

HSBC Life Assurance (Malta) Ltd

Annual Report

2022

HSBC Life Assurance (Malta) Ltd

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HSBC Life Assurance (Malta) Ltd

Directors' Report

For the Year Ended 31 December 2022

The directors present their report together with the audited financial statements of HSBC Life Assurance (Malta) Ltd ("the Company") for the year ended 31 December 2022.

Board of directors

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

Simon Vaughan Johnson (Chairman)
Muriel Rutland
Eric Emoré
Maria Louisa sive Marisa Attard
Joanne Aquilina
Charlotte Cilia - appointed 20/01/2022
Philip John Blackmore – appointed 01/11/2022
Joyce Grech - resigned 20/01/2022
Harpal Karicut – resigned 16/02/2022

Principal activities

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

Business review

In 2022 the Company has continued to focus on its core business of serving customers' protection needs, and in supporting them to plan for their future and their retirement.

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

The Company reported a profit before tax of €4.8m compared to a loss of €3.0m in 2021. The positive variance in profitability of €7.8m is mainly attributable to rising interest rates and lower actuarial losses, partially offset by higher expenses arising from increased costs associated primarily with IFRS 17 implementation. The entity benefited from the direct impact of increased interest rate expectations, reflected in the revision of the yield curve impacts of €17.4m and positive actuarial adjustments in line with inflationary expectations amounting to €0.9m, which were partially offset by the decrease in the fair value movement of investments of €12.8m, resulting in a net gain in 2022 of €5.5m, with a year-on-year increase of €3.6m. Performance in comparison to previous year was also positively impacted by lower adverse actuarial impacts (2021 €5.2m). The entity incurred increases in expenses of €1.0m mainly driven by increased costs for IFRS 17 implementation readiness.

Gross written premium for the year was similar to last year at €56m.

HSBC Life Assurance (Malta) Ltd

Directors' Report (continued)

For the Year Ended 31 December 2022

Business review (continued)

The With-Profits fund is closed to new business and is in run-off. The Company continues to balance the need of retaining sufficient surplus in the With-Profits fund and avoiding a "tontine effect". The Company was able to maintain its philosophy of paying a terminal bonus to eligible policies which matured during the year. The Company also paid a 0.5% reversionary bonus which was declared at the beginning of the year. No top up bonus was declared for 2022. Furthermore, the Board declared a guaranteed bonus of 0.75% for 2023. This is payable to customers net of tax. In line with the bonus philosophy, this rate is based on conservative assumptions, with any shortfall to actual returns made up through the final terminal bonus. A discretionary top up bonus may be declared at year end.

At 31 December 2022, total assets were recorded at €797m, a decrease of €130m from prior year's level. Decrease of the Fair Market Value of investments was observed during 2022 in line with global market conditions. This decrease is largely the result of the negative market movements from the unit-linked and with profits portfolio amounting to €80m. Other contributory factors include a decrease in reinsurance assets amounting to €28m. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. Reinsurance assets consist principally of longer term receivables that are dependent on expected claims and benefits arising under the related reinsured insurance contracts.

At the end of 2022, the Company has an unaudited Solvency Ratio of 195%, being 95% higher than the Solvency Capital Requirement stipulated by the Solvency II regime (2021: 208%).

Future developments

The Company will continue to focus on growth within the core domestic market during 2023, leveraging on the current Maltese economic environment, pensions legislation, increased demand for online services and HSBC's financial planning and wealth management capabilities. The Company is committed to maintain its focus on retirement planning and employer sponsored pension plans, enhancing its protection offering, and building online capability whilst continuing to meet customers' need for protection and long-term savings.

Risks and uncertainties

The Company is exposed to financial risk through its financial assets, financial liabilities (investment contracts), reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts, which can be driven by changes in the market value of assets or through changes to expectations on future yields which have been volatile in recent years. Changes to assumptions can materially impact the Company's profit and solvency ratio. Further information pertaining to sensitivity around changes in assumptions can be found in notes 4, 5 and 18 to the financial statements. An added uncertainty relates to the implications arising from the Company's implementation of IFRS 17. This will bring a fundamental change to the manner in which the Company accounts for its contracts, including changes in measurement and the presentation and disclosures as mentioned in note 2.6.

The Company is part of the wider HSBC Group and places reliance on the immediate parent bank as the primary distributor of its products. The Company is regularly engaged with Wealth & Personal Banking

HSBC Life Assurance (Malta) Ltd

Directors' Report (continued)

For the Year Ended 31 December 2022

Risks and uncertainties (continued)

within HSBC Bank Malta p.l.c., with regards to planning its Financial Resources Plan and monitoring sales performance. Deviations to plan are identified and a collaborative approach is taken to address any shortfalls. Given new business sales are the key contributor to the Company's future profitability this constitutes a key risk to performance and is given high priority.

Throughout the course of 2022, focus continued on the responsibility and accountability that each employee has to perform their duties in line with the HSBC Conduct framework, which is aimed at the delivery of fair outcomes for customers and the support of the orderly and transparent operation of financial markets. Conduct related matters have an increasingly pivotal position on the agenda with relevant discussions and oversight being exercised in the appropriate risk governance fora. Due to the long term nature of life insurance business the Company has a duty to manage forward looking conduct risks. The business will continue to engage with customers and the regulator on these matters.

Further information with respect to insurance, financial and conduct risks is included in notes 5.1, 5.2 and 5.3 to the financial statements, respectively.

Dividends

The Company did not pay any dividend to shareholders during 2022.

Reserves

The directors propose that the balance of retained earnings amounting to €38.6m is to be carried forward to the next financial year.

HSBC Life Assurance (Malta) Ltd

Statement of Directors' Responsibilities

For the Year Ended 31 December 2022

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

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

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

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

The financial statements of HSBC Life Assurance (Malta) Ltd for the year ended 31 December 2022 are included in the Annual Report 2022 and is available on the Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the Company's website in view of their responsibility for the controls over, and the security of the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Approved by the Board of Directors on 15 February 2023 and signed on its behalf by:



Simon Vaughan Johnson
Chairman



Marisa Attard
Non-executive Director

Registered Office
80 Mill Street
Qormi QRM 3101
Malta



Independent auditor's report

To the Shareholders of HSBC Life Assurance (Malta) Ltd

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of HSBC Life Assurance (Malta) Ltd (the Company) as at 31 December 2022, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

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

What we have audited

HSBC Life Assurance (Malta) Ltd financial statements, set out on pages 16 to 76, comprise:

- the statement of financial position as at 31 December 2022;
- the statement of changes in equity for the year then ended;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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



Independent auditor's report - continued

To the Shareholders of HSBC Life Assurance (Malta) Ltd

Independence


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

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

The non-audit services that we have provided to the company, in the period from 1 January 2022 to 31 December 2022, are disclosed in note 11 to the financial statements.

Our audit approach

Overview

	<ul style="list-style-type: none">• Overall materiality: €561,000, which represents approximately 1% gross premiums written.
	<ul style="list-style-type: none">• Measurement of non-linked life insurance contract liabilities and of the present value of in-force business (PVIF)



Independent auditor's report - continued

To the Shareholders of HSBC Life Assurance (Malta) Ltd

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

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

Materiality

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

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

<i>Overall materiality</i>	€561,000
<i>How we determined it</i>	Approximately 1% of gross premiums written.
<i>Rationale for the materiality benchmark applied</i>	We chose gross premiums written as reflected in the statement of profit or loss as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the company and is not as volatile as other profit or loss measures. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted revenue-related benchmarks.
We have applied a higher materiality level of €3m solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities.	

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €56,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



Independent auditor's report - continued

To the Shareholders of HSBC Life Assurance (Malta) Ltd

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
<p><i>Measurement of non-linked life insurance contract liabilities and the present value of in-force business (PVIF)</i></p> <p>Management's valuation of the provisions for the settlement of future non-linked claims attributable to life insurance contracts and of the PVIF involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these items. We focused on this area due to the materiality and subjectivity of the judgements made.</p> <p>Economic assumptions (investment return and associated discount rates) and non-economic assumptions (mortality, lapse rates and expenses associated with servicing policies), including the respective margins applied, are the key inputs to which the carrying amounts of these long-term liabilities and intangible assets are highly sensitive. Estimation uncertainty is heightened as a result of the current macroeconomic environment.</p>	<p>Our audit procedures addressing the valuation of the company's non-linked life insurance contract liabilities and of the PVIF including the following procedures using our actuarial expert team members:</p> <ul style="list-style-type: none"> • we tested the accuracy of the underlying data utilised for the purposes of measurement by reference to its source; • we applied our industry knowledge and experience in comparing the methodology, models and assumptions used to recognised actuarial practices; • we tested management's controls in respect of the valuation and assumption setting processes, • we tested the reasonableness of certain calculations performed by management, by validating whether these are aligned with internal documentation and our expectations; and • we assessed management's key judgements throughout the processes.



Independent auditor's report - continued

To the Shareholders of HSBC Life Assurance (Malta) Ltd

Key audit matter	How our audit addressed the Key audit matter
<p>Relevant references in the financial statements are:</p> <ul style="list-style-type: none"> ● Significant accounting policies Notes 3.1 and 3.8; ● Critical accounting estimates and judgements: Note 4; ● Note on intangible assets: Note 16; and ● Note on insurance liabilities: Note 18. 	<p>In respect of the assumptions underlying the measurement of the non-linked life insurance contract liabilities, we performed the following procedures using our actuarial expert team members:</p> <ul style="list-style-type: none"> ● we assessed the assumptions for investment mix and projected investment returns by reference to company-specific and market observable data (EIOPA curve); ● we considered the appropriateness of the mortality assumptions by reference to company and industry data on historical mortality experience and expectations of future mortality; and ● we tested the future expenses assumption by understanding and challenging the basis on which expenses are projected and allocated between new business and renewals, and by reference to market observable data (inflation curve). We further understood the main drivers of the increase in per policy expenses (disclosed in Note 18.2) and challenged management's intent to carry out certain future actions linked to renewal expenses by <i>inter alia</i> confirming that these actions were approved by the board.



Independent auditor's report - continued

To the Shareholders of HSBC Life Assurance (Malta) Ltd

Key audit matter	How our audit addressed the Key audit matter
	<p>The following procedures in relation to the assumptions underlying the valuation of the PVIF were performed, also through the involvement of our actuarial expert team members:</p> <ul style="list-style-type: none">• we leveraged the testing performed in relation to those assumptions that are aligned with the insurance contract liability valuation, reviewing the difference in margins applied between the two; and• we considered the appropriateness of the lapse rate assumptions by reference to company data, considering the results of management's analysis of recent lapse experience. <p>In respect of all the assumptions referred to above, we have reviewed management's approach to setting the assumptions, assessed the assumptions' appropriateness based on internal and external data, and tested management's governance and controls over the assumption basis review.</p> <p>We also reviewed the modelled results and manual adjustments, and we assessed the reasonableness of management's analysis of the changes in the carrying amounts.</p> <p>We further considered the extent of related disclosures to the financial statements.</p> <p>Based on the work performed we found the valuation of the non-linked life insurance contract liabilities and the present value of in-force business to be consistent with the explanations and evidence obtained.</p>



Independent auditor's report - continued

To the Shareholders of HSBC Life Assurance (Malta) Ltd

Other information

The directors are responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements and our auditor's report thereon)

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

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

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

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



Independent auditor's report - continued

To the Shareholders of HSBC Life Assurance (Malta) Ltd

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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



Independent auditor's report - continued

To the Shareholders of HSBC Life Assurance (Malta) Ltd

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

Report on other legal and regulatory requirements

The *Annual Report 2022* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

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

Area of the <i>Annual Report 2022</i> and the related Directors' responsibilities	Our responsibilities	Our reporting
<p>Directors' report and Statement of directors' responsibilities (on pages 1 to 4)</p> <p>The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.</p>	<p>We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.</p> <p>We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements.</p> <p>In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.</p>	<p>In our opinion:</p> <ul style="list-style-type: none"> the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). <p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p>



Independent auditor's report - continued

To the Shareholders of HSBC Life Assurance (Malta) Ltd

Area of the <i>Annual Report 2022</i> and the related Directors' responsibilities	Our responsibilities	Our reporting
	<p>Other matters on which we are required to report by exception</p> <p>We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:</p> <ul style="list-style-type: none">• adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.• the financial statements are not in agreement with the accounting records and returns.• we have not received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.	<p>We have nothing to report to you in respect of these responsibilities.</p>

Other matter – use of this report

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



Independent auditor's report - continued

To the Shareholders of HSBC Life Assurance (Malta) Ltd

Appointment

We were first appointed as auditors of the Company on 22 April 2015. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 8 years.

PricewaterhouseCoopers

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

A handwritten signature in blue ink, appearing to read 'C. Cardona', is written over a light blue circular stamp.

Christopher Cardona
Partner

15 February 2023

HSBC Life Assurance (Malta) Ltd

Statement of Financial Position

At 31 December 2022

		2022	2021
	Note	€'000	€'000
Assets			
Property and equipment	14	4	2
Investment property	15	-	1,600
Intangible assets	16	37,026	34,359
Financial investments:	17		
- Equities		14,306	15,240
- Debt securities		227,793	266,386
- Collective investment schemes		30,562	43,494
- Net assets held to cover linked liabilities		387,785	442,842
Reinsurance assets	18	49,792	77,972
Current tax assets		2,028	1,810
Insurance and other receivables	19	2,951	3,110
Cash at bank	20	44,525	40,345
Total assets		796,772	927,160
Liabilities			
Insurance contract provisions:	18		
- Claims outstanding		4,347	2,384
- Non-linked business		308,493	391,627
- Linked business		231,406	264,186
Financial liabilities:			
- Investment contracts at fair value through profit or loss	21	162,676	185,137
Reinsurance payables		2	134
Provision for liabilities and charges	22	1,249	1,129
Insurance payables, other payables and deferred income	23	9,720	7,729
Deferred tax liabilities	24	12,291	11,356
Total liabilities		730,184	863,682
Net assets		66,588	63,478

HSBC Life Assurance (Malta) Ltd

Statement of Financial Position (continued)

At 31 December 2022

		2022	2021
	Note	€'000	€'000
Shareholders' equity			
Share capital	26.1	27,961	27,961
Retained earnings		38,627	35,517
		-----	-----
Total shareholders' equity		66,588	63,478
		=====	=====

The notes on pages 23 to 76 are an integral part of these financial statements.

The financial statements on pages 16 to 76 were approved and authorised for issue by the Board of Directors on 15 February 2023 and signed on its behalf by:


Simon Vaughan Johnson
Chairman


Marisa Attard
Non-executive Director

HSBC Life Assurance (Malta) Ltd

Statement of Changes in Equity

For the Year Ended 31 December 2022

	Share capital	Retained earnings	Total
	€'000	€'000	€'000
Balance at 1 January 2021	27,961	37,437	65,398
	-----	-----	-----
Comprehensive loss for the year			
Loss for the year	-	(1,920)	(1,920)
	-----	-----	-----
Total comprehensive loss for the year	-	(1,920)	(1,920)
	-----	-----	-----
Balance at 31 December 2021	27,961	35,517	63,478
	=====	=====	=====
Balance at 1 January 2022	27,961	35,517	63,478
	-----	-----	-----
Comprehensive Income for the year			
Profit for the year	-	3,110	3,110
	-----	-----	-----
Total comprehensive income for the year	-	3,110	3,110
	-----	-----	-----
Balance at 31 December 2022	27,961	38,627	66,588
	=====	=====	=====

The notes on pages 23 to 76 are an integral part of these financial statements.

HSBC Life Assurance (Malta) Ltd

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2022

		2022	2021
	Note	€'000	€'000
Technical Statement			
Earned premiums, net of reinsurance			
Gross premiums written	6	56,447	56,604
Outward reinsurance premiums		(5,756)	(5,738)
		-----	-----
Net premiums written		50,691	50,866
Investment contracts fee income	7	1,325	1,389
Investment (loss)/income	8	(79,656)	48,543
		-----	-----
		(27,640)	100,798
		-----	-----
Claims incurred and benefits accrued, net of reinsurance			
Claims paid:			
- Gross amount		(54,599)	(58,904)
- Reinsurers' share		975	2,566
		-----	-----
		(53,624)	(56,338)
		-----	-----
Change in provisions for claims:			
- Gross amount	18.3	(1,963)	2,383
- Reinsurers' share	18.4	(313)	(463)
		-----	-----
		(2,276)	1,920
		-----	-----
Change in technical provisions, net of reinsurance			
Long term business:			
- Gross amount	18.3	84,215	12,666
- Reinsurers' share	18.4	(26,337)	(1,665)
		-----	-----
		57,878	11,001
Movement in technical provisions for linked insurance contracts			
	18.3	32,780	(24,020)
		-----	-----
		90,658	(13,019)
		-----	-----
Bonuses and rebates, net of reinsurance	18.3	(1,081)	(1,196)
		-----	-----
Balance carried forward		6,037	32,165

HSBC Life Assurance (Malta) Ltd

Statement of Profit or Loss and Other Comprehensive Income (continued)

For the Year Ended 31 December 2022

		2022	2021
	Note	€'000	€'000
Technical Statement (continued)			
Balance brought forward		6,037	32,165
Investment contract benefits	9,21	16,541	(19,489)
Change in present value of in-force business	16	2,775	(6,973)
Acquisition costs	10	(1,324)	(1,402)
Administrative expenses	11	(6,581)	(6,361)
Movement in provision for liabilities and charges	22	(120)	560
Net investment management charges		(45)	(78)
Balance on the Technical Statement		17,283	(1,578)
		=====	=====

HSBC Life Assurance (Malta) Ltd

Statement of Profit or Loss and Other Comprehensive Income (continued)

For the Year Ended 31 December 2022

		2022	2021
	Note	€'000	€'000
Non-Technical Statement			
Balance on the Technical Statement		17,283	(1,578)
Investment loss	8	(12,882)	(1,825)
Investment management charges		(49)	(95)
Administrative expenses		(627)	(554)
Commission receivable		1,038	1,097
Profit/(loss) before tax		4,763	(2,955)
Tax (expense)/credit	13	(1,653)	1,035
Profit/(loss) for the year – Total Comprehensive Income		3,110	(1,920)

The notes on pages 23 to 76 are an integral part of these financial statements.

HSBC Life Assurance (Malta) Ltd

Statement of Cash Flows

For the Year Ended 31 December 2022

		2022	2021
	Note	€'000	€'000
Cash flows from operating activities			
Insurance premiums received		56,565	56,605
Reinsurance premiums paid		(4,356)	(5,702)
Fees and commissions received		2,363	2,277
Interest received		3,765	4,211
Dividends received		2,366	2,375
Rental Income from investment property received		-	1
Claims and benefits paid as adjusted for movements in claims payable		(53,335)	(58,460)
Reinsurance claims received		931	2,566
Investment contract receipts		6,142	7,491
Investment contract benefits paid		(10,740)	(13,370)
Payments to employees and suppliers		(6,629)	(7,098)
Policyholders' investments portfolio:			
- Acquisition of investments		(58,310)	(48,605)
- Proceeds from sale of investments		60,810	67,840
Tax paid		(936)	(1,871)
Net cash (used in)/from operating activities		(1,364)	8,260
Cash flows from investing activities			
Interest received		1,215	1,179
Acquisition of intangible assets and property and equipment		(3)	(2)
Shareholder's investments portfolio:			
- Acquisition of investments		(6,618)	(17,383)
- Proceeds from sale of investments		9,350	3,219
- Proceeds from the disposal of investment property		1,600	-
Net cash from/(used in) investing activities		5,544	(12,987)
Net movements in cash and cash equivalents		4,180	(4,727)
Cash and cash equivalents at 1 January		40,345	45,072
Cash and cash equivalents at 31 December	20	44,525	40,345

The notes on pages 23 to 76 are an integral part of these financial statements.

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

1 Reporting entity

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

2 Basis of preparation

2.1 Statement of compliance

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

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

2.2 Basis of measurement

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

- financial instruments at fair value through profit or loss;
- investment property.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

2 Basis of preparation (continued)

2.5 Standards, interpretations and amendments to published standards effective in 2022

In 2022, the Company adopted new standards, amendments and interpretations to existing standards that are mandatory for the Company's accounting period beginning on 1 January 2022. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Company's accounting policies and financial statements.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2022, and have not been applied in preparing these financial statements. The Company is considering the implications of the below standard on the Company's financial results and position, and the timing of its adoption, taking cognisance of the endorsement process by the European Commission.

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs which are effective after 1 January 2022, some of which have been endorsed for use in the EU. The company expects they will have an insignificant effect, when adopted, on the financial statements of the company. The company has not early adopted any of the amendments effective for annual periods beginning after 1 January 2022.

Major new IFRSs affecting the company

IFRS 17 'Insurance Contracts' is an International Financial Reporting Standard (IFRS) that was issued by the International Accounting Standards Board (IASB) in May 2017 and amended in June 2020 and is applicable for annual periods beginning on or after 1 January 2023, with early adoption permitted. IFRS 17 was adopted by the European Union ('EU') on 19 November 2021, with an optional exemption regarding the annual cohort requirement. Furthermore, on 9 December 2021, the IASB issued 'Initial Application of IFRS 17 and IFRS 9 - Comparative Information', as an amendment to IFRS 17 and this was endorsed by the European Commission on 9 September, 2022. The Company has not early adopted IFRS 17 and will apply IFRS 17 for the first time on 1 January 2023.

IFRS 17 sets out the requirements that the Company will apply in accounting for insurance contracts it issues, reinsurance contracts it holds, and investment contracts with discretionary participation features. Below we set out the impact of IFRS 17 compared with the current accounting policy for insurance contracts.

To identify groups of insurance contracts for the purposes of measurement, individual contracts subject to similar risk and managed together are identified as a portfolio of insurance contracts. Each portfolio is further separated by profitability group and issue date, and may be subdivided further.

Under IFRS 17, no present value of in-force business ('PVIF') asset is recognised. Instead, the measurement of the insurance contracts liability is based on groups of insurance contracts and will include fulfilment cash flows ('FCF'), as well as the contractual service margin ('CSM'), which represents the unearned profit. Unlike current accounting where market impacts and changes in assumptions are reported immediately in profit or loss, under IFRS 17 these are primarily accumulated with the CSM and recognised in profit or loss over the remaining life of the contracts. Whilst IFRS 17 changes the timing of profit recognition, there is no impact to the underlying economics of the Insurance business, including solvency, capital and cash generation.

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

2 Basis of preparation (continued)

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

For insurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and investment services). A substantive obligation to provide services ends when:

- the Company has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
- the Company has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

For reinsurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

The FCF comprise of:

- the best estimates of future cash flows, including amounts expected to be collected from premiums and payouts for claims, benefits and expenses, which are projected using assumptions such as those based on demographic and operating experience;
- an adjustment for the time value of money and financial risks associated with the future cash flows; and
- an adjustment for non-financial risk that reflects the uncertainty in timing and in amounts of future cash flows.

In contrast to IFRS 4 accounting, where profits are recognised up front, the CSM will be systematically recognised in revenue, as services are provided over the expected coverage period of the group of contracts without any change to the overall profit of the contracts. Losses resulting from the recognition of onerous contracts are recognised in profit or loss immediately.

The CSM is adjusted depending on the measurement model of the group of insurance contracts. While the general measurement model ('GMM') is the default measurement model under IFRS 17, products with direct participation features which satisfy certain eligibility criteria, will be measured using the variable fee approach ('VFA').

Under IFRS 17, the amounts recognised in the income statement are disaggregated into the insurance service result, comprising insurance revenue and insurance service expenses, and insurance finance income or expenses. The Company will use the risk mitigation option for a number of economic offsets between those contracts measured under the VFA and certain reinsurance contracts held arrangements that satisfy the required criteria. Amounts from reinsurance contracts will continue to be presented separately. There will also be additional notes to the financial statements, including detailed reconciliations.

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

2 Basis of preparation (continued)

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

The Company has applied the option under IFRS 9 to re-designate eligible financial assets held to support insurance liabilities currently measured at amortised cost, to fair value through profit or loss.

Transitional impact of IFRS 17

IFRS 17 requires entities to apply IFRS 17 retrospectively as if IFRS 17 had always been applied, using the full retrospective approach ('FRA') unless it is impracticable, in which case the alternative Modified Retrospective Approach or Fair Value Approach ('FVA') are to be applied. The Company expects that it will apply the FRA for new business from 2020 onwards. Where the FVA is used, the measurement will take into account the cost of capital that a market participant within the jurisdiction would be expected to hold based on the asset and liability positions on the transition date.

Changes to equity on transition are driven by the elimination of the PVIF asset, the remeasurement of insurance liabilities and assets under IFRS 17. IFRS 17 requires the use of current market values for the measurement of insurance liabilities. IFRS 17 also requires the use of discount rates determined at the date of initial recognition for groups of contracts measured under GMM. The shareholder's share of the investment experience and assumption changes will be absorbed by the CSM and released over time to profit or loss under VFA. For contracts measured under GMM, the shareholder's share of the investment volatility is recorded in profit or loss as it arises. Under IFRS 17, directly attributable costs will not be expensed as incurred. Instead, they will be incorporated in the CSM and eventually expensed and recognised in the insurance service result. Costs that are not directly attributable will continue to be expensed as incurred within administrative expenses. This will result in a reduction in reported expenses in the year of initiating a contract. While the profit over the life of an individual contract will be unchanged, its emergence will change under IFRS 17.

The Company have made working accounting policy decisions, as well as put in place data and measurement models, and made progress with running dress rehearsals of transitional numbers and 2022 estimates of selected comparative data. The transitional balance sheet and restated 2022 comparative will be presented in the 2023 financial statements and the transition balance sheet will present the impact on the Company's total assets, liabilities and equity.

3 Significant accounting policies

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

3.1 Insurance and investment contracts

3.1.1 Classification

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.1 Insurance and investment contracts (continued)

3.1.1 Classification (continued)

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

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

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

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

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

and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the Approved Actuary.

Long-term insurance contracts with fixed and guaranteed term

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

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

3.1.2 Recognition and measurement of contracts

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.1 Insurance and investment contracts (continued)

3.1.2 Recognition and measurement of contracts (continued)

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

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

Savings with-profit contracts contain a DPF that entitles the holders to a credit of bonus declared by the Company from the DPF investment income (i.e. all interest and, realised and unrealised gains and losses

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

Insurance contracts with DPF contain a guaranteed element. Refer to Note 5.2.1.

Reinsurance

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

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

Outward reinsurance premiums are accounted for in profit or loss on an accruals basis. Reinsurance premiums are accounted for and earned in the same manner as the relative premiums, with the un-expensed portion of ceded reinsurance premiums included in reinsurers' share of technical provisions.

Premiums ceded and benefits reimbursed are presented in the primary statements on a gross basis. The company is only exposed to credit risk in this respect, and assets and liabilities are therefore not set off.

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.1 Insurance and investment contracts (continued)

3.1.2 Recognition and measurement of contracts (continued)

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

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

Liability adequacy test

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

Investment contracts

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

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

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.1 Insurance and investment contracts (continued)

3.1.2 Recognition and measurement of contracts (continued)

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

Some investment contracts issued include the provision of investment management services. These services are accounted for in accordance with IFRS 15, 'Revenue from Contracts with Customers', where the revenue associated with the service component is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

This is achieved by reference to the stage of completion of the transaction and deferring revenue over the duration of the investment contract (refer to note 3.2.2).

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

Receivables and payables related to insurance contracts and investment contracts

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

3.2 Revenue

3.2.1 Insurance and investment contracts

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

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

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

- Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis; and,
- Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds.

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.2 Revenue (continued)

3.2.2 Fees and commission income

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

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

3.2.3 Investment income

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

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

3.2.4 Net income from other financial instruments at fair value

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

3.3 Employee benefits

3.3.1 Defined contribution plan

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

3.3.2 Share based payment transactions

The company enters into equity-settled share-based payment arrangements with its employees as compensation for services provided by employees.

The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to retained earnings.

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.3 Employee benefits (continued)

3.3.2 Share based payment transactions (continued)

Fair value is determined by using appropriate valuation models. Vesting conditions include service conditions and performance conditions; any other features of the arrangement are non-vesting conditions.

Market performance conditions and non-vesting conditions are taken into account when estimating the fair value of the award at the date of the award. Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction.

3.3.3 Termination Benefits

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

- when the employee accepts the offer; and
- when a restriction on the group's ability to withdraw the offer takes effect.

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

- actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made;
- the plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and the expected completion date; and
- the plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

3.4 Tax

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.4 Tax (continued)

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

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

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

3.5 Foreign currency transactions

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

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

3.6 Property and equipment

3.6.1 Recognition and measurement

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

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.6.2 Subsequent costs

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

3.6.3 Depreciation

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

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

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

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

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

3.7 Investment property

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

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

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

The investment in property was disposed of during 2022 and the Company no longer owns investment property.

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.8 Intangible assets

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

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

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

3.8.2 *Deferred acquisition costs*

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

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

3.8.3 *Computer software*

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

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

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

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.9 Financial instruments

3.9.1 *Non-derivative financial instruments*

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

3.9.2 *Cash and cash equivalents*

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

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

The expected credit loss (ECL) impairment model in accordance with IFRS9 is described in note 3.10.1.

3.9.3 *Financial instruments at fair value through profit or loss*

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

3.9.3.1 *Recognition and valuation of financial instruments*

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.9 Financial instruments (continued)

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

3.9.3.1 *Recognition and valuation of financial instruments (continued)*

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

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

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

- the likelihood and expected timing of future cash flows on the instrument; judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.9 Financial instruments (continued)

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

3.9.3.2 *Control framework*

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

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

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the reporting date; and,
- the manner in which the data was sourced.

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

3.9.3.3 *Determination of fair value*

Fair values are classified and determined according to the following hierarchy:

- Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.9 Financial instruments (continued)

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

3.9.3.3 *Determination of fair value (continued)*

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

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

3.9.3.4 *Valuation techniques*

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the derivation of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit ('day 1 gain or loss') or greater than 5% of the instrument's carrying value is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used). All fair value adjustments are included within the levelling determination.

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

3.9.3.5 *Basis of valuing assets and liabilities measured at fair value*

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.9 Financial instruments (continued)

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

3.9.3.5 *Basis of valuing assets and liabilities measured at fair value (continued)*

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

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

3.9.4 *Financial instruments measured at amortised cost*

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

3.9.5 *Derecognition of financial assets and liabilities*

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

- substantially all the risks and rewards of ownership have been transferred; or
- substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

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

3.9.6 *Offsetting of financial assets and liabilities*

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.10 Impairment

3.10.1 *Non-derivative financial assets*

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

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

The assessment of credit risk and the estimation of expected credit loss, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of expected credit loss takes into account the time value of money.

3.10.2 *Non-financial assets*

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

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

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

3.10.3 *Reinsurance assets*

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

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

3 Significant accounting policies (continued)

3.10 Impairment (continued)

3.10.3 Reinsurance assets (continued)

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

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

3.11 Provision for liabilities and charges

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

3.12 Share capital

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

3.13 Borrowings

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

3.14 Dividend distribution

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

4 Critical accounting estimates and judgements

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

4 Critical accounting estimates and judgements (continued)

4.1 Policyholder claims and benefits

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

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

Appropriate margins were taken for bond portfolio and equities/property portfolio. If the average future investment returns differ by +/-1% from management's estimates, the insurance liability would decrease by €697,000 (2021: €14,771,000) or increase by €4,070,000 (2021: €7,391,000). In this case there is no relief arising from reinsurance contracts held.

If the number of deaths in future years differ by +/-10% from management's estimate, the liability would increase by €847,000 (2021: €1,261,000) or decrease by €1,026,000 (2021: €1,454,000). If the expenses in future years differ by +/-10% from management's estimate, the liability would increase by €1,349,000 (2021: €1,735,000) or decrease by €1,274,000 (2021: €1,615,000). These impacts are calculated before considering changes to other assets and liabilities which may offset the gross impacts of these changes.

The Company holds two sets of Expense overrun provisions, one for an 'investment contract' portfolio that is in run-off related to a specific fixed expense (note 22), and another for the 'insurance contract' portfolio to allow for potential future shortfalls arising for the period that per-policy costs are forecasted to be higher than current assumptions (note 18).

In setting the first provision, judgements are taken in relation to the future management actions to reduce the fixed expenses in line with the run-off of the portfolio. Should these actions not be executed, this may lead to a negative Profit before tax impact of circa €9.5m (2021: €15m).

In setting the second provision, the potential future expense shortfalls are reliant on achieving the new business sales plan. A 25% reduction to the future volumes will lead to a negative Profit before tax impact of circa €8.6m (2021: €10m).

Further information is disclosed within notes 5.1 and 18.

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

4 Critical accounting estimates and judgements (continued)

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

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

The risk free rate of return used within the valuation is the EIOPA yield curve as at 31st December, allowing adjustments using the Smith Wilson method for (1) Credit Risk Adjustment of 10bps, and (2) the EIOPA yield curve is set to the Last Liquid Point (LLP) of 20 years, and then extrapolated to the Ultimate Forward Rate (UFR) of 3.45% (2021: 3.75%). The risk discount rate is set to the risk free curve with no margins.

The PVIF valuation assumes lapse rates varying by product and duration in-force that range from 0.2% to 18.3% p.a. (2021: from 0.2% to 18.3% p.a.). Expense inflation is calculated as a blend of wage inflation and price inflation, with the latter based on an adjusted French inflation curve. The assumed wage inflation, from the 4th projection year 2026 onwards, is fixed at 2% p.a. with higher p.a. rates taken in the intervening period. This assumption is informed by the Central Bank of Malta's inflation forecast published by the end of 2022 (2.1% as from 2024 onwards) and a commitment by the Company to control salary related cost. This results in a term dependent expense inflation assumption ranging from 2.5% p.a. to 5.4% p.a. (2021: 2.3% p.a. to 2.9% p.a.).

As the valuation models are based upon assumptions, changing the assumptions will change the resultant estimate of PVIF. The following table shows the increase/(decrease) on the PVIF of reasonably possible changes in the main assumptions across the insurance business:

		2022	2021
Assumptions	Movement	€000	€000
Risk free rate	+ 100 basis points	2,579	4,226
Risk free rate	- 100 basis points	(4,345)	(7,000)
Expenses	+ 10%	(1,619)	(1,305)
Expenses	- 10%	1,694	1,424
Lapse rate	+ 50%	1,298	5,207
Lapse rate	- 50%	(2,341)	(8,344)

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

5 Management of insurance, financial and conduct risk

5.1 Insurance risk

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

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

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

Frequency and severity of claims

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

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

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

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

5 Management of insurance, financial and conduct risk (continued)

5.1 Insurance risk (continued)

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

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

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

	2022	2021
	€'000	€'000
Life insurance (non-linked)		
Insurance contracts with discretionary participation feature	223,262	270,591
Term assurance and other long-term contracts	87,792	122,648
	-----	-----
Total non-linked	311,054	393,239
Life insurance (linked)	233,192	264,958
	-----	-----
Liabilities under insurance contracts	544,246	658,197
	=====	=====

5.2 Financial risk

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

5 Management of insurance, financial and conduct risk (continued)

5.2.1 General nature of participation feature

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

5.2.2 Market risk

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

Interest rate risk

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

Exchange risk

The Company is exposed to currency risk on the shareholder's investment portfolio, to 10% of the investments backing contracts with DPF and to the life insurance portfolio. The net exposure for the Company amounts to €5,862,528 (2021: €4,609,850) and a sensitivity analysis is not deemed necessary on the basis of significance.

Equity price risk

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

5 Management of insurance, financial and conduct risk (continued)

5.2 Financial risk (continued)

5.2.2 Market risk (continued)

Sensitivity analysis

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

	2022	2021
	Impact on profit and net assets for the year	Impact on profit and net assets for the year
	€'000	€'000
+100 basis points shift in yield curves	(197)	3,582
-100 basis points shift in yield curves	(2,893)	(6,032)
+10 per cent increase in equity prices	644	789
-10 per cent decrease in equity prices	(644)	(789)

5.2.3 Credit risk

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

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- investment portfolios of debt securities;
- insurance and other receivables; and
- call deposits.

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

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

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

5 Management of insurance, financial and conduct risk (continued)

5.2 Financial risk (continued)

5.2.3 Credit risk (continued)

Insurance and other receivables amount to €2,951,000 (2021: €3,110,000). This balance includes accrued interest amounting to €2,418,000 (2021: €2,456,000) which would follow a similar rating profile to debt securities below.

Cash and cash equivalents held with third party banks amount to €2,772,000 (2021: €2,079,000). Of this amount € 531,000 (2021: €287,000) are held with counterparties that are rated BBB and above. The other third party bank balance €2,241,000 (2021: €1,792,000) is held with an unrated local bank of good standing. The remaining cash at bank comprises amounts held with the immediate parent Company, HSBC Bank Malta p.l.c, and other related parties. In line with IFRS 9, the company measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 31 December 2022 and 2021 cash deposits were held with reputable counter parties and were due on demand. Management consider the probability of default to be close to zero as the counter parties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance was been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the company.

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

Financial Investments

	Debt Securities - Unit-Linked		Debt Securities - Others		Total	
	2022 €000	2021 €000	2022 €000	2021 €000	2022 €000	2021 €000
AAA	-	-	5,633	3,868	5,633	3,868
AA+ to AA-	-	-	30,791	23,803	30,791	23,803
A+ to A-	457	554	131,237	157,777	131,694	158,331
BBB+ to BBB-	734	1,554	44,433	61,629	45,167	63,183
BB+ to B-	240	1,353	-	-	240	1,353
Unrated	1,841	959	15,699	19,309	17,540	20,268
Total	3,272	4,420	227,793	266,386	231,065	270,806

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

5 Management of insurance, financial and conduct risk (continued)

5.2 Financial risk (continued)

5.2.4 Liquidity risk

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

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

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

	No fixed maturity	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
At 31 December 2022	€'000	€'000	€'000	€'000	€'000	€'000
Financial investments	429,353	2,002	16,602	103,133	109,356	660,446
Reinsurance asset	49,792	-	-	-	-	49,792
Cash	44,525	-	-	-	-	44,525
	-----	-----	-----	-----	-----	-----
	523,670	2,002	16,602	103,133	109,356	754,763
	=====	=====	=====	=====	=====	=====

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Gross nominal outflow
At 31 December 2022	€'000	€'000	€'000	€'000	€'000	€'000
Liabilities to customers:						
Insurance contracts	-	12,741	32,929	151,727	350,295	547,692
Investment contracts	104,755	379	1,121	12,750	43,671	162,676
	-----	-----	-----	-----	-----	-----
	104,755	13,120	34,050	164,477	393,966	710,368
	=====	=====	=====	=====	=====	=====

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

5 Management of insurance, financial and conduct risk (continued)

5.2 Financial risk (continued)

5.2.4 Liquidity risk (continued)

	No fixed maturity	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
At 31 December 2021	€'000	€'000	€'000	€'000	€'000	€'000
Financial investments	497,157	-	4,874	119,013	146,918	767,962
Reinsurance asset	77,972	-	-	-	-	77,972
Cash	40,345	-	-	-	-	40,345
	615,474	-	4,874	119,013	146,918	886,279
	=====	=====	=====	=====	=====	=====

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Gross Nominal Outflow
At 31 December 2021	€'000	€'000	€'000	€'000	€'000	€'000
Liabilities to customers:						
Insurance contracts	-	17,604	47,467	196,592	413,300	674,963
Investment contracts	121,858	587	1,162	13,442	43,329	180,378
	121,858	18,191	48,629	210,034	456,629	855,341
	=====	=====	=====	=====	=====	=====

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

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

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

5 Management of insurance, financial and conduct risk (continued)

5.2 Financial risk (continued)

5.2.5 Capital management and allocation

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

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

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

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

The Company opted for the standard formula under the Solvency II regime to calculate the SCR as the assumptions underlying the standard formula are considered to be a good fit for the Company's risk profile. At 31 December 2022, the Company's eligible own funds adequately covered the required SCR, and amounted to €61,873,000 (unaudited) (2021: €58,166,000). The Company has an unaudited Solvency Ratio of 195%, decreasing from 208% at 31 December 2021. This decrease was primarily driven by an increase in SCR as a result of a lower With-Profits fund surplus. Having considered market uncertainties, in light of the Company's level of solvency as well as plans to further improve the capital base, the directors consider the going concern assumption to remain appropriate on the basis of information known to date.

5.3 Conduct risk

Throughout the course of 2022, focus continued on the responsibility and accountability that each employee has to perform their duties in line with the HSBC Conduct framework, which is aimed at the delivery of fair outcomes for customers and the support of the orderly and transparent operation of

financial markets. Conduct-related matters have an increasingly pivotal position on the agenda with relevant discussions and oversight being exercised in the appropriate risk governance fora. Due to the long term nature of insurance business, the Company has a duty to manage forward looking conduct risks. The business will continue to engage with customers and the regulator on these matters.

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

6 Premiums

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

	2022	2021
	€'000	€'000
<i>Gross premiums written in Malta</i>		
Individual business	55,902	55,831
Group/block business	545	773
	-----	-----
	56,447	56,604
	=====	=====
<i>Premium:</i>		
Periodic	56,447	56,604
	=====	=====
<i>Insurance contracts:</i>		
Non-participating	14,470	14,856
Insurance contracts with DPF	11,800	13,462
Premiums for which investment risk is borne by policyholders	30,177	28,286
	-----	-----
	56,447	56,604
	=====	=====

Outward reinsurance premiums relate to non-participating insurance contracts.

7 Investment contracts fee income

	2022	2021
	€'000	€'000
Fixed fees	250	249
Change in deferred income	43	35
Annual management charges on transferred portfolio	1,032	1,105
	-----	-----
	1,325	1,389
	=====	=====

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

8 Investment (loss)/income - net	2022	2021
	€'000	€'000
Technical Statement		
Net (losses)/gains from policyholders' unit linked investment held at fair value through profit or loss	(55,696)	43,077
Net (losses)/gains from financial other assets	(23,960)	5,465
Rental income from investment property	-	1
	-----	-----
	(79,656)	48,543
	=====	=====
Non-Technical Statement		
Net losses from financial assets	(12,882)	(1,825)
	-----	-----
	(12,882)	(1,825)
	=====	=====

9 Investment contract benefits

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

10 Acquisition costs

Acquisition costs include commissions and deferred acquisition costs as follows:

	2022	2021
	€'000	€'000
Commissions payable	488	538
Change in deferred acquisition costs - Investment contracts	145	110
Allocated administrative expenses	691	754
	-----	-----
	1,324	1,402
	=====	=====

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

11 Administrative expenses

11.1 Administrative expenses include auditors' remuneration pertaining to the annual statutory audit amounting to €150,400 (2021: €131,600) exclusive of VAT.

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

	2022	2021
	€'000	€'000
Other assurance services	66	60
	-----	-----
	66	60
	====	====

11.2 Profit before tax is stated after charging:

	2022	2021
	€'000	€'000
Depreciation and amortisation of software	97	75
Investment management and administrator fees	1,691	1,980
Actuarial services	998	658
Computer software licence fees	403	297

11.3 Administrative expenses included in the Technical Statement of Profit or Loss and Other Comprehensive Income include commission expenses amounting to €459,000 (2021: €474,000).

12 Personnel expenses

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

	2022	2021
	€'000	€'000
Wages, salaries and allowances	1,742	1,901
Compulsory social security costs	105	105
	-----	-----
	1,847	2,006
	=====	=====

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

Included in salaries is an amount of €180,232 (2021: €185,018) payable to the directors.

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

12 Personnel expenses (continued)

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

	2022	2021
	No.	No.
Operating	23	25
Management and administration	19	20
	----	----
	42	45
	==	==

12.3 Share-based payments

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

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

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

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

13 Tax (expense)/credit

13.1 Recognised in profit or loss

	2022	2021
	€'000	€'000
Current tax expense		
Current year	(718)	(1,225)
Deferred tax (expense)/credit		
Origination and reversal of temporary differences	(935)	2,260
	-----	-----
	(1,653)	1,035
	=====	=====

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

13 Tax (expense)/credit (continued)

13.2 Reconciliation of tax (expense)/credit

	2022	2021
	€'000	€'000
Profit/(loss) before tax	4,763	(2,955)
Income tax (expense)/credit using the Company's domestic tax rate of 35%	(1,667)	1,034
Tax effect of:		
- tax exempt dividends	7	8
- other	7	(7)
Total income tax (expense)/credit in profit or loss	(1,653)	1,035

14 Property and equipment

	Office furniture and equipment	Computer equipment	Total
	€'000	€'000	€'000
<i>Cost</i>			
Balance at 1 January 2021	119	146	265
Addition	2	-	2
Balance at 31 December 2021	121	146	267
Balance at 1 January 2022	121	146	267
Addition	3	-	3
Balance at 31 December 2022	124	146	270
<i>Depreciation</i>			
Balance at 1 January 2021	119	146	265
Depreciation of the year	-	-	-
Balance at 31 December 2021	119	146	265
Balance at 1 January 2022	119	146	265
Depreciation of the year	1	-	1
Balance at 31 December 2022	120	146	266

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

14 Property and equipment (continued)

	Office furniture and equipment	Computer equipment	Total
	€'000	€'000	€'000
Carrying amounts			
At 1 January 2021	-	-	-
	=====	=====	=====
At 31 December 2021	2	-	2
	=====	=====	=====
At 1 January 2022	2	-	2
	=====	=====	=====
At 31 December 2022	4	-	4
	=====	=====	=====

15 Investment property

15.1	2022	2021
	€'000	€'000
Balance at 1 January	1,600	1,600
Disposals	(1,600)	-
	-----	-----
Balance at 31 December	-	1,600
	=====	=====

15.2 At 31 December 2021, investment property comprised one commercial property, which its use equated to the highest and best use and was carried at fair value. The original cost of acquisition of this property was €1,720,000. During the financial year 2022, the commercial investment property was sold at its carrying amount which was based on the respective promise of sale agreement (considered level 3 in the fair value measurement hierarchy). The Directors gave their approval for the sale of the property in 2021. The capital gains tax relating to this sale, amounting to €128,000, was classified within 'Investment (loss)/income' in the Technical statement of the Statement of profit or loss and other comprehensive income.

No rental income was generated from investment property during the current and the preceding year.

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

16 Intangible assets

	PVIF	Deferred acquisition costs	Computer software	Total
	€'000	€'000	€'000	€'000
Carrying amount				
Balance at 1 January 2021	40,538	306	607	41,451
Additions	-	-	-	-
Movements / amortisation through profit or loss:				
- Addition from new business	4,925	161	-	5,086
- Movement in in-force business	(11,898)	-	-	(11,898)
- Amortisation	-	(205)	(75)	(280)
	-----	-----	-----	-----
Balance at 31 December 2021	33,565	262	532	34,359
	=====	=====	=====	=====
Balance at 1 January 2022	33,565	262	532	34,359
Additions	-	-	80	80
Movements / amortisation through profit or loss:				
- Addition from new business	4,036	512	-	4,548
- Movement in in-force business	(1,261)	-	-	(1,261)
- Amortisation	-	(604)	(96)	(700)
	-----	-----	-----	-----
Balance at 31 December 2022	36,340	170	516	37,026
	=====	=====	=====	=====
Accumulated amortisation				
Balance at 1 January 2021	-	-	1,533	1,533
	=====	=====	=====	=====
Balance at 31 December 2021	-	-	1,608	1,608
	=====	=====	=====	=====
Balance at 1 January 2022	-	-	1,608	1,608
	=====	=====	=====	=====
Balance at 31 December 2022	-	-	1,704	1,704
	=====	=====	=====	=====

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

17 Financial investments

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

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

Financial investments include:

	2022	2021
	€'000	€'000
Equity securities – listed	14,306	15,240
Debt securities - fixed interest:		
- Government bonds - listed	120,731	145,559
- other listed	107,062	120,827
	227,793	266,386
Collective investment schemes:		
- listed	17,916	23,820
- unlisted	12,646	19,674
	30,562	43,494
Unit-linked net financial investments:		
Equities - listed	23,510	24,269
Debt securities – Government Bonds	325	350
Debt securities - Others:		
- listed	2,807	4,070
- unlisted	140	-
Collective investment schemes:		
- listed	12,805	5,260
- unlisted	348,035	408,740
Accrued interest	163	153
	387,785	442,842
Total	660,446	767,962

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

17 Financial investments (continued)

	2022	2021
	€'000	€'000
Current	18,604	4,874
Non-current	641,842	763,088
	-----	-----
	660,446	767,962
	=====	=====

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

17.2 Fair values

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

18 Insurance liabilities and reinsurance assets

18.1 Analysis of insurance liabilities and reinsurance assets

	2022 €'000	2021 €'000
Gross		
Claims outstanding:		
- Non-linked	2,561	1,612
- Linked	1,786	772
	-----	-----
Total claims outstanding - gross	4,347	2,384
	-----	-----
Long term insurance contracts:		
- Non-linked	308,493	391,627
- Linked	231,406	264,186
	-----	-----
Total long term insurance contracts - gross	539,899	655,813
	-----	-----
Total insurance liabilities - gross	544,246	658,197
	=====	=====
Reinsurance assets		
Claims outstanding:		
- Non-linked	1,777	2,090
Long term insurance contracts:		
- Non-linked	50,838	77,175
Other reinsurance payables	(2,823)	(1,293)
	-----	-----
Total reinsurance assets	49,792	77,972
	=====	=====
Net		
Claims outstanding:		
- Non-linked	784	(478)
- Linked	1,786	772
	-----	-----
Total claims outstanding - net	2,570	294
	=====	=====
Long term insurance contracts:		
- Non-linked	257,655	314,452
- Linked	231,406	264,186
	-----	-----
Total insurance liabilities - net	489,061	578,638
	=====	=====
Other reinsurance payables	2,823	1,293
	=====	=====
Total insurance contract provisions - net	494,454	580,225
	=====	=====

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

18 Insurance liabilities and reinsurance assets (continued)

18.1 Analysis of insurance liabilities and reinsurance assets (continued)

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

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

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

18.2.1 Process used for assumptions

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

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

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

Mortality

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

Reserving interest rates

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

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

18 Insurance liabilities and reinsurance assets (continued)

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

18.2.1 Process used for assumptions (continued)

Renewal expenses and inflation

The company estimates expected renewal expenses by considering the current level of expenses, expected reductions in certain expense categories, expected inflation and policy values. The current level of expected renewal expenses is considered to be an appropriate expense base by the directors. The Company assesses and holds an Expense overrun provision for potential future shortfalls for the period that per-policy costs are forecast to be higher than current assumed income. Expense inflation is based on the French inflation swap curve modified to estimate future inflation for Malta. The Company's selected inflation assumptions consider the current macroeconomic environment and reflect expectations of 'excess inflation' over the coming three calendar years.

The Company carries out an annual expense analysis inter alia comparing actual expenses and expected renewal expenses. This analysis, including the expected number of policies in-force, is presented to various governance fora and forms the basis for the Board's selection of the per-policy annual expense assumptions.

Taxation

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

Key assumptions

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

At 31 December 2022

Class of business	Renewal expense (p.a.)	Mortality
Term assurances	€53.40	97.75% TM08 / 97.75% TF08
Savings Plans	€53.40	97.75% TM08 / 97.75% TF08
Unit-Linked – Malta portfolio	€53.40	97.75% TM08 / 97.75% TF08

At 31 December 2021

Class of business	Renewal expense (p.a.)	Mortality
Term assurances	€45.80	97.75% TM08 / 97.75%TF08
Savings Plans	€45.80	97.75% TM08 / 97.75%TF08
Unit-Linked – Malta portfolio	€45.80	97.75% TM08 / 97.75%TF08

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

18 Insurance liabilities and reinsurance assets (continued)

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

18.2.1 Process used for assumptions (continued)

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

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

18.2.2 Change in assumptions

Assumptions are adjusted for changes in investment return and policy maintenance expenses to reflect changes in market conditions and experience. The expenses line includes the impact of an expense overrun provision. This prospective provision estimates the additional reserves required to make up the shortfall between modelled expense reserves and expected expense outgo. The effect of changes in current year's assumptions used to measure insurance liabilities and PVIF on current year's profit before tax and balance of insurance liabilities, net of the impact on PVIF, at the reporting date was as follows:

31 December 2022	Gross PVIF increase/ (decrease)	Liabilities increase/ (decrease)	Profit/ (loss)
	€'000	€'000	€'000
Economic assumption	8,110	(10,216)	18,327
Lapse	2,350	-	2,350
Expenses including inflation	(704)	4,139	(4,843)
Margin updates	172	-	172
Morbidity	52	(798)	850

The Company has experienced a positive impact from the higher yields over the year. At the same time, there was a negative impact from an increase in expense assumptions. However, the increase in expense assumptions was largely offset by the implementation of management actions in relation to cost savings.

31 December 2021	Gross PVIF increase/ (decrease)	Liabilities increase/ (decrease)	Profit/ (loss)
	€'000	€'000	€'000
Economic assumption	1,886	(2,049)	3,935
Lapse	(6,613)	991	(7,604)
Expenses including inflation	(336)	1,083	(1,419)
Margin updates	(40)	-	(40)

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

18 Insurance liabilities and reinsurance assets (continued)

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

18.2.2 Change in assumptions (continued)

During 2021, there were adverse changes from a revision to lapse assumptions and provisions made for a small cohort of policies that were sensitive to lapses, which were the main drivers of the negative lapse impact in the table above.

18.2.3 Sensitivity analysis

As explained in note 4, the Company is exposed to uncertainty including as the result of the current macroeconomic environment and volatility in the financial markets that has intensified since the commencement of the Russia Ukraine war. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its life assurance contracts. The table presented below demonstrates the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. Certain variables can be expected to impact life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

At 31 December 2022	Movement	Reported value of net non- linked insurance liabilities
	€'000	€'000
Base stress		
Interest rates increasing 100 basis points	(697)	256,958
Interest rates reducing 100 basis points	4,070	261,725
All mortality and morbidity rates increasing by 10%	847	258,502
All mortality and morbidity rates reducing by 10%	(1,026)	256,629
All expenses increase by 10%	1,349	259,004
All expenses reduce by 10%	(1,274)	256,381
At 31 December 2021	Movement	Reported value of net non- linked insurance liabilities
	€'000	€'000
Base stress		
Interest rates increasing 100 basis points	(14,771)	299,681
Interest rates reducing 100 basis points	7,391	321,843
All mortality and morbidity rates increasing by 10%	1,261	315,713
All mortality and morbidity rates reducing by 10%	(1,454)	312,998
All expenses increase by 10%	1,735	316,187
All expenses reduce by 10%	(1,615)	312,837

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

18 Insurance liabilities and reinsurance assets (continued)

18.2.3 Sensitivity analysis (continued)

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

18.3 Movements in technical provisions

	2022	2021
	€'000	€'000
Claims outstanding		
At 1 January	2,384	4,767
Movement for the year taken to profit or loss	1,963	(2,383)
	-----	-----
At 31 December	4,347	2,384
	=====	=====
	2022	2021
	€'000	€'000
Non-linked long-term business		
At 1 January	391,627	403,097
Movement for the year taken to profit or loss	(83,134)	(11,470)
	-----	-----
At 31 December	308,493	391,627
	=====	=====
	2022	2021
	€'000	€'000
Linked long-term business		
At 1 January	264,186	240,166
Premiums received	29,999	27,723
Account balances paid on surrender and other terminations during the year taken to profit or loss	(22,213)	(25,968)
Changes in unit prices and other movements	(40,566)	22,265
	-----	-----
At 31 December	231,406	264,186
	=====	=====

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

18 Insurance liabilities and reinsurance assets (continued)

18.4 Movements in reinsurance assets

	2022	2021
	€'000	€'000
Claims outstanding		
At 1 January	2,090	2,553
Movement for the year taken to profit or loss	(313)	(463)
	-----	-----
At 31 December	1,777	2,090
	=====	=====
Non-linked long-term business		
At 1 January	77,175	78,840
Movement for the year taken to profit or loss	(26,337)	(1,665)
	-----	-----
At 31 December	50,838	77,175
	=====	=====

Linked long-term business

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

19 Insurance and other receivables

	2022	2021
	€'000	€'000
Current portion		
Receivables arising from insurance	531	645
Accrued income and prepayments	2,420	2,465
	-----	-----
	2,951	3,110
	=====	=====

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

20 Cash and cash equivalents

Balances of cash and cash equivalents are analysed below:

	2022	2021
	€'000	€'000
Cash at bank		
- Linked business	6,209	6,496
- Non-linked business	38,316	33,849
	-----	-----
As per statement of financial position	44,525	40,345
	-----	-----
As per statement of cash flows	44,525	40,345
	=====	=====

21 Investment contract liabilities

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

	2022	2021
	€'000	€'000
At 1 January	185,137	170,865
Premiums received	6,144	7,489
Account balances paid on surrender and other termination during the year	(12,064)	(12,706)
Changes in unit prices and other movements	(16,541)	19,489
	-----	-----
At 31 December	162,676	185,137
	=====	=====

In 2022, there were no surrenders where the company transferred assets to the policy holder instead of cash (2021:€10,691).

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

22 Provision for liabilities and charges

At 31 December 2022 and 2021, the onerous contract provision results from a closed investment product where related income is based on balances under management, whilst related costs are fixed. The onerous contract provision represents an estimate of future losses and is substantially non-current in nature.

	2022	2021
	€'000	€'000
Contingent liability		
At 1 January	1,129	1,689
Increase/(reversal) taken to profit or loss	120	(560)
	-----	-----
At 31 December	1,249	1,129
	=====	=====

23 Insurance payables, other payables and deferred income

	2022	2021
	€'000	€'000
Current portion		
Direct insurance contract payables	4,876	3,260
Amounts due to related parties	427	861
Other payables and accrued expenses	4,075	3,196
Deferred income	301	371
Deferred commission on reinsurance	41	41
	-----	-----
	9,720	7,729
	=====	=====

23.1 Deferred income includes €115,000 (2021: €155,000) deferred under investment management services contracts that are recognised as revenue over the lifetime of the product.

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

24 Deferred tax assets and liabilities

24.1 Recognised deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2022	2021	2022	2021	2022	2021
	€'000	€'000	€'000	€'000	€'000	€'000
Property and equipment	-	(5)	24	-	24	(5)
Investment property	-	-	-	128	-	128
Intangible assets	-	-	12,719	11,748	12,719	11,748
Insurance payables and deferred income	-	-	5	23	5	23
Share-based payments	(51)	(51)	51	51	-	-
Other provisions	(457)	(538)	-	-	(457)	(538)
	-----	-----	-----	-----	-----	-----
	(508)	(594)	12,799	11,950	12,291	11,356
	=====	=====	=====	=====	=====	=====

24.2 Movement in temporary differences during the year

	2022	2021
	€'000	€'000
At 1 January	11,356	13,616
Recognised in profit or loss	935	(2,260)
	-----	-----
At 31 December	12,291	11,356
	=====	=====

25 Financial assets and liabilities - basis of valuation

25.1 Fair value valuation

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

25 Financial assets and liabilities - basis of valuation (continued)

25.1 Fair value valuation (continued)

The table below analyses financial instruments carried at fair value, by the respective fair valuation measurement hierarchy level.

	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
At 31 December 2022				
Assets				
Equity securities	37,816	-	-	37,816
Debt securities	231,065	-	-	231,065
Collective investment schemes	383,585	-	7,980	391,565
Liabilities				
Investment contracts at fair value through profit or loss	162,676	-	-	162,676
At 31 December 2021				
Assets				
Equity securities	39,509	-	-	39,509
Debt securities	270,806	-	-	270,806
Collective investment schemes	449,164	3,873	4,610	457,647
Liabilities				
Investment contracts at fair value through profit or loss	185,137	-	-	185,137

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

25 Financial assets and liabilities - basis of valuation (continued)

25.1 Fair value valuation (continued)

The analysis of investment property is included in note 15.

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

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

Level 3	2022	2021
Collective Investment Schemes	€'000	€'000
At 1 January	4,610	5,374
Purchases	-	96
Disposals	(738)	(529)
Reclassification from Level 2 to Level 3	4,077	-
Profit/(loss) recognised in profit or loss	31	(331)
At 31 December	7,980	4,610
	=====	=====

The Collective Investment Schemes categorised in Level 3 are comprised of two investments, a European Property Fund and a Mid-Market Debt Fund valued in aggregate at €7,980,000 (2021: €4,610,000) .

The European Property Fund invests in a diversified portfolio of European commercial and residential property and seeks opportunities to add value to the fund. This fund was reclassified to Level 3 in 2022.

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

25 Financial assets and liabilities - basis of valuation (continued)

25.1 Fair value valuation (continued)

In view of no quoted market prices or observable inputs for modelling the value of the collective investment schemes categorised in Level 3, the fair value of the shares held is derived using the net asset value as sourced from the respective custodian. The uncertainty in utilising the net asset value lies in the availability of the financial statements of the alternative funds at 31 December 2022 and their respective audit opinion.

26 Capital and reserves

26.1 Share capital

	Ordinary shares	
	2022	2021
	No.	No.
On issue at 1 January – fully paid	24,007,288	24,007,288
On issue at 31 December – fully paid	24,007,288	24,007,288

At 31 December 2022, the authorised share capital comprised 30,000,000 (2021: 30,000,000) ordinary shares at a par value of €1.164686 each. All issued shares are fully paid up.

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

27 Related party transactions

27.1 Parent and ultimate controlling party

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

The Company's ultimate parent company is HSBC Holdings plc, which is incorporated and registered in the United Kingdom and the Company's immediate parent company is HSBC Bank Malta p.l.c. As per announcement dated 30 November 2022 the immediate parent company of HSBC Bank Malta p.l.c. is HSBC Continental Europe, which is incorporated and registered in France. The registered address of HSBC Holdings plc is 8, Canada Square, London E14 5HQ, United Kingdom and the registered address of HSBC Continental Europe is 38, avenue Kléber – 75116 Paris, France. Copies of the HSBC Holdings plc Annual Report and Accounts may be obtained from its registered office or viewed on www.hsbc.com.

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

27 Related party transactions (continued)

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

27.2 Transactions with key management personnel

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

27.3 Other related party transactions

	2022	2021
	€'000	€'000
Net income		
Fees and commissions income – other related parties	674	721
Debt security interests income – other related parties	67	2
Dividend income – other group	142	102

Net income from related party transactions arises from:

- rebates of annual management charges;
- interest receivable on cash balances deposited;
- dividend receivable on equities; and
- interest receivable on bonds.

	2022	2021
	€'000	€'000
Expenses		
Fees and commissions expense – parent	1,042	1,231
Fees and commission expense – other related parties	1	1
Other administrative expense – other related parties	3,101	2,717

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

Investment in Group Companies

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

HSBC Life Assurance (Malta) Ltd

Notes to the Financial Statements

For the Year Ended 31 December 2022

27 Related party transactions (continued)

27.4 Related party balances

	2022	2021
	€'000	€'000
Year-end balances with related parties		
Assets		
Insurance and other receivables – other related parties	121	120
Cash and cash equivalents – parent	38,235	34,145
Cash and cash equivalents – other related parties	3,518	4,120
Collective investment schemes	227,756	253,843
Liabilities		
Insurance and other payables:		
- Parent	49	72
- Other related parties	918	1,460