



# FTLife Insurance Company Limited Financial Condition Report

For the year ended 30th June 2021

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## 1 Business and Performance

### 1.1 Name of Insurer

**FTLife Insurance Company Limited** (“FTLife” or the “Company”) was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act 1981 (as amended) since 27 June 1985. The Company is licensed by the Bermuda Monetary Authority (“Authority”) as a Class E insurer and its principal place of business is in Hong Kong.

The Company offers a range of products and services including life insurance, accident, medical and disability insurance and savings plans to meet the long-term savings and protection needs of individuals.

FTLife maintained a strong capital position and the table below shows the current ratings of the Company by leading credit rating agencies as at end of June 2021:

Rating agency	Financial strength rating	Issuer credit rating	Rating current as at
Moody's	A3/Stable	NA	30 June 2021
FitchRating	A- /Stable	BBB+	30 June 2021

### 1.2 Supervisors

Insurance Supervisor

Bermuda Monetary Authority  
BMA House  
43 Victoria Street  
Hamilton, HM12

Insurance Supervisor

Insurance Authority  
19/F, 41 Heung Yip Road  
Wong Chuk Hang  
Hong Kong

### 1.3 Approved Auditor

Auditor

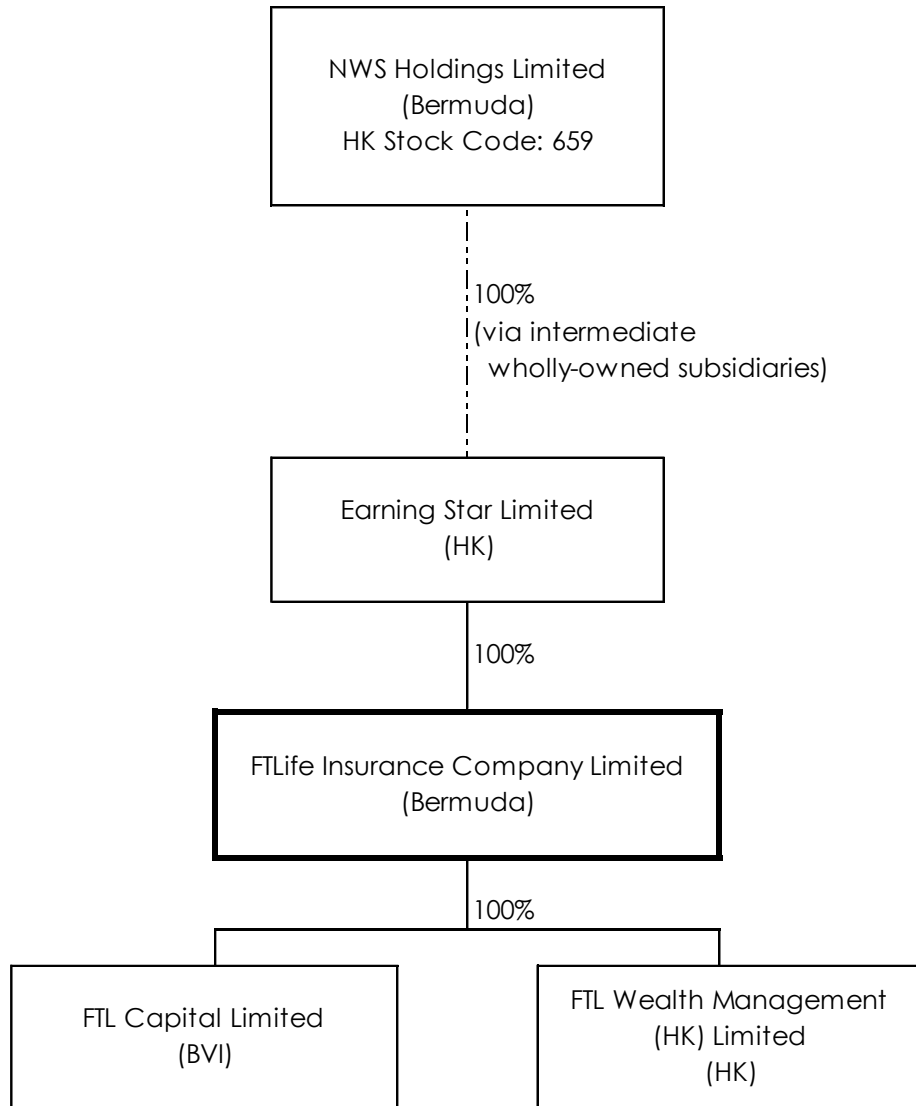
PricewaterhouseCoopers  
22/F, Prince's Building  
10 Chater Road, Central  
Hong Kong

### 1.4 Ownership Details

The immediate holding company of the Company is Earning Star Limited which is incorporated in Hong Kong, and the Company's intermediate holding company is NWS Holdings Limited (“NWS”, a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”). The ultimate holding company of the Company is New World Development Company Limited (“NWD”, a company incorporated in Hong Kong and listed on Hong Kong Stock Exchange.)

**1.4.1.1 Group Structure**

FTLife  
Ownership structure (as at 30 June 2021)



## 1.5 Insurance Business Written by Business Segment and by Geographical Region

The Company's principal place of business in Hong Kong and below is the information on the insurance business written:

HKD million	Jan 2020 to Jun 2021 HKFRS Gross premium Written	2019 HKFRS Gross Premium Written
Long-term business	13,353	7,736

## 1.6 Performance of Investments & Material Income & Expenses for the Reporting Period

### 1.6.1 Performance of Investments for the reporting period:

- As of 30 June 2021, the Company has policyholder and shareholder investment assets (excluding unit-linked assets) of HKD 58,713 million which is mainly composed of 73% fixed-income investments.
- The fixed income portfolio is of good quality bonds with 97% rated as investment grade at 30 June 2021. While investment in fixed income is generally under the consideration of asset and liability matching, it is also constrained by factors such as availability, concentration risks, their respective sovereign rating and market demand.
- The equity portfolio is mostly held in participating funds to provide for discretionary bonus and dividend payments to participating policyholders.
- The return on investments for the reporting period was as follows:

HKD 'million	Jan 2020 to Jun 2021	2019
Interest income	2,361	1,646
Dividend and other investment income	269	63
Realised and unrealised capital gains on investments	2,889	294
<b>Overlay approach adjustments*</b>	-934	-253

**Remarks:** The Company has adopted the HKFRS 9 in 2019. Upon adoption of HKFRS 9, the Company also adopted overlay approach and thus part of the investment return for financial assets at fair value through profit or loss ("FVPL), which are supporting policyholders' liabilities have been reclassified to Other Comprehensive Income through overlay adjustments.

### 1.6.2 Material Income & Expenses for the Reporting Period

- The Company's main revenue source is premiums and fee income. Net premium written for the 18 months ended 30 June 2021 is HKD12,787 million.
- The Company's expenses:

HKD million	Jan 2020 to Jun 2021	2019
Contract benefits	12,455	6,203
Others	3,886	2,463
Total portfolio	16,341	8,666

**Remarks:** Others include sales related cost, operating and administrative expenses and finance costs.

## 2 Governance Structure

The Company is committed to maintain a sound risk management in every aspect of its business and for all its stakeholders, as well as have good corporate governance practices as essential to its sustainable growth.

### 2.1 Board and Senior Executive

#### 2.1.1 Board and Senior Executive Structure, role, responsibilities and segregation of responsibilities

- The Board of Director's (the "Board") role is to exercise oversight in relation to the Company. The Board provides leadership to the Company in respect of operational issues through the Chief Executive Officer ("CEO") and other executive directors who are authorized to act on behalf of the Board in the operational management of the Company at the Executive Committee. Any responsibilities not so delegated by the Board to the CEO and other executives remain the responsibility of the Board.
- The Company's corporate governance is implemented through a structure hierarchy, which includes the Board, the Audit Committee, the Risk Committee, the Investment Committee, the Remuneration & Nomination Committee, the Executive Committee and any other committees of the Board established by resolutions of the Board. The Board meets on a quarterly basis, or ad hoc if required. Committee reports are presented to the Board.
- The Board consists of seven directors which are one executive director, three non-executive directors and three independent non-executive directors, and their roles and responsibilities are outlined in the Company's Bye-Laws and comply with the regulatory requirements of Bermuda.

#### 2.1.2 Remuneration Policy

- The Company's Remuneration Policy is designed to attract, retain and motivate talent, reward performance, and ensure compliance with relevant regulations. Remuneration arrangements take into account the Company's business priorities and performance, market practices, the regulatory environment as well as risk management considerations.
- The Company's remuneration policy provides a fixed base salary along with performance-based bonus or incentive which varies in accordance with both the Company's and individual's performance. The Company's performance is approved by the Board's Remuneration & Nomination Committee. The Human Resource department conducts periodic industry reviews to ensure compensation is appropriate

#### 2.1.3 Pension or Early Retirement Schemes for Members, Board and Senior Employees

The Company provides all employees with pension benefits through defined contribution pension plans according to Mandatory Provident Fund Schemes Ordinance in Hong Kong SAR, whereby employees and employer make monthly contributions as a percentage of the employees' monthly basic salaries. The Company does not have any early retirement schemes.

#### 2.1.4 Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions

- On 1 November 2019, Bright Victory International Limited ("Bright Victory") completed the sale of the Company and its subsidiaries to NWS. Hence, the immediate holding company



of the Company is Earning Star Limited, and the Company's intermediate holding company is NWS.

- Material related party transactions are disclosed in "Note to the financial information" no. 46 in the Company's "Annual Return under the Hong Kong Insurance Ordinance" for the year ended 30 June 2021 as duly audited by PricewaterhouseCoopers ("PwC").

## 2.2 Fitness and Proprietary Requirements

### 2.2.1 Fit and proper process in assessing the board and senior executive

- The Company appoints members of the Board based on the individual's expertise and work experience as well as professional judgment. Before being appointed to the Board, all candidates must undergo a rigorous recruitment and background screening. The Company has Fit & Proper Policy in place.
- Certain regulated positions e.g. a key person in a control function, must also be approved by the Hong Kong Insurance Authority.

### 2.2.2 Board and Senior Executives Professional Qualifications, Skills and Expertise

Below are details of the Board and Senior Executives qualifications, skills and expertise:

#### **Dr. Cheng Chi Kong Adrian**, Chairman and Non-executive Director

- Dr. Cheng is the Chairman of FTLife. He is an Executive Director and a member of the Executive Committee of NWS, the holding company of FTLife. He is responsible for overseeing the strategic direction of the Group's businesses. He is the Executive Vice-Chairman and Chief Executive Officer of New World Development Company Limited ("NWD", a substantial shareholder and the holding company of NWS), an executive director of New World Department Store China Limited and Chow Tai Fook Jewellery Group Limited, and a non-executive director of Giordano International Limited and New Century Healthcare Holding Co. Limited, all being listed public companies in Hong Kong. Dr. Cheng is a director and the Executive Chairman of New World China Land Limited. He is also a director of Chow Tai Fook (Holding) Limited and Chow Tai Fook Enterprises Limited, both are substantial shareholders of NWS.
- Dr. Cheng is a member of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference of the People's Republic of China, the Chairman of China Young Leaders Foundation and the Honorary Chairman of K11 Art Foundation. He was the Vice-Chairman of the 11th and 12th committee of the All-China Youth Federation. He was acknowledged by Fortune as one of "40 Under 40" global business stars and a "Young Global Leader" by the World Economic Forum in 2012. Dr Cheng is a Justice of Peace appointed by the Government of the HKSAR since 2016 and was made an Officer in the Ordre des Arts et des Lettres by the French Government in 2017. Dr. Cheng holds a Bachelor of Arts Degree (*cum laude*) from Harvard University, and was conferred the Honorary Doctorate of Humanities by the Savannah College of Art and Design in 2014. Prior to joining NWD in 2006, Dr. Cheng worked in a major international bank and has substantial experience in corporate finance.

#### **Mr. Fang Lin**, Vice Chairman, Chief Executive Officer and Executive Director

- Mr. Fang joined FTLife in 2015 and is the Vice-Chairman of the Board, Chief Executive Officer and Executive Director of the Company. He has over 27 years of experience in Insurance industry, and prior to joining FTLife, he had worked in China Pacific Insurance (Group) Co., Ltd. He was a director and deputy general manager in JD Group from September 2015 to December 2019.



- Mr. Fang holds a master degree of Executive Master of Business Administration from Cheung Kong Graduate School of Business, a Master degree of Business Administration from Antai College of Economics & Management, Shanghai Jiao Tong University and a Bachelor degree in Mechanical Engineering from South China University of Technology.

**Mr. Ma Siu Cheung**, Non-executive Director

- Mr. Ma is a Director of the Company who joined FTLife in September 2020. Mr. Ma is Chairman of the Investment Committee and a member of the Risk Committee of the board of directors of the Company. Since July 2018, he has been an Executive Director of NWS, the intermediate holding company of the Company which is listed on the Hong Kong Stock Exchange (Stock Code: 0659). Mr. Ma was Chief Operating Officer of NWS during the period from July to December 2018 and appointed Chief Executive Officer in January 2019.
- Mr. Ma was the Acting Chief Executive Officer of Hong Kong-Shenzhen Innovation and Technology Park Limited from February to June 2018. He joined the Government of the HKSAR in January 2014 as the Under Secretary for Development and was subsequently appointed as the Secretary for Development in February 2017 and remained in the post until June 2017. Prior to working with the Government of the HKSAR, Mr. Ma was the Executive Vice-President for Civil and Infrastructure Business (Asia Pacific) of AECOM Asia Company Limited.
- Mr. Ma is a Fellow of the Hong Kong Institution of Engineers, the Institution of Civil Engineers, United Kingdom, the Institution of Structural Engineers, United Kingdom, the Chartered Institution of Highways and Transportation, United Kingdom and Royal Institution of Chartered Surveyors, United Kingdom. He is also a Registered Professional Engineer in Hong Kong and a Chartered Engineer in the United Kingdom. Mr. Ma was appointed as a Justice of the Peace in 2014 and was awarded the Gold Bauhinia Star by the Government of the HKSAR in 2017.

**Mr. Cyril Hamilton Whitter**, Non-Executive Director

- Mr. Whitter received his formal training at The Bermuda College where he received a Diploma in Accountancy in 1978. He then joined Jardine Pinehurst Management Company Limited as an accountant specializing in the management of captive insurance companies and was appointed Senior Vice President in 1991. He remained at Jardine Pinehurst until 1993 when he joined Independent Management Ltd. He was appointed Executive Vice President of Independent Management Limited in 2007 and President and Chief Executive Officer of Independent Management Limited in 2009.

**Mr. Stuart Hamilton Leckie**, Independent Non-Executive Director

- Mr. Leckie is Chairman of both the Audit Committee and the Risk Committee of the board of directors of the Company. Mr. Leckie advises on investments and pensions in Asia. He is the author of books titled "Pension Funds in China" and "Investment Funds in China". He is the Founding Chairman of the Hong Kong Retirement Schemes Association, acts as a trustee of some retirement schemes and has been Chairman of the CFA Institute Advisory Council for Standards and Financial Markets Integrity. Mr. Leckie worked in life insurance in the UK before moving to Hong Kong. He served as the Chairman of Watson Wyatt (now Towers Watson) in Asia-Pacific and as Chairman of Fidelity Investments, Asia-Pacific. He has advised the Chinese Government on pensions reform and advised the Hong Kong Government on the establishment of the Mandatory Provident Fund.

**Mr. Chan Ka Lok**, Independent Non-executive Director

- Professor Ka Lok Chan is Chairman of the Remuneration and Nomination Committee and is a member of the Audit Committee and the Investment Committee of the board of directors of the Company.
- Prof. Chan is Wei Lun Professor of Finance and Chair of the Department of Finance of The Chinese University of Hong Kong (CUHK) Business School. He was the Dean of CUHK Business School from 2014 to 2019.
- Before he joined CUHK Business School in 2014, Prof. Chan was the Synergis-Geoffrey Yeh Professor of Finance at the Hong Kong University of Science and Technology (HKUST), where he has served as the Head of Finance Department (2003-13) and Acting Dean of HKUST Business School (2013-14). Prior to joining HKUST, he was an Associate Professor of Finance at Arizona State University.
- Prof. Chan is active in contributing to the profession. He currently serves in a number of committees, including Human Capital Committee of HK Financial Services and Development Council, Hong Kong Housing Authority, TraHK Supervisory Committee, Hong Kong Academy of Finance, HKIMR Council of Advisers for Applied Research, and Advisory Committee of the Securities and Futures Commission. He is an INED in several listed and non-listed companies in banking, fund management, insurance, securities, and shipping ports.
- Prof. Chan obtained his BSSc in Economics from CUHK, and PhD in Finance from Ohio State University.

**Mr. Ng Chi Shing Bartholomew**, Independent Non-executive Director

- Mr. Ng is an Independent Non-executive Director and a member of the Audit Committee, the Risk Committee and the Investment Committee of the board of directors of the Company.
- Until January 2021, Mr. Ng was a Senior Consultant of Pramerica Holdings (Hong Kong) Limited, a subsidiary of Prudential Financial, Inc (“Prudential Financial”), which is a Fortune 500 global financial services company principally engaged in insurance, funds and investment management. Mr. Ng initially joined the Prudential Financial group in 2009 as the Managing Director & General Manager of Pramerica Asia Fund Management Limited (“Pramerica”) (a subsidiary of Prudential Financial) and had overall responsibility for the management and implementation of the business strategy and direction of Prudential Financial in China.
- Before joining Pramerica, Mr. Ng was Country Manager for the Dutch ING Group in China. During his 20-year career with ING Group, Mr. Ng held several senior roles and was instrumental in establishing new businesses, representative offices and joint ventures in Hong Kong, China and Asia. These included ING Group’s non-life operations in Hong Kong along with ING Asia/Pacific (one of the regional executive centers of ING Group), which managed the retail operations covering insurance, asset management and retail banking in the Asia Pacific region. Prior to ING Group, Mr. Ng had served at Commercial Union Assurance Company (now known as Aviva) for over 16 years in various senior capacities in both Hong Kong and Singapore.
- Mr. Ng obtained a Bachelor of Arts (Hons) Financial Services degree from Napier University of Edinburgh in the United Kingdom and a Senior Associate of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF).

Mr. Fang Lin is the senior executive of FTLife. For qualifications, skills and expertise, please refer to the above.

## 2.3 Risk Management and Solvency Self-Assessment

### 2.3.1 Description of the risk management process and procedures to effectively identify, measure, manage and report on risk exposures

- The Company implements an ERM framework adhering to the three lines of defense model. Controlled functions such as internal audit, risk management and compliance are clearly segregated from the main execution of business i.e. the first line of defense. Risk Management facilitates and monitors the implementation of effective risk management practices and assists risk owners in defining the target risk exposure and reporting adequate risk-related information throughout the organization. The objective is to ensure that an appropriate framework is in place, including an independent system of checks and balances, to provide assurance that risk exposures are identified, assessed, managed and reported in an effective manner. While each line of defense is independent from the others, they work closely to ensure effective oversight.
- **Identification.** Identifying risks on a timely basis is an essential first step to the risk management process. The Risk Management and the Compliance functions have developed a systematic process to identify existing and new risks in the company.
- **Assessment.** Assessment of risks based on quantitative or qualitative measures is useful in establishing the level of exposure and in determining the appropriate management actions within the Company's Risk Appetite. Specific risk metrics are adopted to support the risk assessment process.
- **Escalation and Mitigation.** Following the risk assessment process, the First Line management are responsible for the timely identification and escalation of material risk developments and for the implementation of risk mitigation actions, as appropriate.
- **Reporting and Monitoring.** In addition to providing advice, guidance, support and challenge to the First Line, the Second Line is responsible for monitoring First Line activities and reporting to the Risk Committee the performance of the First Line against risk metrics and limits defined in the Risk Appetite. In addition, to ensure the effectiveness of the Risk Management Process, an Own Risk and Solvency Assessment ("ORSA") is performed regularly to assess the company's risk profile and the adequacy of its risk management, and regular ERM reports are presented to the Risk Committees for review.
- The Company's solvency is assessed and monitored regularly by the actuarial function. Stress testing is conducted to assess the solvency under specified stress events according to the Company's Risk Tolerance. Management information arising from the solvency stress testing is used to assess the capital required to support the Company's business objectives.
- The solvency position is reviewed by the Risk Committee. The Company's solvency is also assessed based on the stress scenarios specified by the risk management function in the calculation of Commercial Insurer's Solvency Self-Assessment capital.

### 2.3.2 Compliance Function

- The Company's Vice President and Head of Compliance has the responsibility to monitor and report regulatory changes in the relevant jurisdictions and compliance with applicable existing laws, including regulatory reporting and public disclosure requirements. The Vice President and Head of Compliance monitors compliance with organizational compliance policies and procedures and adherence to the Company's Principles of Business Conduct. All material violations are reported to the Board and corrected accordingly.

### 2.3.3 Internal Control System

- The Audit Committee (AC) is delegated with the authority by the Board to provide independent oversight of the Company's financial reporting and internal control systems in particular to the risk management system and regulatory compliance, and the adequacy of the internal and external audits. The AC is provided with sufficient resources to perform its duties, including support, as necessary, from the Internal Audit Services, the external auditor, legal counsel, regulatory compliance and management, in examining all matters relating to the Company adopted accounting principles and practices, and in reviewing all material financial, operational and compliance controls.
- In addition to Internal Audit, the Company uses the services of external consultants to perform independent assessments of the internal control system. If any deficiencies or material weaknesses are found, they are documented and presented to the Board.

### 2.3.4 Internal Audit

- The Head of Internal Audit is authorised by the AC to have complete and unrestricted access to any of the Company's records, properties and personnel, and also has direct access to the Board through the AC to deliver reasonable assurance pertaining to the quality of governance, risk management and control processes. To ensure Internal Audit remains independent, the Head of Internal Audit has a clear hierarchical position in his/her respective legal entity structure and has direct reporting to AC and administrative reporting line to the CEO. Its employees are not authorized to perform any operational duties or approve any transactions in the organization.

### 2.3.5 Actuarial Function

- The Company's Appointed Actuary is responsible for setting, monitoring and adjusting technical provisions both premium and loss and loss expenses best estimates, and the risk margin.
- Key objectives of the Actuarial function are to:
  - develop and maintain appropriate methodology for valuation of the Technical Provisions, in compliance with regulatory requirements outlined by the Authority.
  - monitor the Company's actual experience and set the best estimate assumptions on a regular basis.
  - perform the valuation of the technical provisions and ensure its reasonableness with consideration of the nature, scale and complexity of the Company's business.

### 2.3.6 Outsourcing

#### 2.3.6.1 Outsourcing Policy and Key Functions that have been Outsourced

- The objective of the Outsourcing Policy is to provide a set of guidelines or principles in case outsourcing of activities is considered, prepared or made operational following the requirements of local regulations.
- The policies outline the criteria for the selection of third-party service providers and the due-diligence procedures to be undertaken to monitor performance and provide oversight of such arrangements.
- The Board and management are responsible and accountable for adequate control of the business processes whether outsourced or not. Part of this control is a proper (continuous) risk assessment, adequate measures and monitoring.



- Key Functions that have been outsourced:
  - Asset management of (non-unit linked) invested assets of the Company.
  - Document printing and distribution services.

### 3 Risk Profile

The Company is exposed to a variety of risks including but without limitation insurance risk, investment risk, asset-liability mismatch (“ALM”) risk, operational risk, compliance risk and strategic risk.

#### 3.1 Material Risks the Insurer is Exposed to During the Reporting Period

The Company is exposed to a variety of risks which are financial risks, insurance risks, operational risks, compliance risks and strategic risks. The Company maintains a detailed risk taxonomy to ensure all risks are identified and systematically managed. The principal risks and their definitions are summarized below:

RISKS	DEFINITION
Financial Risk	The risk of loss arising from asset-liability mismatches, financial market volatilities, counterparty defaults or failures to maintain sufficient liquidity for meeting business requirements or obligations.
Insurance Risk	The risk arising from changes in claims experience as well as more general exposure relating to the acquisition and persistency of insurance business. This also includes changes to actuarial and investment assumptions regarding future experience for these risks. The risk also covers the life insurance claims or losses directly resulting from catastrophic events.
Operational Risk	The risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.
Compliance Risk	The risk of legal or regulatory sanctions, material financial loss, or loss to reputation as a result of failure to comply with laws, regulations, rules, related self-regulatory organisations standards, and codes of conduct applicable to the business.
Strategic Risk	The risk of the current and prospective impact arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. Strategic risk is a function of the compatibility of the Company's strategic goals, the business strategy developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

#### 3.2 Risk Mitigation in the Organisation

- The Company has adopted the ‘Three Lines of Defense’ model to manage the risks in the organization. First line managements are responsible for the timely identification and escalation of material risk developments and for the implementation of risk mitigation actions, as appropriate.
- The Company mitigates financial risks and insurance risks through different means, including but not limited to asset allocation, hedging, product design or repricing, Risk Register report monitoring etc.
- The Company uses various techniques to manage operational risks, compliance risks and strategic risks, including:
  - Appointment of Risk Owners.
  - Risk and Control Self Assessments (RCSAs).

- Risk Register Report monitoring.
- Internal Incidents reporting

### **3.3 Material Risk Concentrations**

The Company has established investment policies and limits governing concentrations risk arising mainly from its investment activities in single counterparty, industry sector and geographic exposures. Any potential activity that may breach the concentration limits has to be reviewed by the Risk Management function and approved by the designated executives and committee according to the Company's investment policy.

### **3.4 Investment in Assets in accordance with the Prudent Person Principles of the Code of Conduct**

- The Company's investment portfolio is managed in accordance with the Company's investment policy guidelines. These guidelines require investment in good quality assets to support insurance liabilities to ensure that claims can be paid on a timely basis.
- These guidelines are reviewed on an annual or as-needed basis if any significant deviations have occurred that affect the financial markets.

### **3.5 Stress Testing and Sensitivity Analysis to Assess Material Risks**

The Company performs the stress testing to provide assurance that the capital is to adequately maintain regulatory solvency and withstand adverse financial risk events. The stress test results are reviewed regularly by relevant committees.

## 4 Solvency Valuation

### 4.1 Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class

The Company has considered the valuation principles outlined by Authority's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for the assets are as follows:

- **Cash and Cash Equivalents** – includes cash time deposits. The fair value of these holdings is measured at amortised cost using the effective interest method which approximates the fair value.
- **Fixed Income Securities** – are valued based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from brokers or using mark to model valuations by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment.
- **Equity and Investment Funds** - are valued based on quoted market prices or, if unquoted, on estimated market values generally based on quoted prices for similar securities.
- **Hedge Funds and Limited Partnerships** - are measured based on the net asset values estimated by reference to the quoted market prices of underlying investment or based on valuation provided by the general partner or manager of each investment.
- **Policy Loans** - are measured at amortised cost which approximates the fair value.
- **Loans to Individuals** - are measured at amortised cost less any impairment losses because of immaterial differences between amortised cost and fair value (short term receivables)
- **Accounts Receivable and Premium Receivable** – are measured at amortised cost less any impairment loss because of immaterial differences between amortised cost and fair value (short term receivables).
- **Derivative Financial Instruments** - are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. The fair value is provided by the derivative counterparties which are determined by discounting the contractual future cash flows and relevant foreign exchange forward rates and swap curve.

### 4.2 Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

- Insurance technical provisions are valued based on best estimate cash flows, discounted to reflect the time value of money using rates of interest consistent with those supplied by the Authority (where available). The technical provisions are calculated using reasonable estimation methodologies that have been consulted with the Authority.
- The data used to measure the insurance reserves in the audited financial statements are also used to value the insurance technical provisions. Cash flows are projected based on best estimate assumptions without provision for adverse deviations.



- In addition, there is a risk margin to reflect the uncertainty contained inherent in the underlying cash flows, which is calculated using the cost of capital approach and the rate prescribed by the Authority for each reporting period.
- At 30 June 2021, the total Technical Provisions amounted to HKD 52,891m comprising the following:

	HKD million
Total gross long-term business insurance provisions	49,752
Reinsurance recoverable	789
Risk margin	2,350
<b>Total Technical Provision</b>	<b>52,891</b>

### 4.3 Description of Recoverable from Reinsurance Contracts

Reinsurance contracts mainly take the form of surplus and quota share arrangements. Receivables from reinsurance contracts are valued using the same methodologies and principles that are also used to value the insurance technical provisions.

### 4.4 Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities

Similar to the valuation principles for assets, the Company's liabilities follow the valuations principles outlined by Authority's "Guidance Note for Statutory Reporting Regime" which values liabilities at a fair value basis.

All other liabilities (except for Interest-bearing Liabilities and Derivative Instruments) are valued on an IFRS basis.

Interest-bearing Liabilities are valued at quoted market prices. If unquoted, fair values are estimated using mark to model valuations by discounting expected future cash flows using the rates that consistent with those supplied by the Authority.

Derivative Instruments are valued at the same method as Derivative Financial Instruments in asset side.

## 5 Capital Management

### 5.1 Eligible capital

#### 5.1.1 Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period

- The capital management objective of the Company is to maintain sufficient capital to ensure that the Company operates within its risk appetite while achieving its strategic objectives.
- The Risk Appetite Statement of the Company is supported by three Risk Tolerance Pillars: Capital and financial strength, earnings variability and protection of franchise value. The first Risk Tolerance Pillar defines the capital requirements of the Company.
  - **Capital:** “Capital must be sufficient to meet the minimum regulatory required level under both business-as-usual and stress scenarios”
  - **Financial strength:** “Maintain sufficient capital and a high level of risk management standard to sustain an investment grade rating issued by international reputable rating agencies.”

#### 5.1.2 Eligible Capital Categorised by Tiers in Accordance With the Eligible Capital Rules

- Only Tier 1 capital is held by the Company at the end of the reporting period.

	HKD million
Tier 1	12,586
Tier 2	0
Tier 3	0
<b>Total</b>	<b>12,586</b>

- Both Minimum Margin of Solvency (MSM) and the Enhanced Capital Requirement (ECR) are fully funded by Tier 1 capital, which fully complies with the limits set in the Insurance (Eligible Capital) Rules.

#### 5.1.3 Identification of Differences in Shareholder’s Equity as Stated in the Financial Statements Versus the Available Capital and Surplus

Other than the impact of employing statutory-based technical provision valuation techniques, significant differences between HKFRS shareholder equity and available statutory capital and surplus include the reduction in available statutory capital for deferred acquisition cost, advances to agents and other intangible assets.

### 5.2 Regulatory capital requirements

#### 5.2.1 ECR and MSM Requirements at the End of the Reporting Period

At the end of the reporting period, the Company’s regulatory capital requirements were assessed as follows:

Requirement	HKD million
Minimum Margin of Solvency	1,534
Enhanced Capital Requirement	6,137

### 5.2.2 Identification of Any Non-Compliance with the MSM and the ECR

The Company was compliant with the MSM and ECR requirement at the end of the reporting period.

### 5.2.3 A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and Their Effectiveness

Not Applicable

### 5.2.4 Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance

Not Applicable

## 5.3 Approved Internal Capital Model

Not applicable - the Company has not applied to have its internal capital model approved to determine regulatory capital requirements.

## 6 Subsequent Events

Mr. Cheng Kwok Sing has been appointed as FTLife's Chief Executive Officer with approval from the Hong Kong Insurance Authority on 22 October 2021. Mr. Cheng has been appointed as FTLife's Vice Chairman and re-designation of Mr. Fang Lin as Non-executive Director of FTLife also effective on 22 October 2021.

Here are details of Mr. Cheng's qualifications, skills, and expertise:

### **Mr. Cheng Kwok Sing**, Chief Executive Officer and Executive Director

- Mr. Cheng joined FTLife in August 2021 and is the Chief Executive Officer and Executive Director of FTLife. He has over 30 years of experience in life insurance industry focusing in agency channel distribution, group insurance business development (life and medical) and general management with the largest pan Asia life insurer, AIA Group. He had held various senior executive positions in Hong Kong, Macau and China. Prior to joining FTLife, Mr. Cheng was the Chief Executive Officer – Group Agency Distribution of AIA Group. He holds a Bachelor of Arts in Industrial Relations and Economics from University of Kent at Canterbury (UK).

## 7 Declaration

We declare that to the best of our knowledge and belief, the information in this Capital and Solvency Return fairly represents the financial condition of the Company in all material respects.

### **Chief Executive Officer**

Signature:

A handwritten signature in black ink that reads "JOE CHENG".

Print Name: Cheng Kwok Sing

Date: 22 December 2021

### **Appointed Actuary**

Signature:

A handwritten signature in blue ink that reads "KO HON WA".

Print Name: Ko Hon Wa

Date: 22 December 2021