adequate.

4. Critical accounting estimates, assumptions and judgements (continued)

4.2 Ultimate liability arising under investment contracts

The assumptions used in the determination of the liabilities under investment contracts are similar to that of the long-term insurance contracts disclosed in Note 4.1.

4.3 Fair value of financial instruments

The majority of the Company's financial instruments reported at fair value are based on quoted and observable market prices or on service providers' internally developed models. Judgement may also be applied in estimating prices for less readily observable external parameters.

5. Risk management

This section describes the Company's risk exposure, its concentration and the way the Company manages them.

5.1 Capital management

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares and retained earnings of the Company.

There were no changes in the Company's approach to capital management during the year.

All insurers and reinsurers that carry on insurance business in Singapore are registered with the MAS and are subject to the prudential standards which set out the basis for calculating the fund solvency requirements ("FSR") and capital adequacy requirement ("CAR") which is a minimal level of capital that must be held to meet policyholders' obligations. The FSR and CAR apply a risk-based approach to capital adequacy and is determined to be the sum of the aggregate of the total risk requirement of all insurance funds established and maintained by the insurer under the Insurance Act. It is the Company's policy to hold capital levels in excess of the minimum FSR of 100% of total risk requirements and at least 120% of CAR.

The Company seeks to maintain a balance between achieving higher returns while maintaining a sound capital position. As at 31 December 2019, the CAR was 195% (2018: 199%).

5. Risk management (continued)

5.1 Capital management (continued)

Monetary Authority of Singapore (MAS) pursuant to section 18 and 64(2) of the Insurance Act (Cap. 142) issued final regulations on 28 Feb 2020 making the new capital regime (RBC2) effective from 31 March 2020. The new regulations are expected to materially increase the capital requirements for the industry and the Company as well. Volatility in financial markets arising from the uncertainty due to COVID-19 outbreak since January 2020 also had an adverse impact on the capital position of the Company. The Company is closely working with the industry and the regulator, and is in the process of taking actions to strengthen the capital position.

5.2 Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to life, accident, health, financial or other perils that may arise from an insurable event. As such, the Company is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Company also has exposure to market and credit risks through its insurance and investment activities.

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The Company uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The Risk Management Committee reviews all risks in accordance with the Group's Enterprise Risk Management Framework on a regular basis and reports these to the Board and Group Risk Officer.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

5.3 Underwriting strategy

The Company's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

5. **Risk management** (continued)

5.3 Underwriting strategy (continued)

The underwriting strategy is set out in an annual business plan that sets out the classes of business, except individual business, to be written and the industry sectors to which the Company is prepared to expose itself. This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business and industry in order to enforce appropriate risk selection within the portfolio.

5.4 Reinsurance strategy

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Company.

Ceded reinsurance contains credit risk, and such reinsurance recoverables are reported after deductions for known insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Company complies with the HSBC Group's minimum security criteria for acceptable reinsurance and monitors the purchase of reinsurance against those criteria. The Board of Directors reviews the Reinsurance Management Strategy on an annual basis.

5.5 Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

The following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

(i) Long-term non-linked insurance contracts and investment contracts – with discretionary participation features

Product features

The Company writes participating business, comprising insurance and savings products including whole life and endowment plans. These plans offer benefit payout upon death, surrender or policy maturity. The bonus payments are designed to distribute to policyholder, the income on assets in the with-profits fund based on a long-term rate of return. These contracts provide more capital security to policyholders than unit-linked contracts.

5. Risk management (continued)

5.5 Terms and conditions of insurance contracts (continued)

(i) Long-term non-linked insurance contracts and investment contracts – with discretionary participation features (continued)

Management of risks

The Company has complete contractual discretion on the timing and quantum of bonuses declared. In practice the Company considers policyholders' reasonable expectations when setting bonus levels. The Company's reputation may be at risk should the policyholders' dividend payment drop significantly from their expectation. It is the Company's intention to maintain a smooth dividend scale based on long-term rate of return. Annual reviews are performed to confirm whether the current bonus scale is supportable taking into account the overall experience on investment, claims, operating expense and lapse rate.

Investment risks are managed through matching assets and liabilities. Investment strategy has to ensure sufficient investment return is available to fulfill future policyholders' expected payout. Mortality risks are managed through reinsurance and sound underwriting.

(ii) Long-term insurance/investment contracts

Product features

The Company writes non-participating life insurance policies and/or investment contracts. These plans offer benefit payout upon death, surrender or policy maturity. Policyholders can also choose to protect themselves against morbidity risks such as health, disability, critical illness and personal accident.

Management of risks

Investment risks are managed through matching assets and liabilities. Investment strategy has to ensure sufficient investment return is available to fulfill future policyholders' expected payout. Mortality and morbidity risks are managed through reinsurance and sound underwriting. The assumptions underlying the calculation of the liabilities under the contracts and adopted in product pricing are also reviewed regularly to ensure that they remain appropriate.

5. Risk management (continued)

5.5 Terms and conditions of insurance contracts (continued)

(iii) Long-term insurance contracts – unit-linked products

Product features

The Company writes unit-linked life insurance policies, which provide policyholders life insurance protection with direct investment in a variety of funds. Premiums received are invested into chosen funds after deduction of charges for the cost of mortality, morbidity and administration. Funds accumulated within the account will belong to the policyholder.

Management of risks

For unit-linked products, the market risk, defined as the risk of loss of fair value resulting from adverse fluctuations in interest and foreign currency exchange rates and equity prices of linked assets, is mostly borne by the policyholders. As a result, the Company is not directly exposed to movements in market values of the underlying assets, except the second order impact on investment management revenues, which is relatively insignificant. The Company assumes reputational risk, as policyholders may compare the performance of the Company's products against similar products in the market.

Mortality and morbidity risks are managed through reinsurance and sound underwriting. Claims and expenses are reviewed regularly to ensure current charges are sufficient to cover the costs. The assumptions underlying the calculation of the liabilities under the contracts and adopted in product pricing are also reviewed regularly to ensure that they remain appropriate.

5.6 Concentrations of insurance risks

For an insurance company, concentration risk can arise when the Company holds large insurance positions in a specific geographical location, sector, product or individual counterparty. Though the Company's business focus is predominantly on risks originating from Singapore, this geographical concentration does not pose a significant risk to the Company given that Singapore has limited exposure to natural catastrophe. The Company also evaluates the concentration of exposures to individual and cumulative insurance risk and establishes appropriate risk limits and reinsurance policy to ensure that no significant concentrations to individual company or sector arise and reduce any such exposure to levels acceptable to the Company.

5. **Risk management** (continued)

5.6 Concentrations of insurance risks (continued)

Reinsurance risk

The Company cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks, defined blocks of business, and on a co-insurance basis, yearly renewable term, excess or catastrophe excess basis. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Company's evaluation of the specific risk, subject in certain circumstances, to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount or sums surplus of deductibles on non-proportional reinsurance in the event the claim is paid. However, the Company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

For long-term business, the level of reinsurance required is assessed by the use of specific modelling of the Company's exposure to life risks. The financial projections produced from these models are based on a number of possible scenarios providing a detailed analysis of the potential exposures.

When selecting a reinsurer, the Company considers their relative security, assessed from public rating information and internal assessments, in accordance with prescribed HSBC Group guidelines.

5.7 Financial risk

Investment philosophy

The core concepts of the Company's investment philosophy centre on the following principles:

- Insurance funds are segregated into distinct categories based on return or risk objectives and requirements such as time horizon, nature of liabilities.

- Return and risk objectives of the life insurance funds are determined in consultation with the Appointed Actuary, taking into account guaranteed returns and required returns, nature and duration of liabilities and tax considerations.

- Investment portfolios are constructed based on fund return objectives and the Company's risk appetite statements.

- Investment limits, as stipulated by the MAS, Central Provident Fund (CPF) and Insurance Head Office, are considered constraints and communicated to Fund Managers.

5. Risk management (continued)

5.7 Financial risk (continued)

Investment philosophy (continued)

The core concepts of the Company's investment philosophy centre on the following principles (continued):

- Liquidity requirements that are known (maturity and coupon payments) are communicated to Fund Managers.
- The approved Market Risk and Credit Risk Mandates and Investment Policy will be provided to Fund Managers on an annual basis, or communicated when changed.

The philosophy serves as guidelines for the investment decisions and activities of the Company. It ensures consistency in the investment practice of the Company.

Investment objectives

The Participating Fund aims to achieve investment return that satisfies the implied guaranteed rate and the projected dividend level for policyholders and a reasonable return for shareholders.

The Non-participating Fund (excluding Universal Life products) aims to achieve investment returns that satisfies the guaranteed rate and reasonable return for shareholders. For Universal Life products, the target return objective will be reviewed depending on market conditions.

The Shareholder's Fund aims to preserve the capital and achieve reasonable return for shareholders.

Investment processes

The Company aims to maximise the economic benefits from investment activities whilst ensuring investment risks are prudently managed. This will include the development of an investment process/model for strategic and tactical asset allocation; implementation and monitoring of investment risks and hedging strategies for the Insurance and Shareholder funds; manage all investment related risks; monitor investment performance; conduct fund manager search and evaluation; and investment product due diligence; design and implement appropriate control measures to ensure compliance with risk limits, regulations and internal restrictions.

5. Risk management (continued)

5.7 Financial risk (continued)

Investment processes (continued)

The Insurance and Shareholder funds of the Company are managed by its Fund Manager, HSBC Global Asset Management (Singapore) Private Limited (AMSG). AMSG is provided with the Investment Policy, Market & Credit Risk Mandates and Asset Liability Management Policy for the funds under their management and are required to apply reasonable level of diligence and prudence to manage the funds.

Asset allocation by insurance funds:

Asset class	Participating Fund	Non-participating Fund	Shareholders' Fund
Bonds	69%	96%	96%
Equities (Incl. Alternatives)	26%	2%	0%
Cash	5%	2%	4%
* Data as of 31 December 2019			

Participating Fund is invested in both fixed income assets and growth assets; while Non-participating Fund is invested predominantly in fixed income assets, with a relatively smaller allocation to growth assets.

Investment-grade corporate bonds in the Insurance and Shareholder's funds are mainly denominated in US Dollar and Singapore Dollar. Hedging is typically used in the fixed income portfolios to manage foreign exchange risk. Equities exposures in Participating Fund are acquired through Exchange-traded funds ("ETFs") and equities funds. Currency risk derived from investment in foreign equities is generally not hedged.

Being invested in the above asset classes exposes the Company to the various risk factors. Each of these risk factors are described below, together with a summary of the ways in which the Company manages these risks.

(i) Market risk

Market risk arises when the market values of assets and liabilities do not move consistently as financial markets change. Changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

5. Risk management (continued)

5.7 Financial risk (continued)

(i) Market risk (continued)

HSBC Group and the Asset and Liability Committee ("ALCO") actively manage risks through setting of investment policy and strategic asset allocation, approving risk measurement methodologies and annual limits in the market risk mandate. Investment limits monitoring is in place at various levels to ensure that all investment activities are aligned with the Group's risk management principles and philosophies.

The following table illustrates the effects of selected interest rate, equity price, foreign exchange rate and credit spread scenarios on the profit for the year, total equity and CAR.

The relationship between the profit and total equity and the risk factors is non-linear and, therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. The sensitivities are stated before allowance for management actions which may mitigate the effect of changes in market rates, and for any factors such as policyholder behaviour that may change in response to changes in market risk.

Sensitivity to market risk factors

	Change in profit after taxes $'000	Change in equity $'000	Change in CAR %
2019			
+100 basis points parallel shift in yield curve	124,267	124,267	0
-100 basis points parallel shift in yield curve	(519,111)	(519,111)	(51)
+100 basis point increase in credit spread	(9,450)	(9,450)	(66)
10% increase in equity prices	9,184	9,184	3
10% decrease in equity prices	(9,184)	(9,184)	(4)
10% increase in US dollar exchange rate	(23,972)	(23,972)	(13)
10% decrease in US dollar exchange rate	23,972	23,972	15

5. Risk management (continued)

5.7 Financial risk (continued)

(i) Market risk (continued)

Sensitivity to market risk factors (continued)

	Change in profit after taxes $'000	**Change in equity $'000**	**Change in CAR %**
2018			
+100 basis points parallel shift in yield curve	283,923	283,923	(46)
-100 basis points parallel shift in yield curve	(152,113)	(152,113)	81
+100 basis point increase in credit spread	155,770	155,770	(64)
10% increase in equity prices	4,198	4,198	4
10% decrease in equity prices	(4,198)	(4,198)	(4)
10% increase in US dollar exchange rate	(1,401)	(1,401)	(12)
10% decrease in US dollar exchange rate	1,401	1,401	14

(ii) Asset-liability matching

The Company actively manages its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimise the investment income and risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis. The Asset-Liability Management Committee reviews and approves target portfolios on a periodic basis, establishing investment guidelines and limits, and providing oversight of the asset/liability management process.

The Company establishes target asset portfolios for each insurance class of products, which represents the investment strategies used to profitably fund its liabilities within acceptable levels of risk. Many of these estimates are inherently subjective and could impact the Company's ability to achieve its asset/liability management goals and objectives.

5. Risk management (continued)

5.7 Financial risk (continued)

(iii) Interest rate risk

The Company's exposure to market risk for changes in interest rate is concentrated in its investment portfolio and insurance liabilities. The Company monitors this exposure through periodic reviews of its asset and liability positions. Estimates of cash flows, as well as the impact of interest rate fluctuations relating to the investment portfolio and insurance liabilities, are modelled and reviewed regularly. The overall objective of these strategies is to limit the net changes in the value of assets and liabilities arising from interest rate movements. The Company is also exposed to reinvestment risk arising from the changes in future interest rates.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing liabilities, the following table indicates their effective interest rate at the reporting date and the periods in which they mature:

			Fixed interest rate maturing			
	Effective interest rate %	Floating interest $'000	within 1 year $'000	1 to 5 years $'000	after 5 years $'000	Total $'000
2019						
Financial assets						
Policy loans	6.5	-	20,635	-	-	20,635
Debt securities	0 – 9.9	-	271,194	513,553	4,136,371	4,921,118
Short-term bank deposits	1.01	-	71,109	-	-	71,109
		-	362,938	513,553	4,136,371	5,012,862
Financial liabilities						
Insurance contract provisions(non-linked)	0.0 – 3.5	-	62,739	257,919	4,507,043	4,827,701
Insurance contract provisions (linked)	0.3 – 3.5	-	5,453	29,008	867,391	901,852
		-	68,192	286,927	5,374,434	5,729,553

5. Risk management (continued)

5.7 Financial risk (continued)

(iii) Interest rate risk

Effective interest rates and repricing analysis (continued)

2018	Effective interest rate %	Floating interest $'000	Fixed interest rate maturing: within 1 year $'000	1 to 5 years $'000	after 5 years $'000	Total $'000
Financial assets						
Policy loans		-	16,218	-	-	16,218
Debt securities	0.0 – 9.9	-	266,075	424,255	3,852,175	4,542,505
Short-term bank deposits	2.63	-	71,947	-	-	71,947
		-	354,240	424,255	3,852,175	4,630,670
Financial liabilities						
Insurance contract provisions (non-linked)	0.0 – 3.5	-	79,439	230,711	3,879,049	4,189,199
Insurance contract provisions (linked)	0.3 – 3.5	-	6,013	26,359	846,466	878,838
		-	85,452	257,070	4,725,515	5,068,037

(iv) Risk arising from guaranteed returns on insurance

On death or maturity, there is an effective guarantee under our conventional non-linked insurance. The Company pays the sum assured on death or maturity. The guaranteed returns vary by products and ranges from 0% to 5% of premium over the expected policy term. The Company is also exposed to a guarantee of minimum interest rates on certain insurance contracts. Existing policy reserves are sufficient to ensure that guarantees are met.

(v) Equity price risk

The Company's portfolio of marketable equity securities, which are carried at fair value, has exposure to price risk, defined as the potential loss in market value resulting from an adverse change in asset prices. The Company's objective is to earn competitive relative returns by investing in a diverse portfolio of high quality, liquid securities. Portfolio characteristics are analysed regularly where holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by the HSBC Group.

5. Risk management (continued)

5.7 Financial risk (continued)

(vi) Foreign exchange risk

Premiums are received mainly in Singapore Dollars (SGD), United States Dollars (USD), Australian Dollars (AUD) and Great British Pound (GBP), depending on policies' denominated currency. Hence, the assets are primarily held in these currencies.

Where appropriate, the Company uses currency forward contracts to hedge its foreign currency risk.

The following table presents the Company's main currency exposures in Singapore Dollar equivalents:

	SGD $'000	USD $'000	Others $'000	Total $'000
2019				
Assets				
Financial assets				
- Debt securities	598,364	4,256,766	65,988	4,921,118
- Collective investment schemes	947,830	263,065	9,617	1,220,512
- Policy loans	12,093	8,542	-	20,635
- Derivatives financial instruments	5,050	12,831	-	17,881
Other assets				
- Insurance receivables	1,438	-	-	1,438
- Reinsurers' share of insurance and investment contracts including those with DPF provisions	-	47,920	-	47,920
- Cash and cash equivalents	42,048	122,233	5,047	169,328
	1,606,823	4,711,357	80,652	6,398,832

	SGD $'000	USD $'000	Others $'000	Total $'000
2019				
Liabilities				
Financial liabilities				
- Derivative financial instruments	2,183	3,255	65	5,503
Insurance contract provisions (non-linked)	850,301	3,933,171	44,229	4,827,701
Insurance contract provisions (linked)	861,359	40,493	-	901,852
Outstanding claims provision	24,588	-	46	24,634
Insurance payables	87,752	5,206	604	93,562
	1,826,183	3,982,125	44,944	5,853,252

5. Risk management (continued)

5.7 Financial risk (continued)

(vi) Foreign exchange risk (continued)

	SGD $'000	USD $'000	Others $'000	Total $'000
2018				
Assets				
Financial assets				
- Debt securities	499,302	3,983,144	60,059	4,542,505
- Collective investment schemes	951,979	152,095	32,604	1,136,678
- Policy loans	11,635	4,583	-	16,218
- Derivatives financial instruments	7,434	15,606	110	23,150
Other assets				
- Insurance receivables	1,660	-	-	1,660
- Reinsurers' share of insurance and investment contracts including those with DPF provisions	-	2,117,805	-	2,117,805
- Cash and cash equivalents	44,033	69,266	9,558	122,857
	1,516,043	6,342,499	102,331	7,960,873

	SGD $'000	USD $'000	Others $'000	Total $'000
2018				
Liabilities				
Financial liabilities				
- Derivative financial instruments	4,770	6,460	510	11,740
Insurance contract provisions (non-linked)	768,014	3,378,227	42,958	4,189,199
Insurance contract provisions (linked)	860,048	18,790	-	878,838
Outstanding claims provision	16,142	-	44	16,186
Insurance payables	78,476	2,057,124	2,776	2,138,376
	1,727,450	5,460,601	46,288	7,234,339

(vii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and hence, arises primarily from the Company's investment securities, insurance receivables and cash and cash equivalents.

The carrying amount of financial assets in the balance sheet represents the Company's respective maximum exposure to credit risk, before taking into account any collateral held.

Credit rating

The Company uses the following categories of internal credit risk rating for financial assets which are subject to expected credit losses under the 3-stage general approach. These four categories reflect the respective credit risk and how the loss provision is determined for each of those categories.

5. Risk management (continued)

5.7 Financial risk (continued)

(vii) Credit risk (continued)

Credit rating (continued)

Category of internal credit rating	**Definition of category**	**Basis for recognition of expected credit losses**
Performing	Borrower or issuer have a low risk of default and a strong capacity to meet contractual cash flows	12-month expected credit losses
Underperforming	Borrower or issuer for which there is a significant increase in credit risk; a significant increase in credit risk is presumed if interest and/or principal repayment are 30 days past due	Lifetime expected credit losses
Non-performing	Interest and/or principal payment are 90 days past due	Lifetime expected credit losses
Write-off	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery	Asset is written off

Investments

Cash and equivalents are placed with banks and financial institutions which are regulated. The Company's portfolio of fixed income securities is subject to credit risk, defined as potential loss in market value due to adverse changes in the borrower's ability to repay the debt. This risk is managed by investing in a diversified portfolio of securities, coupled with stringent review of credit risk up-front and regular reviews of credit developments by ALCO.

The Company limits its credit risk exposure from fixed income securities by investing in liquid securities and with counterparties that have sound credit ratings.

For investment in corporate bonds, financial loss may also materialise as a result of credit spread widening. When spreads widen between corporate bonds of different quality ratings, it implies that the market is factoring more risk of default on lower grade bonds. Credit spread widening will result in devaluation of the Company's bond portfolios. The Company limits its credit spread risk by adhering to parameters established by the HSBC Group.

5. Risk management (continued)

5.7 Financial risk (continued)

(vii) Credit risk (continued)

Investments (continued)

Group-wide credit risk managed by HSBC Group stipulates internal limits by issuer or counterparty and by investment grades. Approved limits in the Credit Risk Mandate are actively monitored to manage the credit and concentration risk.

The Company issues unit-linked investment policies. In the unit-linked business, the policyholder bears the investment risk on the assets held in the underlying funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on unit-linked financial assets.

Policy loans are fully collaterised against the cash value of the policies. Therefore, the Company has no material credit risk on policy loans.

The table below provides information regarding the credit risk exposure of the Company as at 31 December by classifying the fixed income securities and cash and fixed deposits according to credit ratings of the counterparties which are based on Standard and Poor's financial strength rating or its equivalent. Management does not expect any of its counterparties to fail to meet its obligations.

	Financial strength rating				
	AAA $'000	A to AA $'000	B to BBB $'000	Not rated $'000	Total $'000
2019					
Debt securities:					
Government bonds	**182,675**	**64,667**	**-**	**-**	**247,342**
Public authorities and corporate bonds	**367,065**	**3,415,830**	**821,434**	**69,447**	**4,673,776**
	549,740	**3,480,497**	**821,434**	**69,447**	**4,921,118**
Derivatives (net)	**-**	**12,378**	**-**	**-**	**12,378**
Cash and cash equivalents	**-**	**169,328**	**-**	**-**	**169,328**
	549,740	**3,662,203**	**821,434**	**69,447**	**5,102,824**

5. Risk management (continued)

5.7 Financial risk (continued)

(vii) Credit risk (continued)

Investments (continued)

2018

		Financial strength rating			
	AAA $'000	A to AA $'000	B to BBB $'000	Not rated $'000	Total $'000
Debt securities:					
Government bonds	146,721	146,538	-	-	293,259
Public authorities and corporate bonds	331,092	3,241,245	601,788	75,121	4,249,246
	477,813	3,387,783	601,788	75,121	4,542,505
Derivatives	-	11,410	-	-	11,410
Cash and cash equivalents	-	122,857	-	-	122,857
	477,813	3,522,050	601,788	75,121	4,676,772

Insurance and other receivables

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of insurance receivables. This allowance comprises a specific loss component that relates to individually significant exposures.

The allowance account in respect of insurance receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible. At that point the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

At the reporting date there were no significant concentrations of credit risk. There may be exposure to significant credit risk relating to the reinsurance solution upon the occurrence of a significant adverse event in the future, however, the likelihood of occurrence of this event is remote.

5. Risk management (continued)

5.7 Financial risk (continued)

(vii) Credit risk (continued)

Impairment of financial assets

The Company has the following financial assets that are subject to more than immaterial credit losses where the expected credit loss model has been applied:

- Financial assets measured at amortised cost – $4,336,018,000 as at 31 December 2019 ($3,974,703,000 as at 31 December 2018)

The impairment methodology is disclosed in Note 3.15.

The credit loss allowance for financial assets held at amortised cost as at 31 December 2019 is $2,669,000 (2018: $918,000).

Movement in credit loss allowance for financial assets are set out as follows:

	Financial assets at amortised cost $'000	Total $'000
Balance as at 1 January 2018	1,497	1,497
Movement in allowance recognised in profit or loss during the year on:		
- Asset acquired/originated	61	61
- Reversal of unutilised amount	(640)	(640)
	(579)	(579)
Balance as at 31 December 2018	918	918
Movement in allowance recognised in profit or loss during the year on:		
- Asset acquired/originated	2,386	2,386
- Reversal of unutilised amount	(635)	(635)
	1,751	1,751
Balance as at 31 December 2019	2,669	2,669

5. Risk management (continued)

5.7 Financial risk (continued)

(viii) Liquidity risk (continued)

Liquidity risk is the risk that the Company will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has to meet daily calls on its cash resources, notably from claims arising on its claims maturities and surrenders. Expected liquidity demands are managed through a combination of investment and asset-liability management practices, which are monitored on an ongoing basis.

The Company conducts asset-liabilities modelling to determine exposures to liquidity needs. The investment committee has considered the nature of the liabilities in terms of their duration and has assessed that the current portfolio mix, combined with the participating nature of the insurance contract liabilities, has adequately mitigated the mismatching risk to an acceptable level.

The nature of insurance business is that the requirements of funding cannot be predicted with absolute certainty as the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will be settled. The amounts and maturities in respect of insurance and investment contract with DPF provisions are thus based on the management's best estimate and past experience.

Unexpected liquidity demands are managed through a combination of product design, diversification limits, investment strategies and systematic monitoring. The existence of surrender penalty in insurance contracts also protects the Company from losses due to unexpected surrender trends as well as reduces the sensitivity of surrender to changes in interest rates.

5. Risk management (continued)

5.7 Financial risk (continued)

(viii) Liquidity risk (continued)

The table below summarises the maturity profile of the financial liabilities of the Company based on the remaining undiscounted estimated obligations.

	Undiscounted values Up to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2019				
Insurance and other payables	**123,654**	**1,528**	**-**	**125,182**
Derivative financial instruments (net)	**4,326**	**6,606**	**1,446**	**12,378**
2018				
Insurance and other payables	110,574	2,053,281	-	2,163,855
Derivative financial instruments (net)	4,713	4,503	2,194	11,410

It is not expected that the cash flows included in the above maturity analysis could occur significantly earlier, or at significantly different amounts.

Policyholders of the Life insurance and investment contracts with DPF issued by the Company have the option to terminate their contracts at any time and receive the surrender values of their policies. The carrying value of these policies at the reporting date is reflected as the contractual cash flow.

The following table summarises the expected undiscounted cash flows of the insurance and investment contracts with DPF issued by the Company:

	Undiscounted values Up to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2019				
Net insurance and investment contract with DPF provisions				
- Non-linked	**270,170**	**1,129,449**	**7,726,159**	**9,125,778**
- Linked	**215,166**	**580,687**	**1,455,622**	**2,251,475**
- Net outstanding claims provision	**10,039**	**1,933**	**4,822**	**16,794**
	495,375	**1,712,069**	**9,186,603**	**11,394,047**
2018				
Net insurance and investment contract with DPF provisions				
- Non-linked	247,300	1,001,656	7,313,559	8,562,515
- Linked	194,609	643,553	1,540,272	2,378,434
- Net outstanding claims provision	8,542	1,759	4,513	14,814
	450,451	1,646,968	8,858,344	10,955,763

5. Risk management (continued)

5.7 Financial risk (continued)

(viii) Liquidity risk (continued)

The Company has made significant assumptions to determine the estimated undiscounted cash flows of the above insurance and investment contracts with DPF issued by the Company, which include mortality, morbidity, future lapse rates, expenses, investment returns, gross of expected future premiums on inforce policies. Due to the significance of the assumptions used, the periodic amounts presented could be materially different from actual required payments. The amounts presented in the above table are undiscounted, therefore, they do not reconcile to the insurance and investment contracts with DPF which have been presented on a discounted basis in the balance sheet.

(ix) Embedded derivatives

Material embedded derivatives contained in host insurance and investment contracts refer to the availability of the non-forfeiture values (surrender values) in the event of a surrender of an insurance or investment contract. The surrender values comprise of two separate components: a guaranteed portion and a non-guaranteed portion (for insurance and investment contracts with DPF).

The guaranteed component is adequately provided for by minimum reserves as required under the Risk Based Capital framework. Since the surrender values of the guaranteed component are always less than the minimum reserves, the risk arising from changes in interest rates and market risk is mitigated. In addition, past experience of the Company shows that surrenders are not sensitive to interest rates movements.

The non-guaranteed component may be impacted by falling interest rates and equity values. However, the Company has the ability to adjust the amounts payable by adjusting bonus rates. As such, the interest rate risk and market risk can be mitigated.

5. Risk management (continued)

5.7 Financial risk (continued)

(x) Accounting classifications and fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

	Note	FVTPL $'000	Designated as FVTPL upon initial recognition $'000	Amortised cost $'000	Other financial liabilities within scope of FRS 109 $'000	Total carrying amount $'000	Fair value $'000
2019							
Financial assets	15						
- debt securities		814,091	25,410	4,081,617	-	4,921,118	5,478,807
- collective investment schemes		1,220,512	-	-	-	1,220,512	1,220,512
- policy loans		-	-	20,635	-	20,635	20,635
- derivative financial instruments		17,881	-	-	-	17,881	17,881
Insurance receivables	16	-	-	1,438	-	1,438	1,438
Other receivables	17	-	-	63,000	-	63,000	63,000
Cash and cash equivalents	18	-	-	169,328	-	169,328	169,328
		2,052,484	25,410	4,336,018	-	6,413,912	6,971,601
Financial liabilities							
- derivative financial instruments		(5,503)	-	-	-	(5,503)	(5,503)
Insurance payables	20	-	-	-	(93,562)	(93,562)	(93,562)
Other payables	21	-	-	-	(31,620)	(31,620)	(31,620)
Subordinated loan	28	-	-	(100,626)	-	(100,626)	(100,626)
		(5,503)	-	(100,626)	(125,182)	(231,311)	(231,311)

5. Risk management (continued)

5.7 Financial risk (continued)

(x) Accounting classifications and fair values (continued)

Fair values versus carrying amounts (continued)

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

	Note	FVTPL $'000	Designated as FVTPL upon initial recognition $'000	Amortised cost $'000	Other financial liabilities within scope of FRS 109 $'000	Total carrying amount $'000	Fair value $'000
2018							
Financial assets	15						
- debt securities		699,598	64,550	3,778,357	-	4,542,505	4,479,156
- collective investment schemes		1,136,678	-	-	-	1,136,678	1,136,678
- policy loans		-	-	16,218	-	16,218	16,218
- derivative financial instruments		23,150	-	-	-	23,150	23,150
Insurance receivables	16	-	-	1,660	-	1,660	1,660
Other receivables	17	-	-	55,611	-	55,611	55,611
Cash and cash equivalents	18	-	-	122,857	-	122,857	122,857
		1,859,426	64,550	3,974,703	-	5,898,679	5,835,330
Financial liabilities							
- derivative financial instruments		(11,740)	-	-	-	(11,740)	(11,740)
Insurance payables	20	-	-	-	(2,138,376)	(2,138,376)	(2,138,376)
Other payables	21	-	-	-	(25,479)	(25,479)	(25,479)
		(11,740)	-	-	(2,163,855)	(2,175,595)	(2,175,595)

5. Risk management (continued)

5.7 Financial risk (continued)

(x) Accounting classifications and fair values (continued)

Fair values versus carrying amounts (continued)

Measurement of fair values

Fair values have been determinable for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted closing bid prices at the reporting date.

Derivatives

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

The notional amount and net fair value of the forward foreign exchange contracts as at 31 December are as set out below. The valuations of the forward contracts reflect amounts which the Company expects to pay or receive to terminate the contracts or replace the contracts at their current market rates at the reporting date. The fair values of these financial instruments have been recognised in the financial statements under derivative financial instruments.

	Notional amount 2019 $'000	Fair Value 2019 Assets $'000	Fair Value 2019 Liabilities $'000	Notional amount 2018 $'000	Fair Value 2018 Assets $'000	Fair Value 2018 Liabilities $'000
Forward foreign exchange contracts	**882,943**	**17,881**	**(4,538)**	982,032	23,150	(8,525)
Interest rate swaps	**4,823**	**-**	**(965)**	-	-	-
Credit default swaps	**-**	**-**	**-**	622,007	-	(3,215)
Total		**17,881**	**(5,503)**		23,150	(11,740)

5. Risk management (continued)

5.7 Financial risk (continued)

(x) Accounting classifications and fair values (continued)

Fair values versus carrying amounts (continued)

Other financial assets and liabilities

The carrying amounts of other financial assets and liabilities with a maturity of less than one year (including insurance receivables, other receivables, cash and cash equivalents, insurance payables and other payables) are assumed to approximate their fair values because of the short period to maturity.

As at 31 December 2019, a cash collateral amounting to $13.2 million ($6.8 million as at 31 December 2018) was set aside towards the derivative transactions entered into. The amount is recognised in the balance sheet under other payables.

Fair value hierarchy

Financial assets and financial liabilities carried at fair value

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2019				
Financial assets at fair value through profit or loss	**1,493,972**	**544,908**	**21,133**	**2,060,013**
Derivative financial assets	**-**	**17,881**	**-**	**17,881**
Derivative financial liabilities	**-**	**(5,503)**	**-**	**(5,503)**
	1,493,972	**557,286**	**21,133**	**2,072,391**
2018				
Financial assets at fair value through profit or loss	1,141,276	738,352	21,198	1,900,826
Derivative financial assets	-	23,150	-	23,150
Derivative financial liabilities	-	(11,740)	-	(11,740)
	1,141,276	749,762	21,198	1,912,236

Financial assets and financial liabilities not carried at fair value but for which fair values are disclosed.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2019				
Financial assets at amortised cost	**463,931**	**3,617,686**	**-**	**4,081,617**
Policy loans	**-**	**20,635**	**-**	**20,635**
2018				
Financial assets at amortised cost	160,331	3,618,026	-	3,778,357
Policy loans	-	16,218	-	16,218

5. Risk management (continued)

5.7 Financial risk (continued)

(x) Accounting classifications and fair values (continued)

Fair values versus carrying amounts (continued)

Fair value hierarchy (continued)

Movement in Level 3 financial instruments

	Financial assets at fair value through profit or loss $'000	Total $'000
At 1 Jan 2019	**21,199**	**21,199**
Changes in fair value of financial investments measured at fair value through profit or loss	**572**	**572**
Purchases	**-**	**-**
Sales	**(638)**	**(638)**
At 31 Dec 2019	**21,133**	**21,133**
Total unrealised loss for the period included in profit or loss for assets held at the end of financial year	**548**	**548**
At 1 Jan 2018	1,914	1,914
Change in fair value of financial investments measured at fair value through profit or loss	(897)	(897)
Purchases	21,234	21,234
Sales	(1,052)	(1,052)
At 31 Dec 2018	21,199	21,199
Total unrealised loss for the period included in profit or loss for assets held at the end of financial year	(943)	(943)

5. Risk management (continued)

5.7 Financial risk (continued)

(x) Accounting classifications and fair values (continued)

Fair values versus carrying amounts (continued)

Fair value hierarchy (continued)

On 31 December 2019, the Company had no residual commitments in connection with the investments in private equity funds managed by third parties. During the year, nil commitment (2018: USD 15,000,000) were called against the initial commitment of USD 15,000,000 (2018: USD 15,000,000).

The following table shows the valuation technique and input used in Level 3 fair value measurements.

Description	Fair value at 31 December 2019 $'000	Valuation technique	Unobservable inputs	Reasonable possible shift +/-	Change in valuation $'000
Private equity funds	21,133 (31 December 2018: 21,199)	NAV - Adjusted	NAV and Fair Value Adjustments	+/- 5%	+/- 1,060

5.8 Operational risk

Operational risk is defined as: "The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk." The purpose of the Operational Risk Management Framework ('ORMF') is to enable the Company to fully identify and manage its operational risks in an effective manner and maintain operational risk within the Group's risk appetite.

Strong risk management and effective internal control are core elements of the Business strategy and all staff are responsible for managing and mitigating operational risks in their day-to-day operations. Overall accountability for risk resides with the Board of Directors; however the day-to-day management of risk lies with everybody. In executing these responsibilities, the Business has adopted risk management and internal control structure referred to as the ***'Three Lines of Defence'.***

The Operational Risk function reports to the Chief Risk Officer and supports the Risk Management Meeting. It is responsible for establishing and maintaining the ORMF and monitoring the level of operational losses and the effectiveness of the control environment. It is also responsible for operational risk reporting at Country level, including the preparation of reports for consideration by the Risk Management Meeting and Risk Committee. The Risk Management Meeting convenes regularly to discuss key risk issues and review the effective implementation of the ORMF.

6. Premiums

	Life Insurance (non-linked) $'000	Life insurance (linked) $'000	Total $'000
2019			
Gross written premiums	719,286	155,601	874,887
Gross written premiums ceded to reinsurers	(186,565)	(620)	(187,185)
Net premiums	532,721	154,981	687,702
2018			
Gross written premiums	522,106	163,879	685,985
Gross written premiums ceded to reinsurers	(106,237)	(548)	(106,785)
Net premiums	415,869	163,331	579,200

7. Fee and commission income

	Life Insurance (non-linked) $'000	Life insurance (linked) $'000	Total $'000
2019			
Fund management based fees	-	7,615	7,615
Reinsurance commission	953	106	1,059
	953	7,721	8,674
2018			
Fund management based fees	-	8,058	8,058
Reinsurance commission	209,328	-	209,328
	209,328	8,058	217,386

The reinsurance commission includes nil (2018: $208,768,000) of experience refund arising from the Company's financial reinsurance treaty with an external reinsurer.

8. Investment income

	2019 $'000	2018 $'000
Recognised in profit or loss		
Interest income		
- Interest income from financial assets measured at amortised cost	**173,217**	154,882
- Interest income on financial assets at fair value through profit or loss	**23,930**	25,284
- Cash and cash equivalents	**2,659**	2,526
Dividend income	**8,022**	5,542
Net realised gain from sale of financial assets at fair value through profit or loss	**49,262**	30,726
Net realised gain from sale of financial assets measured at amortised cost	**-**	240
Fair value gain/(loss) on re-measurement of financial assets at fair value	**139,166**	(167,735)
Net (loss)/gain on foreign exchange	**(60,236)**	54,509
Net investment income	**336,020**	105,974

Included in investment income is an amount of $133,815,000 (2018: $90,416,000) that belongs to the Linked funds' policyholders.

9. Net policyholder claims and benefits incurred

	Life insurance (non-linked) $'000	Life insurance (linked) $'000	Total $'000
2019			
Claims and loss adjustment expenses	4,644	4,038	8,682
Death, maturity and surrender benefits	217,572	225,183	442,755
Increase in claims liabilities	6,118	(219)	5,899
Allocation of surplus to contracts with DPF	7,411	-	7,411
Change in unit prices	-	50,664	50,664
Change in life insurance policy reserves	631,914	(27,649)	604,265
Gross policyholder claims and benefits incurred	867,659	252,017	1,119,676
Reinsurers' share of policyholder claims and benefits incurred	(69,049)	(275)	(69,324)
Net policyholder claims and benefits incurred	798,610	251,682	1,050,352
2018			
Claims and loss adjustment expenses	1,716	1,903	3,619
Death, maturity and surrender benefits	192,168	168,351	360,519
Increase in claims liabilities	1,945	444	2,389
Allocation of surplus to contracts with DPF	7,500	-	7,500
Change in unit prices	-	(109,133)	(109,133)
Change in life insurance policy reserves	348,709	2,352	351,061
Gross policyholder claims and benefits incurred	552,038	63,917	615,955
Reinsurers' share of policyholder claims and benefits incurred	4,411	(180)	4,231
Net policyholder claims and benefits incurred	556,449	63,737	620,186

Total net policyholder claims and benefits incurred in respect of insurance contracts amounted to $1,050,352,000 (2018: $620,186,000).

10. Acquisition costs

	Life Insurance (non-linked) $'000	Life insurance (linked) $'000	Total $'000
2019			
Commission expenses	69,552	9,098	78,650
2018			
Commission expenses	53,916	12,096	66,012

11. (Loss)/Profit for the year

The following items have been included in arriving at (loss)/profit for the year:

	2019 $'000	2018 $'000
Fees paid to auditors:		
Audit fees paid to Auditors of the Company	**637**	622
Non-audit fees paid to Auditors of the Company	**26**	32
Staff costs	**23,307**	20,541
Contribution to CPF	**2,151**	1,810
Value of employee services received for issue of share options/grants	**482**	408
Net currency exchange (gains)/losses	**(30,843)**	39,722
Intercompany recharges	**16,743**	12,388
Advertising	**2,322**	1,825
Professional fees	**811**	470

12. Income tax (credit)/expense

Recognised in profit or loss

	2019 $'000	2018 $'000
Current tax (credit)/expense		
Current year's tax charge	**-**	51,710
Adjustment for prior years	**(33,742)**	51
	(33,742)	51,761
Deferred tax (credit)/expense		
Movements in temporary differences	**(96)**	(29,981)
Movements in provision on future distributable surplus from Life participating fund	**2,278**	(469)
Benefit of tax losses recognised	**(22,768)**	-
Adjustment for prior years	**30,273**	-
	9,687	(30,450)
Tax (credit)/expense	**(24,055)**	21,311

12. Income tax (credit)/expense (continued)

Reconciliation of effective tax charge

	2019 $'000	2018 $'000
(Loss)/Profit before tax	**(129,838)**	127,733
Tax calculated using Singapore tax rates of 17% (2018: 17%)	**(22,072)**	21,715
Other income taxed at a concessionary rate of 10%	**(653)**	(574)
Non-deductible expenses	**171**	13
Tax exempt income	**-**	(26)
Tax effect of future distributable surplus from Life participating fund	**2,278**	(469)
Adjustment for prior years	**(3,469)**	51
Others	**(310)**	601
Tax (credit)/expense	**(24,055)**	21,311

Pursuant to Section 43C of the Singapore Income Tax Act, Chapter 134, income from offshore business is subject to the concessionary tax rate of 10%, instead of the standard rate of 17%.

13. Deferred tax (assets)/ liabilities

Recognised deferred tax (assets)/liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Property, plant and equipment	**-**	-	**144**	116	**144**	116
Provisions	**-**	(30,273)	**-**	-	**-**	(30,273)
Impairment	**(279)**	(155)	**-**	-	**(279)**	(155)
Unused tax losses carried forward	**(22,768)**	-	**-**	-	**(22,768)**	-
Future distributable surplus from Life participating fund	**-**	-	**20,081**	17,803	**20,081**	17,803
Tax (assets)/liabilities	**(23,047)**	(30,428)	**20,225**	17,919	**(2,822)**	(12,509)
Set-off tax	**20,225**	17,919	**(20,225)**	(17,919)	**-**	-
Net tax (assets)/liabilities	**(2,822)**	(12,509)	**-**	-	**(2,822)**	(12,509)

Net deferred tax (assets)/ liabilities are non-current.

13. Deferred tax (assets)/ liabilities (continued)

Movements in deferred tax (assets) / liabilities (prior to offsetting of balances) during the year are as follows:

	At 1 January 2018 $'000	Charged/ (Credited) to profit or loss $'000	Charged/ (Credited) to other comprehensive income $'000	At 31 December 2018 $'000	At 1 January 2019 $'000	Charged/ (Credited) to profit or loss $'000	Charged/ (Credited) to other comprehensive income $'000	At 31 December 2019 $'000
Deferred tax liabilities								
Property, plant and equipment	130	(14)	-	116	116	28	-	144
Investments	-	-	-	-	-	-	-	-
Future distributable surplus from Life participating fund	18,272	(469)	-	17,803	17,803	2,278	-	20,081
	18,402	(483)	-	17,919	17,919	2,306	-	20,225
Deferred tax assets								
Provision	(206)	(30,067)	-	(30,273)	(30,273)	30,273	-	-
Impairment	(255)	100	-	(155)	(155)	(124)	-	(279)
Unused tax losses carried forward	-	-	-	-	-	(22,768)	-	(22,768)
	(461)	(29,967)	-	(30,428)	(30,428)	7,381	-	(23,047)
	17,941	**(30,450)**	**-**	**(12,509)**	**(12,509)**	**9,687**	**-**	**(2,822)**

14. Property, plant and equipment

	Furniture, fittings and equipment $'000	Computer equipment $'000	Total $'000
Cost			
At 1 January 2019	27	2,471	2,498
Additions	-	137	137
Disposals	-	-	-
At 31 December 2019	27	2,608	2,635
Accumulated depreciation and impairment losses			
At 1 January 2019	16	1,801	1,817
Depreciation charge for the year	4	171	175
Disposals	-	-	-
At 31 December 2019	20	1,972	1,992
Cost			
At 1 January 2018	23	2,456	2,479
Additions	4	15	19
Disposals	-	-	-
At 31 December 2018	27	2,471	2,498
Accumulated depreciation and impairment losses			
At 1 January 2018	13	1,700	1,713
Depreciation charge for the year	3	100	103
Disposals	-	-	-
At 31 December 2018	16	1,800	1,816
Carrying amounts			
At 31 December 2019	**7**	**636**	**643**
At 31 December 2018	11	671	682

Property, plant and equipment are non-current.

15. Financial assets

	Fair value through profit or loss $'000	Designated as fair value through profit or loss $'000	Amortised cost $'000	Total $'000
2019				
Debt securities	814,091	25,410	4,081,617	4,921,118
Collective investment schemes	1,220,512	-	-	1,220,512
Derivative financial instruments	17,881	-	-	17,881
Policy loans	-	-	20,635	20,635
Insurance receivables	-	-	1,438	1,438
Other receivables (excluding prepayments)	-	-	63,000	63,000
Cash and cash equivalents	-	-	169,328	169,328
	2,052,484	25,410	4,336,018	6,413,912

15. Financial assets (continued)

	Fair value through profit or loss $'000	Designated as fair value through profit or loss $'000	Amortised cost $'000	Total $'000
2018				
Debt securities	699,598	64,550	3,778,357	4,542,505
Collective investment schemes	1,136,678	-	-	1,136,678
Derivative financial instruments	23,150	-	-	23,150
Policy loans	-	-	16,218	16,218
Insurance receivables	-	-	1,660	1,660
Other receivables (excluding prepayments)	-	-	55,611	55,611
Cash and cash equivalents	-	-	122,857	122,857
	1,859,426	64,550	3,974,703	5,898,679

The current portion of financial assets is $1,876,659,000 (2018: $1,501,434,000) with the remaining being non-current.

The debt securities have stated interest rates of 0% to 9.75% (2018: 0% to 9.75%) per annum and mature in years 2019 to 2110.

Policy loans are secured by the cash value of the life policy and bear interest rate at 6.5% (2018: 6.5%) per annum for the Universal Life and Par products. Loans given to customers of Universal life products and Par products have a spread of 2% over the prevalent General Crediting Rate. Policy loans have no fixed terms of repayment.

The Company's maximum exposure to loss from its collective investment schemes is equal to the total fair value of its investments in the funds. Once the Company has disposed of its units in a fund the Company ceases to be exposed to any risk from that fund.

15. Financial assets (continued)

The tables below summarises the fair value of the Company's holdings in hedge funds apart from its Investment Linked Products by risk of concentration with respect to geographic region and industry focus of the hedge funds. These hedge funds are classified as Collective Investment Schemes.

	2019		**2018**	
	% of investment in funds $'000	**Market value $'000**	**% of investment in funds $'000**	**Market value $'000**
As at 31 December				
Fund strategy				
Cash and Expenses	-	-	-	-
Credit Long / Short	-	-	-	-
Event driven	-	-	-	-
Macro	-	-	99%	9,011
Managed futures	-	-	-	-
Market Neutral	-	-	-	-
Multi-strategy	-	-	-	-
Volatility Arbitrage	-	-	1%	0
	-	-	100%	9,011
Geographic region				
Asia			-	-
Europe	-	-	-	-
Global	-	-	100%	9,011
Global Emerging Market	-	-	-	-
Japan	-	-	-	-
US	-	-	-	-
	-	-	100%	9,011

16. Insurance receivables

	2019 $'000	2018 $'000
Insurance receivables	**1,438**	1,660
Impairment losses	**-**	-
	1,438	1,660

Insurance receivables are due within the next financial year.

Concentration of credit risk relating to insurance receivables is limited due to the Company's many varied customers. The Company's historical experience in the collection of insurance receivables falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Company's insurance receivables.

16. Insurance receivables (continued)

Impairment losses

The Company considers the financial strength of the customers and reinsurers, notified disputes and collection experience in determining which asset should be impaired.

The insurance receivables are within the 12 months age category as at 31 December 2019 and 2018. No impairment loss has been provided in respect of insurance receivables as at 31 December 2019 and 2018.

Based on historical default rates, the Company believes that no impairment allowance is necessary in respect of insurance receivables in the age category of less than 12 months. These receivables are mainly arising by customers and reinsurers that have a good record with the Company.

17. Other receivables

	2019 $'000	2018 $'000
Other receivables and prepayments:		
Other receivables:		
- interest receivable	**56,382**	51,286
- receivables from fund managers	**6,006**	3,839
- sundry deposits	**88**	88
- others	**396**	58
Amounts due from related companies (non-trade)	**128**	340
Total Loans and receivables	**63,000**	55,611
Prepayments	**1,605**	140
	64,605	55,751

Other receivables are due within the next financial year. Non-trade amounts due from related companies are unsecured, interest free and repayable on demand.

18. Cash and cash equivalents

	2019 $'000	**2018 $'000**
With related corporations:		
- Cash at bank and in hand	**91,329**	41,254
- Short-term bank deposits	**-**	-
	91,329	41,254
With third parties:		
- Cash at bank and in hand	**6,890**	9,656
- Short-term bank deposits	**71,109**	71,947
	77,999	81,603
	169,328	122,857

18. Cash and cash equivalents (continued)

The weighted average effective interest rate on short-term bank deposits at the reporting date is 1.01% (2018: 2.63%) per annum, with an average maturity of 4 days (2018: 8 days).

19. Insurance and investment contract with DPF provisions

	2019 Gross $'000	**2019 Reinsurance $'000**	**2019 Net $'000**	2018 Gross $'000	2018 Reinsurance $'000	2018 Net $'000
Life business						
Insurance contract provision						
- Non-linked	4,827,701	(47,441)	4,780,260	4,189,199	(2,117,403)	2,071,796
- Linked	901,852	-	901,852	878,838	-	878,838
Outstanding claims provision						
- Non-linked	24,634	(479)	24,155	16,186	(402)	15,784
- Linked	-	-	-	-	-	-
	5,754,187	(47,920)	5,706,267	5,084,223	(2,117,805)	2,966,418
Current	86,131	-	86,131	93,861	-	93,861
Non-current	5,668,056	(47,920)	5,620,136	4,990,362	(2,117,805)	2,872,557
	5,754,187	(47,920)	5,706,267	5,084,223	(2,117,805)	2,966,418

Included in insurance and investment contract with DPF provisions is a surplus of $34,204,000 (surplus of 2018: $32,799,000).

(i) Analysis of movements in insurance contract provisions

	Non-linked 2019 $'000	**Linked 2019 $'000**	Non-linked 2018 $'000	Linked 2018 $'000
Life business				
At 1 January	2,071,796	878,838	1,665,466	985,621
Benefits paid/payable	217,572	225,183	192,168	168,351
Movements during the year	2,490,892	(202,169)	214,162	(275,134)
At 31 December	4,780,260	901,852	2,071,796	878,838

Movements in insurance contract provisions include the aggregate of all events giving rise to additional policyholder liabilities in the year. These include death claims, surrenders, lapses, the setting up of liability to policyholders at the initial inception of the policy, the declaration of bonuses and other amounts attributable to policyholders.

19. Insurance and investment contract with DPF provisions (continued)

(ii) Analysis of movements in outstanding claims provision (non-linked)

	2019 $'000	2018 $'000
Outstanding claims – gross		
At 1 January	**16,186**	13,281
Claims paid	**(8,682)**	(3,617)
Claims incurred	**17,130**	6,522
At 31 December	**24,634**	16,186
Outstanding claims – reinsurers' share		
At 1 January	**402**	206
Claims paid	**69,401**	(4,035)
Claims incurred	**(69,324)**	4,231
At 31 December	**479**	402
Outstanding claims – net	**24,155**	15,784

20. Insurance payables

	2019 $'000	2018 $'000
Insurance payables:		
- Insurance payables	**14,815**	2,066,154
- Prepaid premium and policy deposits	**78,747**	71,305
Amounts due to related corporations	**-**	917
	93,562	2,138,376

Insurance payables are due within the next financial year.

Amounts due to related corporations are unsecured, interest free and have no fixed repayment terms.

21. Other payables

	2019 $'000	2018 $'000
Other payables and accruals:		
- Accrued expenses	**6,126**	7,400
- Others	**21,432**	10,032
Amounts due to related corporations	**4,062**	8,047
	31,620	25,479

Other payables are due within the next financial year.

Amounts due to related corporations are unsecured, interest free and have no fixed repayment terms.

22. Share capital

	Ordinary shares			
	2019		2018	
	Number of shares ’000	**$’000**	Number of shares ’000	$’000
Fully paid ordinary shares, with no par value:				
On issue at 1 January and 31 December	50,625	75,000	50,625	75,000

23. Dividend

	2019 $’000	2018 $’000
Ordinary dividends		
Interim dividend paid in respect of the previous financial year of $1.9753 (2018: Nil) per share	**100,000**	-

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.

24. Reserves

	2019 $’000	2018 $’000
Capital reserve	**1,557**	1,542

The capital reserve comprises the cumulative value of employee services received for the issue of share options of the ultimate holding company.

The capital reserve are non-distributable.

25. Significant related party transactions

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

25. Significant related party transactions (continued)

The following significant transactions between the Company and related parties have been included in the profit before income taxes at terms agreed between the parties:

	2019 $'000	2018 $'000
Related corporations		
Commission expense	**21,577**	18,788
Fund management fees expense	**5,401**	4,877
Interest expense – net	**1,982**	61
Tax, legal, secretarial and other expenses	**16,743**	12,388
Key management personnel		
Short-term employee benefits	**3,981**	2,924
Share-based payments	**342**	105

26. Assets and related liabilities

	Life insurance (non-linked)		Life insurance (linked)		Total	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Assets						
Financial assets						
- Debt securities	**4,808,915**	4,542,505	**-**	-	**4,808,915**	4,530,092
- Collective investment schemes	**282,061**	249,378	**938,451**	887,300	**1,220,512**	1,136,678
- Derivative financial instruments	**17,592**	23,150	**-**	-	**17,592**	23,150
- Policy loans	**20,635**	16,218	**-**	-	**20,635**	16,218
Cash and cash equivalents	**164,706**	99,545	**57**	23,145	**164,763**	122,690
Total assets	**5,293,909**	4,918,383	**938,508**	910,445	**6,232,707**	5,828,828
Liabilities						
Financial liabilities						
- Derivative financial instruments	**5,314**	11,740	**-**	-	**5,314**	11,740
Insurance and investment contract with DPF provisions						
- Life business	**4,780,260**	2,071,796	**901,852**	878,838	**5,682,112**	2,950,634
- Outstanding claims provision	**24,155**	15,784	**-**	-	**24,155**	15,784
Total liabilities	**4,809,729**	2,099,320	**901,852**	878,838	**5,711,581**	2,978,158

The Company keeps linked investments separate from other investments and invests them separately, in accordance with the requests of the policyholders. Linked investments are held on account for and at the risk of life insurance policyholders, therefore policyholders are entitled to all the gains on investments shown under this heading, but they also have to bear any losses.

The assets and liabilities in the above analysis exclude those held in the non-insurance fund (shareholder's fund).

27. Equity compensation benefits

The Company's ultimate holding company has share option schemes and conditional awards plan which invite employees of the Company, including directors, to take up options to subscribe for shares of the ultimate holding company.

Savings-related share option schemes ("Sharesave")

The HSBC Holdings Savings-Related Share Option Plans are all-employee share plans under which eligible employees have been granted options to acquire HSBC Holdings Plc ordinary shares. There are two plans: the UK plan and the International Plan. The last grant of options under the International Plan was in 2012.

Eligible employees save up to £500 each month (for International options granted prior to 2014, employees save Singapore dollars equivalent of up to £250 each month) over a period of one, three or five years which may be used on the first, third or fifth anniversary of the commencement of the relevant savings contract, at the employee's election, to exercise the options. Alternatively, the employee may elect to have the savings, plus (where applicable) any interest or bonus, repaid in cash. One year options are exercisable within three months following the first anniversary of the commencement of the savings contract. Three or five-year options are exercisable within six months following the third or fifth anniversary of the commencement of the relevant savings contract.

The exercise price is set at a 20% discount to the market value of the ordinary shares immediately preceding the invitation date.

There were no share options granted in 2019 and 2018.

The plan was introduced in Singapore in 2014. Shares are purchased in the market each quarter up to a maximum value of £250, or equivalent in local currency. Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

International Employee Share Purchase Plan ("Sharematch")

The plan was introduced in Singapore in 2014. Shares are purchased in the market each quarter up to a maximum value of £250, or equivalent in local currency. Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

28. Subordinated loan

	2019	2018
	$'000	$'000
Due within 12 months	**626**	
Due after 12 months	**100,000**	-
	100,626	-

During the current financial year, the Company entered into an agreement with a related company - The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch to obtain a subordinated loan of SGD 100,000,000 for the purpose of supporting its regulatory capital requirements. The Subordinated Loan from is unsecured and repayable in full on 11 April 2029. The interest rate of the Subordinated Loan for each 6 months interest period from the drawdown date is the 6-month Singapore Swap Offer Rate ("SOR") plus 120 basis points for the entire duration of the Subordinated Loan.

29. New or revised accounting standards and interpretations

The Accounting Standards Council Singapore (ASC) has issued a number of new FRS and amendments to FRS that are effective in the current accounting period of the Company. Of these, the "Deferral for FRS 117 Insurance Contracts" is relevant to the Company's financial statement.

FRS 117 Insurance Contracts will replace the current FRS 104 insurance contract standard. FRS 117 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, FRS 117 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. In November 2018, IASB proposed to defer IFRS 17 (equivalent of FRS 117) and the temporary IFRS 9 (equivalent of FRS 109) exemption available to insurers until the financial period beginning on or after 1 January 2021. Subsequently, IASB proposed in June 2019 to defer IFRS 17 and extend the temporary IFRS 9 exemption available to insurers until the financial period beginning on or after 1 January 2022. The proposed deferral was published in the Exposure Draft amendments to IFRS 17 for public consultation which ended on 25 September 2019. IASB subsequently decided on 17 March 2020 that the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023. IASB also decided to extend the exemption currently in place for some insurers regarding the application of IFRS 9 *Financial Instruments* to enable them to implement both IFRS 9 and IFRS 17 at the same time.

30. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of HSBC Insurance (Singapore) Pte. Limited on 26 March 2020.