DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS

TRANSAMERICA LIFE (BERMUDA) LTD.

(Incorporated in Bermuda with Limited Liability)

December 31, 2021

TRANSAMERICA LIFE (BERMUDA) LTD.

CONTENTS

TRANSAMERICA LIFE (BERMUDA) LTD.

DIRECTORS' REPORT

The directors herein present their report and the audited financial statements of Transamerica Life (Bermuda) Ltd. (the "Company", the "insurer" or "TLB") for the year ended December 31, 2021.

Profit or loss of the insurer for the financial year and the state of the insurer's affairs as at the end thereof:

The profit for the year of the insurer as set out in the Statement of Profit or Loss and Other Comprehensive Income is US$91,825,000 (2020: US$99,295,000). The state of affairs of the insurer is as set out in the statement of financial position and the accompanying notes.

(a) The principal activities of the insurer and of its subsidiaries in the course of the financial year and any significant change in those activities in that year;

The Company provides life insurance including term and universal life, annuity, personal accident and hospital indemnity coverages, which are distributed through a network of independent agents, brokers, financial advisors and telemarketers. The Company's products are primarily distributed in Hong Kong and Singapore. The Company is involved in ceding business to affiliated and unaffiliated companies.

(b) The amount, if any, which the directors recommend should be paid by way of dividend;

The directors approved an interim dividend of US$ 75,260,400 (2020: US$ 34,998,212) which was paid in December 2021.

(c) The amount, if any, which the directors propose to carry to reserves;

Details of the reserves of the Company during the year are set out in the Statement of Changes to Shareholder's Equity.

(d) If the insurer has no subsidiaries and has in the financial year made donations for charitable or other purposes to a total amount of not less than US$128 or its equivalent, state the total amount of such donations;

Not applicable.

(e) If the insurer has subsidiaries and the insurer and its subsidiaries have between them made donations for charitable or other purposes to a total amount of not less than US$128 or its equivalent, state the total amount of such donations;

Not applicable.

(f) If significant changes in the assets of the insurer or of any of its subsidiaries have occurred in the financial year, contain particulars of the changes;

Not applicable.

(g) If, in the financial year, the Company has issued any shares, state the reason for making the issue, the classes of shares issued and, as respects each class of shares, the number issued and the consideration received by the insurer for the issue;

Not applicable.

TRANSAMERICA LIFE (BERMUDA) LTD.

DIRECTORS' REPORT (CONTINUED)

(h) If, in the financial year, the insurer has issued or redeemed any debentures, state the reason for making the issue or redemption, the classes of debentures issued or redeemed and, as respects each class of debentures, the amount issued or redeemed and the consideration received by the insurer;

Not applicable.

(i) State the names of the persons who, at any time during the financial year and up to the date of this report, were directors or controllers of the insurer;

Directors	Appointment Date
Marc R. Lieberman	June 13, 2016 (ceased with effect from January 1, 2021)
Bonnie T. Gerst	June 13, 2016
Janita K. Burke	June 13, 2016 (ceased with effect from January 1, 2021)
Thomas M.P. Grondin	June 25, 2020
Marco Baptist Arie Keim	January 1, 2020
Gerard Pennefather	June 25, 2020
Chirag Shamji Rathod	January 1, 2021
J Damian Resnik	January 1, 2021

Controllers	Effective Date
Chirag Shamji Rathod	January 1, 2021
Thomas M.P. Grondin	June 25, 2020
Eilard Friese	May 15, 2020
Donald J. Shepard	December 31, 2015 (ceased with effect from March 4, 2021)
Mark W. Mullin	January 1, 2010
Wilford H Fuller	March 31, 2021
C. Michiel van Katwijk	September 30, 2015 (ceased with effect from June 5, 2021)
Blake S. Bostwick	March 11, 2016
Marc R. Lieberman	June 13, 2016 (ceased with effect from January 1, 2021)
Christopher Ashe	June 5, 2021
Fredrick J. Gingerich	March 31, 2021
Transamerica Corporation	May 27, 2005
AEGON International B.V.	May 27, 2005
AEGON N.V.	May 27, 2005
Transamerica Life Insurance Company	October 1, 2008
Commonwealth General Corporation	September 30, 2015

(j) **If, at the end of the financial year, there subsists a contract with the insurer or with the insurer's subsidiary or holding company or any subsidiary of the insurer's holding company in which a director or controller of the insurer has, or at any time in that year had, in any way, whether directly or indirectly, an interest, or there has, at any time in that year, subsisted a contract with the insurer in which a director or controller of the insurer had, at any time in that year, in any way, whether directly or indirectly, an interest (being, in either case, in the opinion of the directors, a contract of significance in relation to the insurer's business and in which the director's or controller's interest is or was material), contain:**

(i) **a statement of the fact of the contract's subsisting or, as the case may be, having subsisted;**

The Company is party to Service Agreements with Transamerica Life Insurance Company ("TLIC"), AEGON N.V., AEGON ASSET MANAGEMENT (ASIA) LIMITED ("AAMAL"), AEGON INSIGHTS LIMITED ("AI"), Transamerica (Bermuda) SVC CTR ("TBSC"), and Money Services, Inc ("MSI")Investment Management Agreements with AEGON USA Investment Management, LLC ("AUIM") and Aegon Investment Management B.V. ("AIM") and a Mandate Agreement with Aegon Derivatives N.V. ("AD").

The Company is party to a coinsurance agreement with TLIC.

(ii) **the names of the parties to the contracts (other than the insurer);**

1. TLIC
2. AEGON N.V. and its subsidiary, AEGON ASIA B.V.
3. AI
4. AUIM
5. AAMAL
6. Transamerica (Bermuda) SVC CTR
7. Money Services, Inc.
8. AIM
9. AD

(iii) **the name of the director or controller (if not a party to the contract);**

Not applicable.

(j) If, at the end of the financial year, there subsists a contract with the insurer or with the insurer's subsidiary or holding company or any subsidiary of the insurer's holding company in which a director or controller of the insurer has, or at any time in that year had, in any way, whether directly or indirectly, an interest, or there has, at any time in that year, subsisted a contract with the insurer in which a director or controller of the insurer had, at any time in that year, in any way, whether directly or indirectly, an interest (being, in either case, in the opinion of the directors, a contract of significance in relation to the insurer's business and in which the director's or controller's interest is or was material), contain: (continued)

(iv) an indication of the nature and value of the contract; and

1. The nature of the contract is for TLIC to provide for various types of services incidental to the conduct of the insurance business engaged in by the Company. In addition there is a coinsurance and fee agreement with TLIC. See (k) below for value of the contract.
2. The nature of the contract is for AEGON N.V. to provide for various types of services incidental to the conduct of the insurance business engaged in by the Company. See (k) below for value of the contract.
3. The nature of the contract is for the Company to provide for various types of services incidental to the conduct of the business engaged in by AI. See (k) below for value of the contract.
4. The nature of the contract is for AEGON ASIA B.V. to provide for various types of services incidental to the conduct of the insurance business engaged in by the Company. See (k) below for value of the contract.
5. The nature of the contract is for AUIM to provide investment services incidental to the conduct of the insurance business engaged in by the Company. See (k) below for value of the contract.
6. The nature of the contract is for the Company to provide for various types of services incidental to the conduct of the business engaged in by AAMAL. See (k) below for value of the contract.
7. The nature of the contract is for the Company to provide services engaged in by Transamerica (Bermuda) SVC CTR (TBSC). See (k) below for value of the contract.
8. There is an IT services agreement with Money Services, Inc. See (k) below for value of the contract.
9. The nature of the contracts are for AIM to provide investment services incidental to the conduct of the insurance business engaged in by the Company. See (k) below for value of the contract.
10. The nature of the contract is for AD to provide investment services incidental to the conduct of the insurance business engaged in by the Company. See (k) below for value of the contract.

(j) If, at the end of the financial year, there subsists a contract with the insurer or with the insurer's subsidiary or holding company or any subsidiary of the insurer's holding company in which a director or controller of the insurer has, or at any time in that year had, in any way, whether directly or indirectly, an interest, or there has, at any time in that year, subsisted a contract with the insurer in which a director or controller of the insurer had, at any time in that year, in any way, whether directly or indirectly, an interest (being, in either case, in the opinion of the directors, a contract of significance in relation to the insurer's business and in which the director's or controller's interest is or was material), contain: (continued)

(v) an indication of the nature and value of the director's or controller's interest in the contract;

1. Nil
2. Nil
3. Nil
4. Nil
5. Nil
6. Nil
7. Nil
8. Nil
9. Nil
10. Nil

(k) The amounts of any property transferred, payments made (whether for services or otherwise), loans advanced to or obligations assumed during the financial year by or for a director or controller of the insurer or his nominees or associates;

1. Payments made to TLIC under a Consulting and Administrative Services Agreement in 2021 – US$1,659,290 (2020: US$6,945,463). Payment due to TLIC for fourth quarter 2021 under a Consulting and Administrative Services Agreement will be paid in 2022 – US$ 294,784 (2020: US$382,508). Payment made to TLIC under a Fee Agreement in 2021 – US$766,274 (2020: US$1,228,647). Payment due to TLIC for fourth quarter 2021 under a Fee Agreement will be paid in 2022– US$212,290 (2020: US$80,529). Receipts from TLIC under a coinsurance Agreement in 2021 – US$62,006,681 (2020: US$50,180,155). Receipts from TLIC for fourth quarter 2021 under a Coinsurance Agreement will be received in 2022 – US$14,348,571 (2020: US$30,131,750).

2. Payments made to AEGON N.V. under a Consulting and Administrative Services Agreement in 2021 – US$2,193,041 (2020: US$2,631,694). Payment due to AEGON N.V. for fourth quarter 2021 under Consulting and Administrative Services Agreement will be paid in 2022 – US$1,507,666 (2020: US$256,532).

3. Receipts from AI under a Consulting and Administrative Services Agreement in 2021 – US$149,637 (2020: US$161,862). Receipt due from AI for 2021 under a Consulting and Administrative Services Agreement will be received in 2022 – US$33,052 (2020: US$57,214).

4. Payments made to AEGON ASIA B.V. under a Consulting and Administrative Services Agreement in 2021 – US$1,526,399 (2020: US$1,137,027). Payment due to AEGON ASIA B.V. for 2021 under a Consulting and Administrative Services Agreement will be paid in 2022 – US$455,271 (2020: US$274,331).

5. Payments made to AUIM under an Investment Management Agreement in 2021 – US$5,943,519 (2020: US$8,513,683). Payment due to AUIM for fourth quarter 2021 fee under an Investment Management Agreement will be paid in 2022 – US$1,819,410 (2020: US$633,898).

6. Receipts from AAMAL under a Consulting and Administrative Services Agreement in 2021 – US$1,876 (2020: US$1,832). No receipt is due from AAMAL as at the end of 2021 (2020: nil).

7. Payments made to Transamerica (Bermuda) SVC CTR under a Consulting and Administrative Services Agreement in 2021 – US$137,644 (2020: US$311,950). Receipt due from Transamerica (Bermuda) SVC CTR for 2021 under a Consulting and Administrative Services Agreement will be paid in 2022 – US$45,244 (2020: receivable US$89,865).

8. Payment made to Money Services, Inc. under a Consulting and Administrative Services Agreement in 2021 – US$2,069,461 (2020: US$1,468,994). Payment due to Money Services, Inc. for fourth quarter 2021 fee under a Consulting and Administrative Services Agreement will be paid in 2022 – US$250,963 (2020: US$212,451).

(k) The amounts of any property transferred, payments made (whether for services or otherwise), loans advanced to or obligations assumed during the financial year by or for a director or controller of the insurer or his nominees or associates; (continued)

9. Payment made to Aegon Investment Management B.V. Under Consulting and Administrative Services Agreement in 2021 – US$157,176 (2020: nil). Payment due to Aegon Investment Management B.V. for fourth quarter 2021 fee under Consulting and Administrative Services Agreement will be paid in 2022 – US$105,518 (2020: nil).

(l) If, at the end of the financial year, there subsist arrangements to which the insurer or the insurer's subsidiary or holding company or a subsidiary of the insurer's holding company is a party, being arrangements whose objects are, or one of whose objects is, to enable directors or controllers of the insurer to acquire benefits by means of the acquisition of shares in, or debentures of, the insurer or any other body corporate, or there have, at any time in that year, subsisted such arrangements as aforesaid to which the insurer was a party, contain a statement explaining the effect of the arrangements and giving the names of the persons who at any time in that year were directors or controllers of the insurer and held, or whose nominees held, shares or debentures acquired in pursuance of the arrangements;

Not applicable.

(m) If, at the end of the financial year, the insurer, or the insurer together with any associate or through a nominee is entitled to exercise or control the exercise of one third or more of the voting power of any body corporate, state the name of the body corporate, the country of its incorporation, its principal business activity, the number of shares so held and the number issued, the amounts owing to the body corporate by the insurer and owing to the insurer by the body corporate at the end of the financial year;

None.

(n) State whether the insurer has, in the financial year, carried on insurance business (other than reinsurance business) relating to liabilities or risks in respect of which persons are required to be insured;

None.

(o) Summary of the material reinsurance arrangements effected by the insurer;

TLB is involved in the following cessions of risks to other companies, including third party reinsurers and affiliated companies. Risks are reinsured to other companies to permit the recovery of a portion of the direct losses incurred. TLB remains liable to the extent the reinsuring companies do not meet their obligations under these reinsurance treaties.

The following three summary tables describe the third party reinsurance arrangements TLB is involved with for Universal Life, Term Life and Facultative policies, ceded to third party reinsurer. These treaties are YRT (yearly renewable term), with reinsurance premium rate stated in the appendix of the treaties. Policies within the treaty cover scope and automatic binding limit, with issue dates falling between the start date and end date will be covered under the treaty. Facultative cases will require reinsurer additional approval.

TRANSAMERICA LIFE (BERMUDA) LTD.

DIRECTORS' REPORT (CONTINUED)

(o) Summary of the material reinsurance arrangements effected by the insurer; (continued)

Third Party Reinsurer - Universal Life

Start date	Closed to new applications after	Reinsurer and Pool %	Retention and automatic binding limit per life
May 11, 2006	May 31, 2007	Allianz SE Reinsurance Branch Asia Pacific ("Allianz SE") (10%), Canada Life International Re Limited ("Canada Int'l") (5%), Hannover Ruckversicherung AG Hong Kong Branch ("Hannover AG") (10%) Munich American Reassurance Company ("MARC") (35%), RGA Reinsurance Company Hong Kong Branch ("RGA HK") (10%), SCOR Global Life US Re Insurance Company ("SCOR Global") (15%), Wilton Reassurance Company ("Wilton Re") (15%)	20% for HK and 25% for Pacific Rim with maximum limit of retention and automatic binding limit by risk class
May 11, 2006	October 13, 2007	Allianz SE (16.67%), General Reinsurance AG (16.67%), Hannover AG (16.67%), MARC (16.67%), RGA HK (16.66%), Swiss Reinsurance Company Ltd, Singapore Branch ("Swiss Re SG") (16.66%)	16.67% for Southeast Asia (SEA) with maximum limit of retention and automatic binding limit by risk class
June 1, 2007	November 30, 2008	Allianz SE (15%), Hannover AG (10%), RGA HK (10%), Swiss Re SG (65%)	50% with maximum limit of retention and automatic binding limit by risk class
July 1, 2007	November 30, 2008	Allianz SE (10%), Swiss Re SG (90%)	50% with maximum limit of retention and automatic binding limit by risk class
December 1, 2008	November 30, 2010	Allianz SE (30%), Hannover AG (15%), Munich Re, Singapore Branch ("Munich Re SG") (30%), RGA HK (25%)	100% of first $1 million per policy, then 50% of remaining with maximum limit of retention and automatic binding limit by risk class
December 1, 2010	December 31, 2012	Allianz SE (20%), Hannover AG (10%), Munich Re SG (25%), RGA HK (45%)	100% of first $1 million per policy, then 50% of remaining with maximum limit of retention and automatic binding limit by risk class
January 1, 2013	December 31, 2014	Allianz SE (20%), Munich Re SG (80%)	100% of first $1 million per policy, then 50% of remaining with maximum limit of retention and automatic binding limit by risk class
January 1, 2015	Still effective	Munich Re SG (55%), Swiss Reinsurance Company Ltd., Hong Kong Branch ("Swiss Re HK") (45%)	100% of first $1 million per policy, then 50% of remaining with maximum limit of retention and automatic binding limit by risk class
1 April 2017	Still effective	Allianz SE (15%), Munich Re SG (60%), SCOR Reinsurance Company (Asia) Ltd. ("SCOR Re Asia") (25%)	100% of first $1 million per policy, then 50% of remaining with maximum limit of retention and automatic binding limit by risk class

TRANSAMERICA LIFE (BERMUDA) LTD.

DIRECTORS' REPORT (CONTINUED)

(o) Summary of the material reinsurance arrangements effected by the insurer; (continued)

Third Party Reinsurer - Term Life

Start date	Closed to new applications after	Reinsurer and Pool %	Retention and automatic binding limit per life
May 11, 2006	October 1, 2006	Canada Int'l (T10 15%, T20 10%, T30 10%), Generali USA Life Reassurance Company (T10 15%, T20 10%, T30 10%), MARC (T10 30%, T20 25%, T30 25%), RGA (T10 10%, T20 25%, T30 25%), SCOR Global (T10 15%, T20 10%, T30 10%), Scottish Re (U.S.) Inc. (T10 15%, T20 10%, T30 10%), Wilton Re (T20 10%, T30 10%)	75% with maximum limit of retention and automatic binding limit by risk class
October 2, 2006	April 13, 2008	Ace Life Insurance Company ("ACE") (T10 10%, T20 10%, T30 10%), Effective 1-1-2019 business ceded to ACE has been recaptured by TLB, General Re Life Corporation (T10 20%, T20 20%, T30 20%, T30ROP 33.3%), MARC (T10 25%, T20 15%, T30 10%), RGA (T10 15%, T20 25%, T30 25%, T30ROP 33.34%), SCOR Global (T10 20%, T20 20%, T30 20%, T30ROP 33.3%), SCOR Global Life Reinsurance Company of America (formerly known as XL RE Life America Inc.) (T10 10%) Wilton Re (T20 10%, T30 15%)	90% with maximum limit of retention and automatic binding limit by risk class
April 14, 2008	November 30, 2008	Allianz SE (15%), Hannover AG (10%), RGA HK (10%), Swiss Re SG (65%)	100% of first $1 million per policy, then 50% of remaining with maximum limit of retention and automatic binding limit by risk class

(o) Summary of the material reinsurance arrangements effected by the insurer; (continued)

Third Party Reinsurer - Term Life (Continued)

Start date	Closed to new applications after	Reinsurer and Pool %	Retention and automatic binding limit per life
December 1, 2008	November 30, 2010	Allianz SE (30%), Hannover AG (15%), Munich Re SG (30% for A, B, C countries listed in Exhibit F.1 and 100% for A, B, C countries listed in Exhibit F.2), RGA HK (25%)	100% of first $1 million per policy, then 50% of remaining with maximum limit of retention and automatic binding limit by risk class
December 1, 2010	December 31, 2012	Allianz SE (20%), Hannover AG (10%), Munich Re SG (25%), RGA HK (45%)	100% of first $1 million per policy, then 50% of remaining with maximum limit of retention and automatic binding limit by risk class
January 1, 2013	December 31, 2014	Allianz SE (20%), Munich Re SG (80%)	100% of first $1 million per policy, then 50% of remaining with maximum limit of retention and automatic binding limit by risk class
January 1, 2015	Still effective	Munich Re SG (55%), Swiss Re HK (45%)	100% of first $1 million per policy, then 50% of remaining with maximum limit of retention and automatic binding limit by risk class
November 15, 2021	Still effective	For sum assured up to USD 3m: Munich Re SG (100%) For sum assured above USD 3m to 30m: Munich Re SG (77.78%), Gen Re HK/SG (22.22%) For sum assured above 30m to 44m: Gen Re HK/SG (100%)	For sum assured up to USD 30m: 10% For sum assured above 30m to 44m: 50% Subject to a maximum limit of retention and automatic binding limit by risk class

Third Party Reinsurer - Excess Facultative

Start date	Closed to new applications after	Reinsurer	Retention per life
May 11, 2006	May 31, 2007	Swiss Re SG	Subject to maximum limit of retention by risk class
July 1, 2008	November 30, 2008	Munich Re SG	Subject to maximum limit of retention by risk class
January 31, 2014	December 31, 2014	Swiss Re HK	Subject to maximum limit of retention by risk class
January 31, 2014	Still effective	RGA HK	Subject to maximum limit of retention by risk class

(o) Summary of the material reinsurance arrangements effected by the insurer; (continued)

Third Party Reinsurer - Singapore Modified Coinsurance

Start date	End date	Reinsurer	Plan Covered
1 Jan 2017	1 Jan 2020	New Re	The following products issued by TLB Singapore branch: TransUltra Elite II, Universal Life, Universal Life 2

TLIC Coinsurance

The below three treaties are on coinsurance basis. Transamerica Occidental Life Insurance Company ("TOLIC") and Transamerica Life Insurance Company ("TLIC") were affiliated companies within AEGON Group and merged on 1 October 2008. Hence the first treaty in the table below was transferred from TOLIC to TLIC on that day.

Start date	Closed to new applications after	Reinsurer	% ceded
December 31, 2006	Still effective	TLIC	100%
August 1, 2011	Still effective	TLIC	80% before 1 Jan 2017 and become 100% after that
January 1, 2013	Still effective	TLIC	100%

TLIC Stop Loss

This treaty is an aggregate stop loss treaty, during each coverage period, the reinsurer will reimburse the Ceding Company for any Excess Losses on all products with death benefit. Reinsurance premium rate and deductible calculations are stated in the appendix of the treaty. It is originally written with TOLIC, and then transferred to TLIC at 1 October 2008 when two companies merged.

Start date	Closed to new applications after	Reinsurer	Aggregate deductible
April 1, 2006	June 30, 2021	TLIC	Expected death benefit plus one standard deviation

(p) Particulars of any other matters, including events after the reporting date, so far as they are material for the appreciation of the state of the insurer's affairs.

There were no events that had a material effect on the state of affairs of the insurer as of the reporting date.

(q) Auditors

At an annual general meeting of the Company on October 4, 2021, it was resolved that PricewaterhouseCoopers be appointed as auditors of the Company to commence the preparation of the 2021 audit and to hold office until the close of the next annual general meeting of the Company.

ON BEHALF OF THE BOARD

Rathod

Chirag S. Rathod
Chief Executive Officer
Transamerica Life (Bermuda) Ltd.
19 APR 2022

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF TRANSAMERICA LIFE (BERMUDA) LTD.
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The financial statements of Transamerica Life (Bermuda) Ltd. (the "Company") set out on pages 17 to 86, which comprise:

- the statement of financial position as at 31 December 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes to shareholder's equity 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

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

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

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

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and the Financial information 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.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF TRANSAMERICA LIFE (BERMUDA) LTD.
(incorporated in Bermuda with limited liability)
(CONTINUED)

Other Information (continued)

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

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

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs issued by the IASB, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF TRANSAMERICA LIFE (BERMUDA) LTD.
(incorporated in Bermuda with limited liability)
(CONTINUED)

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

- 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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 April 2022

TRANSAMERICA LIFE (BERMUDA) LTD.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended December 31, 2021

	Notes	2021	2020
		US$'000	US$'000
Revenues and other income			
Gross premium		147,539	165,844
Reinsurers' share		(41,407)	(40,456)
Net premiums	4	106,132	125,388
Reinsurance commission income and allowance		3,642	6,094
Net investment income	4	262,268	267,137
Net realised gains	4	1,327	28,026
Fair value gains	4	2,741	35
Miscellaneous Income		89	452
Total revenues		376,199	427,132
Benefits			
Gross benefits paid or provided		302,745	448,194
Reinsurers' share of benefits paid or provided		(68,668)	(128,319)
Decrease in insurance contract liabilities		(13,693)	(60,670)
Expenses			
Commission expense		13,348	8,729
Operating expenses	6	40,659	50,577
Finance costs	5	108	231
Total benefits and expenses		274,499	318,742
Profit before tax		101,700	108,390
Tax	8	(9,875)	(9,095)
Profit for the year		91,825	99,295
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Held to Maturity financial assets			
Changes in fair value transferred from Available for sale		32,896	40,715
Reclassification adjustment for amortisation	9	(17,311)	(16,729)
Available-for-sale financial assets			
Changes in fair value		(156,043)	138,918
Reclassification adjustment for profit/(loss) included in profit or loss	9	2,559	(45)
Income tax effect		10,089	(13,049)
Exchange fluctuation reserve		576	(533)
Total comprehensive (loss)/income for the year		(35,409)	248,572

The accompanying notes on pages 22 to 86 form an integral part of these financial statements.

TRANSAMERICA LIFE (BERMUDA) LTD.

STATEMENT OF FINANCIAL POSITION

Year ended December 31, 2021

	Notes	2021	2020
		US$'000	US$'000
Assets			
Right-of-use assets	21	1,429	3,624
Intangible assets	20	5,212	4,288
Reinsurance assets	25	2,936,853	3,003,097
Tax receivables		1,066	1,347
Financial assets:			
Policy loans	9, 10	9,144	11,368
Receivables for securities		46,899	4,610
Held-to-maturity financial assets	9	4,497,005	4,327,493
Available-for-sale financial assets	9, 11	2,746,019	3,148,111
Financial assets at fair value through profit or loss	9	12,505	8,588
Premiums deferred and uncollected – direct less commissions		2,600	4,684
Reinsurance receivables	24	31,266	76,510
Prepayment and other debtors – unsecured	12	3,201	5,448
Accrued investment income		66,058	66,443
Receivable from related companies	23	15,175	32,054
Cash and cash equivalents	13	84,516	50,374
Total assets		10,458,948	10,748,039

The accompanying notes on pages 22 to 86 form an integral part of these financial statements.

TRANSAMERICA LIFE (BERMUDA) LTD.

STATEMENT OF FINANCIAL POSITION (CONTINUED)

Year ended December 31, 2021

	Notes	2021	2020
		US$'000	US$'000
Equity and liabilities			
Equity:			
Common shares – US$1 each in par value; authorised, issued, and outstanding 42,520,000 shares		42,520	42,520
Additional paid-in capital		382,287	382,287
Unassigned surplus		676,779	649,549
Reserves		342,243	480,142
Total equity		1,443,829	1,554,498
Liabilities:			
Insurance contract liabilities	25	8,894,960	8,974,897
Premium deposits	17, 19	3,093	3,093
Advance premium		1,428	884
Claims payable	17, 18	37,339	102,084
Accrued expenses and other creditors	22	61,490	94,953
Lease liabilities	21	1,662	4,068
Payable to related companies	23	5,033	2,955
Deferred tax liabilities	8	10,114	10,607
Total liabilities		9,015,119	9,193,541
Total equity and liabilities		10,458,948	10,748,039

The financial statements on pages 17 to 86 was approved by the Board of Directors for issue on 19 APR 2022 and were signed on its behalf by:

Chirag S. Rathod
Chief Executive Officer

Thomas M.P. Grondin
Director

Bonnie T. Gerst
Director

TRANSAMERICA LIFE (BERMUDA) LTD.

STATEMENT OF CHANGES TO SHAREHOLDER'S EQUITY

Year ended December 31, 2021

	Common Shares	Additional Paid-in Capital	Available for Sale Financial Assets Revaluation Reserve	Held to Maturity Financial Assets Revaluation Reserve	Exchange Fluctuation Reserve	Unassigned surplus	Total Share-holders' Equity
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At January 1, 2020	42,520	382,287	158,460	158,823	(939)	599,773	1,340,924
Profit for the year	–	–	–	–	–	99,295	99,295
Dividends paid (Note 27):							
Cash	–	–	–	–	–	(34,998)	(34,998)
Other comprehensive income for the year:							
Designated as held-to- maturity	–	–	(40,715)	40,715	–	–	–
Amortisation, held-to-maturity	–	–	–	(16,729)	–	–	(16,729)
Change in fair value of available-for-sale investments, net of tax	–	–	179,588	–	–	(13,049)	166,539
Change in foreign currency translation adjustment	–	–	–	–	(533)	–	(533)
At December 31, 2020	42,520	382,287	297,333	182,809	(1,472)	651,021	1,554,498
Profit for the year	–	–	–	–	–	91,825	91,825
Dividends paid (Note 27):							
Cash	–	–	–	–	–	(75,260)	(75,260)
Other comprehensive income for the year:							
Designated as held-to-maturity	–	–	(32,896)	32,896	–	–	–
Amortisation, held-to-maturity	–	–	–	(17,311)	–	–	(17,311)
Change in fair value of available-for-sale investments, net of tax	–	–	(120,588)	–	–	10,089	(110,499)
Change in foreign currency translation adjustment	–	–	–	–	576	–	576
At December 31, 2021	42,520	382,287	143,849	198,394	(896)	677,675	1,443,829

The accompanying notes on pages 22 to 86 form an integral part of these financial statements.

TRANSAMERICA LIFE (BERMUDA) LTD.

STATEMENT OF CASH FLOWS

Year ended December 31, 2021

	Note	2021	2020
		US$'000	US$'000
Operating activities			
Profit before tax		101,700	108,390
Adjustment for:			
Change in operating assets			
Change in loans and receivables		26,220	(15,840)
Change in plant and equipment and prepayments		2,247	(3,320)
Change in reinsurance assets		66,244	(808,214)
Change in operating liabilities			
Change in financial liabilities carried at amortised cost		(33,463)	21,426
Change in advance premium and premium deposits		544	(344)
Change in insurance contract liabilities		(144,106)	822,017
Non-cash items included in profit before tax			
Realised and unrealised gains		2,079	28,061
Interest income		(262,268)	(267,137)
Amortisation of held-to-maturity financial assets		(17,311)	(16,729)
Depreciation expenses		2,952	3,055
Amortisation of intangible assets	20	705	550
Finance cost		107	198
Income tax paid		-	(3,629)
Net cash flows used in operating activities		(254,350)	(131,516)
Investing activities			
Purchase of securities		(7,948,305)	(8,359,868)
Sale of securities		8,054,302	8,252,040
Interest received		262,653	265,407
Payment for Intangible assets		(1,629)	(2,065)
Net cash flows generated from investing activities		367,021	155,514
Financing activities			
Payments for lease liabilities		(3,269)	(3,389)
Dividends paid	27	(75,260)	(34,998)
Net cash flows used in financing activities		(78,529)	(38,387)
Net increase/ (decrease) in cash and cash equivalents		34,142	(14,389)
Cash and cash equivalents at beginning of year	13	50,374	64,763
Cash and cash equivalents at end of year	13	84,516	50,374

The accompanying notes on pages 22 to 86 form an integral part of these financial statements.

1. CORPORATE INFORMATION

The registered office of Transamerica Life ("Bermuda") Ltd. (the "Company") is located at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda.

The Company is a stock life insurance company incorporated under the laws of Bermuda on May 27, 2005. The Company is a wholly owned subsidiary of AEGON N.V. through Transamerica Life Insurance Company ("TLIC") and AEGON International B.V. ("AIBV"). TLIC is incorporated in the state of Iowa, USA, and is an indirect wholly owned subsidiary of AIBV. AIBV is a wholly owned subsidiary of AEGON N.V., a holding company recognised under the laws of The Netherlands which is the Company's ultimate holding company.

The Company's principal representative in Bermuda is Marsh Management Services (Bermuda) Ltd. The Company is a registered insurer under The Insurance Act 1978, related regulations, and amendments thereto (the "Act").

The Company provides life insurance, annuity, personal accident and hospital indemnity coverages, which are distributed through a network of independent agents, brokers, financial advisors and telemarketers. The Company's products are primarily distributed in Hong Kong and Singapore. The Company is involved in ceding business to affiliated and unaffiliated companies.

2.1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") (which includes all IFRS, International Accounting Standards ("IAS") and Interpretations) issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared using the historical cost convention, as modified by the revaluation of Investment held to maturity, and available-for-sale financial investments, and financial assets at fair value through profit or loss all of which are carried at fair value.

Items included in the financial statements of each of the Company's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The Company's functional currency and the presentation currency is the US dollar. The financial statements are presented in thousands of US dollars (US$'000) unless otherwise stated.

The accounting policies adopted are consistent with those of the previous financial year.

2.2. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standard and amendments are effective for the financial year ended 31 December 2021, but the Company has elected to apply the temporary exemption described further below:

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into separate measurement categories: those measured as at fair value with changes either recognised in profit or loss (FVTPL) or in other comprehensive income (FVOCI) and those measured at amortised cost. The determination is made at initial recognition depending on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An option is also available at initial recognition to irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. In addition, a revised expected credit losses model will replace the incurred loss impairment model in IAS 39. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity's risk management strategies. The IASB made further changes to two areas of IFRS 9. Financial assets containing prepayment features with negative compensation can be measured at amortised cost or at FVOCI if the cash flow represents solely payments of principal and interest and the financial assets are held within a business model of "hold to collect" or "hold to collect and sell". Non-substantial modifications or exchange of financial liabilities that do not result in derecognition will be required to be recognised in profit or loss. The Company is in the midst of conducting a detailed assessment of the new standard.

The standard is mandatorily effective for financial periods beginning on or after 1 January 2018 except for prepayment features with negative compensation and modifications or exchange of financial liabilities that do not result in derecognition which are effective for financial periods beginning on or after 1 January 2019, but the Company qualifies for a temporary exemption as explained below.

2.2. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

In September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and IFRS 17, Insurance Contracts. These measures include a temporary option (known as the "deferral approach") for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of IFRS 17 and financial reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before IFRS 17 is applied. In June 2020, the IASB issued the amendments to IFRS 4 and IFRS 17, the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023, and that the exemption currently in place for some insurers, including the Company, regarding the application of IFRS 9 will be extended to enable the implementation of both IFRS 9 and IFRS 17 at the same time.

The Company has performed an initial eligibility assessment and met the IFRS 9 requirements for the deferral approach, and accordingly has decided to apply IFRS 9 to annual reporting periods beginning 1 January 2023. As the Company has not previously applied any version of IFRS 9 and the Company's activities are predominantly connected with insurance at its annual reporting date that immediately precedes 1 April 2016, based on the eligibility assessment the total carrying amount of liabilities connected with insurance of US$6,297m at 31 December 2015 is greater than 90% of the total carrying amount of all its liabilities. The Company continues to meet the requirements for the deferral of IFRS 9.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The Company is yet to assess IFRS 9's full impact. The Company is in the midst of conducting a detailed assessment of the new standard.

Additional information on financial assets in relation to the election of the deferral approach is illustrated on the next page.

2.2. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

(i) Fair value of financial assets

The table below presents the fair value of the following groups of financial assets under IFRS 9 as at 31 December 2021 and 31 December 2020, and fair value changes for the year ended 31 December 2021 and 31 December 2020:

	Fair value as at December 31, 2021	Fair value as at December 31, 2020
	US$'000	US$'000
Financial assets that are neither A nor B		
– Meet SPPI (C)	4,713,655	4,719,226
– Does not meet SPPI (D)	40,884	33,122
Financial assets held for trading (A)	12,505	8,588
Financial assets that are managed and whose performance is evaluated on a fair value basis (B)	2,746,019	3,148,111
Total	7,513,063	7,909,047

	Fair value change for the year ended December 31, 2021	Fair value change for the year ended December 31, 2020
	US$'000	US$'000
Financial assets that are neither A nor B		
– Meet SPPI (C)	(5,571)	330,199
– Does not meet SPPI (D)	7,762	17,998
Financial assets held for trading (A)	3,917	(11,444)
Financial assets that are managed and whose performance is evaluated on a fair value basis (B)	(402,092)	173,612
Total	(395,984)	510,365

2.2. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

(ii) Credit risk exposure

For the financial assets that are in 'C' of the above table, the credit ratings of financial assets are referenced from qualified external rating agencies Standard & Poor's, Moody's and Fitch. The credit risk exposure is listed below:

	Carrying amount as at December 31, 2021	Carrying amount as at December 31, 2020
	US$'000	US$'000
AAA	486,545	543,589
AA+	87,968	76,280
AA	142,477	93,780
AA-	221,087	164,638
A+	399,531	435,342
A	618,747	474,815
A-	659,682	651,629
BBB+	724,119	714,568
BBB	762,408	741,989
BBB-	254,758	277,563
BB+	67,921	61,044
BB	16,201	17,239
BB-	3,272	26,487
B	10,531	8,016
B-	-	2,523
Total	4,455,247	4,289,502

	As at December 31, 2021		As at December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	US$'000	US$'000	US$'000	US$'000
Financial assets that that are in 'C' of the above table (i) and below credit ratings of BBB-	97,925	102,105	115,309	115,943

2.2. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

The following relevant new amendments to standards have been adopted for the first time for the financial year ended 31 December 2021 and have no material impact to the Company:

- Amendments to IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform Phase 2; and
- Amendment to IFRS 16, Covid-19-Related Rent Concessions

The following relevant new amendments to standards have been issued but are not effective for the financial year ended 31 December 2021 and have not been early adopted (the financial years for which the adoption is required for the Company are stated in parentheses). The Company has assessed the impact of these new amendments on its financial position and results of operations and they are not expected to have a material impact on the financial position or results of operations of the Company:

- Amendment to IAS 1, Classification of Liabilities as Current or Non-Current (2023);
- Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies (2023);
- Amendments to IAS 8, Definition of Accounting Estimates (2023);
- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction (2023);
- Amendment to IAS 16, Proceeds before Intended Use (2022);
- Amendment to IAS 41, Taxation in Fair Value Measurements (2022);
- Amendment to IFRS 3, Reference to the Conceptual Framework (2022); and
- Amendment to IFRS 16, Lease Incentives (2022);

2.2. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

The following relevant new standard has been issued but is not effective for the financial year ended 31 December 2021 and has not been early adopted:

IFRS 17, Insurance Contracts (previously IFRS 4 Phase II) will replace the current IFRS 4, Insurance Contracts. IFRS 17 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, IFRS 17 requires more granular information and a new presentation format for the statement of comprehensive income as well as extensive disclosures. In May 2017, the International Accounting Standards Board ("IASB") approved the issuance of IFRS 17, Insurance Contracts. In June 2020, the IASB issued the amendments to IFRS 17 and the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023. The Company is in the midst of conducting a detailed assessment of the new standard.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Product classification

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

Insurance contracts are those contracts for which the Company has accepted significant insurance risk from policyholders providing coverage for death, accident, and sickness at the inception of the contract. As a general guideline, the Company determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. The Company also accepts financial risk on insurance contracts. Financial risk is the risk of a possible future change in interest rate, security price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index, or other variables.

Foreign currencies

The Company's functional currency is United States dollars. Foreign currency transactions are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change on fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Intangible assets

Acquired computer software amortised over their estimated useful lives.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs directly associated with the internal production of identifiable and unique software by the Company that will generate economic benefits exceeding those costs over a period greater than a year, are recognised as intangible assets. All other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Costs of acquiring computer software licences and incurred in the internal production of computer software are amortised using the straight-line method over the estimated useful life of the software, which does not generally exceed a period of 3 to 15 years. The amortisation charge for the period is included in the income statement under "Operating expenses".

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/recognised) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to profit or loss in the period in which it arises.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Company if:

(a) the party is a person or a close member of that person's family and that person,

  (i) has control or joint control over the Company;

  (ii) has significant influence over the Company; or

  (iii) is a member of the key management personnel of the group or of a parent of the Company; or

(b) the party is an entity where any of the following conditions applies;

  (i) the entity and the Company are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Company are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;

  (vi) the entity is controlled or jointly controlled by a person identified in (a); and

  (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Company's financial assets include cash and cash equivalents, financial assets at fair value through profit or loss, available-for-sale financial investments, held-to-maturity investments and other fixed-interest securities in the form of loans secured on life insurance policies (note 10), which are classified as loans and receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are non-derivative financial assets in listed and unlisted debt securities with fixed or determinable payments and fixed maturities that the Company holds for trading or designates upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as investment income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Investment income" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

The Company evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and comprise loans, receivable for securities, premiums deferred and uncollected - direct less commission, insurance receivables, and receivable from related companies on the statement of financial position. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in investment income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in operating expenses

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. Subsequent to initial measurement, held-to-maturity financial assets are measured at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis. If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale.

On August 31, 2021, the Company reclassified 81 securities with a fair value of US$436,707,000 out of available-for-sale and into held-to-maturity. The fair value at the time of the reclassification became the new amortised cost of these securities and any unrealised gain or loss is amortised over the remaining lives of the securities in accordance with the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Available-for-sale financial assets (continued)

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other expenses. Interest and dividends earned while holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as investment income in accordance with the policies set out for "Investment income" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Company evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intent to do so in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Company has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Company has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either (a) the Company has transferred substantially all the risks and rewards of the asset or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognised an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Derivative financial instruments

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise. The fair values of various derivative financial instruments are disclosed in note 9. The Company does not apply hedge accounting for its derivative financial instruments.

Interest rate swaps

The Company has entered into interest rate swaps to reduce its exposure to interest rate sensitivities by decreasing the dollar duration mismatch between its assets and liabilities (DV01). These contracts entitle the Company to receive interest at fixed or floating rates on notional principal amounts, at different durations and oblige the Company to pay interest at floating or fixed rates on the same notional principal amounts, thus allowing the Company to reduce its DV01 exposure.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Significant or prolonged decline is defined by the Company as an unrealised loss position for generally more than six months or a fair value of less than 80% of the cost price of the investment. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

The Company's loans and borrowings include premium deposits, advance premium, claims payable, accrued expenses and other creditors.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of the discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Premiums receivable

Premiums receivable are included in premiums deferred and uncollected in the statement of financial position. Premiums receivable represent premiums which are due for payment. The Company normally allows policyholders to make payment within a grace period of one month from the due date. The grace period may be extended by one further month by management purely on a discretionary basis. Insurance policies continue in force if default premiums are settled before the expiry of the grace period.

Cash and cash equivalents

For the purpose of the statement of financial position, cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investments.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect off discounting is material, the amount recognised for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Dividends

Final dividends proposed by the directors are classified as unassigned surplus within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Insurance contract liabilities

Insurance contract liabilities represent net future policy liabilities as determined by the appointed actuary of the Company using a net level premium approach for traditional policies.

The provision for life insurance contracts with fixed-level premiums is calculated on the basis of the prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing. The liability is determined as the sum of the expected discounted value of the benefit payments, less the expected discounted value of the theoretical premiums that would be required to meet the benefits, based on the valuation assumptions as to mortality and investment income that are established at the time the contract is issued, plus a margin for adverse deviation. Provision for life insurance contracts with flexible premiums for non-coinsured non-secondary guarantee products is calculated as the cash surrender value plus the greater of uneamed cost of insurance ("COI") and sterling reserve. The provision for the other life insurance contracts with flexible premiums is calculated as a percentage of account value floored by the cash surrender value, as determined by the appointed actuary that provides a prudent provision for the discounted value of future benefit payments. Changes to the liabilities at each reporting date are recorded in profit or loss as an expense. The liabilities on yearly renewable premium contracts are the liabilities for the unexpired risks carried at the reporting date. The liability is derecognised when the contract expires, is discharged, or is cancelled.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Insurance contract liabilities (continued)

A liability adequacy test is performed on an annual basis to verify whether the insurance liabilities are adequate using current estimates of future cash flows under the insurance contracts. The liability value is adjusted if insufficient to meet future obligations, taking into account future premiums, investment income, benefits and expenses and cash flows from embedded options, and guarantees. If the test shows that a deficiency exists, the shortfall is immediately recorded in profit or loss.

A resilience test is performed on annual basis to provide allowance for the movement of market value of required assets relative to value of liability such that negative surplus is avoided under shocked interest rate scenarios.

Reinsurance

The Company cedes insurance risk in the normal course of business for its insurance contracts. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the insurance contract liabilities, are settled in accordance with the reinsurance contract and are accounted for in the same period as the underlying claim.

Premiums and claims are presented on a gross basis for ceded reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party. Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company leases various properties and equipment. These leases, except for short-term leases and leases of low-value assets, are recognised as right-of-use assets and lease liabilities at the date at which the leased assets are available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The depreciation charge for right-of-use assets, by class of underlying asset, and finance cost on lease liabilities are disclosed in note 5.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

• fixed payments (including in-substance fixed payments), less any lease incentives receivable;

• variable lease payments that are based on an index or a rate;

• amounts expected to be payable by the lessee under residual value guarantees;

• the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

• payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate of the respective business unit (as the lessee) within the Company.

Right-of-use assets are measured at cost comprising the following:

• the amount of initial measurement of lease liability;

• any lease payments made at or before the commencement date less any lease incentives received;

• any initial direct costs; and

• restoration costs.

Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise computer hardware and small items of furniture and fixtures that are individually, when new, below US$5,000.

Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive for the lessee to exercise an extension option, or not exercise a termination option. Extension and termination options are included in a number of leases across the Company. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Lease term (continued)

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated) by the lessee. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value, with the exception of assets and liabilities that do not impact taxable or accounting profits. A tax asset is recognised for tax loss carryforwards to the extent that it is probable at the reporting date that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are reviewed at the balance sheet date and are measured at tax rates that are expected to apply when the asset is realised or the liability is settled. The carrying amount is not discounted and reflects the Company's expectations concerning the manner of recovery or settlement.

Deferred tax assets and liabilities are recognised in relation to the underlying transaction either in profit and loss, other comprehensive income or directly in equity.

Premiums

Premiums in respect of traditional policies are recognised as income as and when they fall due, whereas those in respect of universal life and unit-linked contracts are accounted for as they are received. Premiums on reinsured policies that transfer underwriting risk are expensed as incurred.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Commissions

Commissions received on reinsured policies that transfer underwriting risk are recognised as income at the same time as the reinsurance premiums are recognised. Commission expense are expensed as incurred.

Realised gains and losses on investments

Realised gains and losses on investments are determined as the difference between the net sales proceeds and cost or amortised cost.

Investment income

Investment income is recognised on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment is established. For listed securities, this is the date the security is listed as ex-dividend.

Benefits and insurance claims

Death claims and surrenders are recorded when notifications have been received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued to the liability.

Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

Events after the reporting date

The financial statements are adjusted to reflect events that occurred between the reporting date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the reporting date. Events that are indicative of conditions that arose after the reporting date are disclosed, but do not result in an adjustment of the financial statements.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Company measures certain investments at fair value at the end of each reporting period. 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.

Assets and liabilities recorded at fair value on the Statement of Financial Position are categorised as follows:

Level 1. Unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2. Quoted prices in markets that are not active or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

a) Quoted prices for similar assets or liabilities in active markets

b) Quoted prices for identical or similar assets or liabilities in non-active markets

c) Inputs other than quoted market prices that are observable

d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means

Level 3. Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Both observable and unobservable inputs may be used to determine the fair value of positions classified in Level 3. The circumstances for using unobservable measurement include those in which there is little, if any, market activity for the assets or liabilities. Therefore, the Company must make assumptions about inputs that a hypothetical market participant would use to value the assets and liabilities.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the beginning of each quarter.

3.1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

The Company makes estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

3.2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Life insurance contract liabilities

The estimation of the ultimate liabilities arising from claims made under life insurance contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimation of the liabilities that the Company will ultimately pay for those claims.

Two major components in the estimation of the liabilities for insurance contracts are death benefits and investment returns. 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 standard industry and national mortality tables that reflect historical mortality experience, adjusted, where appropriate, to reflect the Company's unique risk exposure. The estimated number of deaths determines the value of possible future benefits to be paid out which will be factored into ensuring sufficient cover by provisions, which in return is monitored against the current and future premiums.

Investment returns are based on the investment strategy of the Company with due regard to the expected return on assets backing the insurance contracts. Estimates for future deaths and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy, and changes will be reflected in adjustments to the liability.

The carrying value of the Company's life insurance contract liabilities (including claims payable and premium deposits) at December 31, 2021 and 2020 is US$8,935,392,000 and US$9,080,074,000 respectively.

3.2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

Fair value of financial assets

The fair value of a financial instrument 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 values of fixed-interest securities are determined by management after taking into consideration several sources of data. When available, the Company uses quoted market prices in active markets to determine the fair value of its fixed-interest securities. The Company's valuation policy utilises a pricing hierarchy which dictates that publicly available prices are initially sought from indices and third-party pricing services. In the event that pricing is not available from these sources, those securities are submitted to brokers to obtain quotes. The majority of brokers' quotes are non-binding. As part of the pricing process, the Company assesses the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modeling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.

To understand the valuation methodologies used by third-party pricing services, the Company reviews and monitors their applicable methodology documents. Any changes to their methodologies are noted and reviewed for reasonableness.

In addition, the Company performs in-depth reviews of prices received from third-party pricing services on a sample basis. The objective for such reviews is to demonstrate that the Company can corroborate detailed information such as assumptions, inputs and methodologies used in pricing individual securities against documented pricing methodologies. Only third-party pricing services and brokers with a substantial presence in the market and with appropriate experience and expertise are used.

Periodically, the Company performs an analysis of the inputs obtained from third-party pricing services and brokers to ensure that the inputs are reasonable and produce a reasonable estimate of fair value. The Company's asset specialists and investment valuation specialists consider both qualitative and quantitative factors as part of this analysis. Several examples of analytical procedures performed include, but are not limited to, recent transactional activity for similar debt securities, review of pricing statistics and trends and consideration of recent relevant market events. Other controls and procedures over pricing received from indices, third-party pricing services, or brokers include validation checks such as exception reports which highlight significant price changes, stale prices or un-priced securities.

3.2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

Fair value of financial assets (continued)

The Company's portfolio of private placement securities (held at fair value under the classification of available-for-sale) is valued using a matrix pricing methodology. The pricing matrix is obtained from a third-party service provider and indicates current spreads for securities based on weighted average life, credit rating, and industry sector. Each month, the Company's asset specialists review the matrix to ensure the spreads are reasonable by comparing them to observed spreads for similar bonds traded in the market. Other inputs to the valuation include coupon rate, the current interest rate curve used for discounting and an illiquidity premium to account for the illiquid nature of these securities. The illiquidity premiums are determined based upon the pricing of recent transactions in the private placements market; comparing the value of the privately offered security to a similar public security. The impact of the illiquidity premium for private placement securities to the overall valuation is insignificant.

The Company's listed financial assets at fair value through profit or loss and available-for-sale financial investments carried at fair value at December 31, 2021 and 2020 is US$2,758,524,000 and US$3,156,699,000 respectively. The Company's listed held-to-maturity assets held at amortised costs at December 31, 2021 and 2020 is US$4,497,005,000 and US$4,327,493,000 respectively.

4. REVENUE, INVESTMENT INCOME, NET GAINS AND OTHER INCOME

Revenue, which is also the Company's turnover, represents net premiums on insurance contracts. An analysis of turnover and investment income is as follows:

	2021	2020
	US$'000	US$'000
Turnover		
Life insurance contracts:		
Single premiums	78,173	88,416
Regular premiums	69,366	77,428
Gross premiums	147,539	165,844
Reinsurers' share	(41,407)	(40,456)
Net premiums	106,132	125,388
Investment income		
Interest income from quoted fixed-interest securities	269,702	272,777
Interest income from banks	(6)	58
Interest received from policy loans	578	1,511
Investment handling charges (note 29 (ii))	(7,129)	(7,217)
Other	(877)	8
Net investment income	262,268	267,137
Realised gains/(losses)		
Gains on sale of securities	20,843	47,515
Losses on sale of securities	(19,449)	(13,350)
Impairment of debt securities	(67)	(6,139)
Net realised gains	1,327	28,026
Fair value gains		
Fair value gains on financial assets at fair value through profit or loss (held for trading purposes)	2,741	35

5. FINANCE COSTS

	2021 US$'000	2020 US$'000
Interest expense on lease liabilities	108	198
Interest expense on intercompany funding	-	33
Total finance costs	108	231

6. OPERATING EXPENSES

	Notes	2021 US$'000	2020 US$'000
Employee benefits and expenses:			
Salaries and benefits		20,543	25,362
Pension costs	26	844	1,266
		21,387	26,628
Office expenses		8,035	8,480
Management fee paid to parent company	29	2,470	3,697
Management fee paid to affiliates	29	7,137	6,014
Reinsurance fee for recapture expenses	29	-	5,000
Other general expenses		736	66
Auditors' remuneration		894	692
Total operating expenses		40,659	50,577

7. DIRECTORS' AND KEY MANAGEMENT'S REMUNERATION

Director fees or endowments in the amount of US$40,000 were paid during 2021 (2020: US$23,668).

Other remuneration of key management personnel is paid by and recorded in the financial statements of a related company. A recharge of expenses is made to the Company as explained in note 29 (v).

8. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The assessable profits of the Company subject to Hong Kong profits tax are computed in accordance with the special provisions of the Hong Kong Inland Revenue Ordinance. Tax for the life insurance business, as defined by the Hong Kong Inland Revenue Ordinance, is computed at a rate of 16.5% of 5% of net premium (gross premium received less reinsurance premium ceded) of the life insurance business, in accordance with Section 23(1)(a) of the Hong Kong Inland Revenue Ordinance.

The Company has a profit before tax of US$101,700,000 in 2021 (2020: US$108,390,000). The gross premiums received are US$147,539,000 (2020: US$165,844,000) and US$41,407,000 (2020: US$40,456,000) of reinsurance premiums were ceded. The gross premiums received from Hong Kong business are US$61,450,000 (2020:US$99,246,000) and US$30,086,000 (2020: US$29,019,000) of reinsurance premiums ceded.

Singapore income tax has been provided at the rate of 17% (2020: 17%) on the estimated chargeable income/allowable loss arising from the Company's Singapore operation during the year. The relevant chargeable income in 2021 is US$25,527,000 (allowable loss in 2020: US$161,221,854). The Company has tax losses of US$167,042,000 arising in Singapore during the year (2020: US$323,826,000).

	2021 US$'000	2020 US$'000
Current – Hong Kong:		
Charge for the year	266	611
Over provision in prior year	15	(36)
Current – Singapore:		
Charge for the year	-	37
Under provision in prior year	-	7
Deferred – Singapore:		
Charge for the year	9,594	8,476
	9,875	9,095

8. TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	2021	2020
	US$'000	US$'000
Profit before tax	101,700	108,390
Tax expense at the statutory tax rate of 16.5%	16,781	17,884
Tax at 16.5% of 5% of net premium of the insurance business in Hong Kong	266	611
Hong Kong tax for prior periods	15	(36)
Results of life insurance business not taxable at Hong Kong statutory rate	(16,781)	(17,884)
Taxes related to other countries	9,594	8,483
Others	-	37
Tax charge for the year	9,875	9,095

At December 31, 2021, the Company had income tax receivable of US$1,066,000 (2020: receivable of US$1,347,000).

8. TAX (CONTINUED)

Deferred Tax

The movements in net deferred tax (liabilities)/ assets during the year are as follows:

Deferred tax (liabilities)/ assets

	2021	2021	2021	2021
	Profit and Loss	Insurance Contract Liabilities	Fair Value adjustments arising from available for sales securities	Total deferred tax (liabilities)/ assets
	US$'000	US$'000	US$'000	US$'000
At January 1	33,664	(5,858)	(38,413)	(10,607)
Deferred tax charged during the year	(5,267)	(4,327)	10,087	493
At December 31	28,397	(10,185)	(28,326)	(10,114)

	2020	2020	2020	2020
	Profit and Loss	Insurance Contract Liabilities	Fair Value adjustments arising from available for sales securities	Total deferred tax (liabilities)/ assets
	US$'000	US$'000	US$'000	US$'000
At January 1	6,256	30,025	(25,363)	10,918
Deferred tax charged during the year	27,408	(35,883)	(13,050)	(21,525)
At December 31	33,664	(5,858)	(38,413)	(10,607)

8. TAX (CONTINUED)

Deferred Tax (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances for financial reporting purposes:

	2021	2020
	US$'000	US$'000
Deferred tax assets	28,397	33,664
Deferred tax liabilities	(38,511)	(44,271)
Total net deferred tax liabilities/assets	(10,114)	(10,607)

Deferred tax assets computed on deductible temporary differences of:	2021	2020
	US$'000	US$'000
Financial assets	16,180	12,707
Taxable losses	167,042	198,024
Total deductible temporary differences	183,222	210,731

Deferred tax liabilities computed on taxable temporary differences of:	2021	2020
	US$'000	US$'000
Insurance reserves	59,914	34,463
Financial assets	182,803	238,664
Total taxable temporary differences	242,717	273,127
Total temporary difference:	(59,495)	(62,396)

Deferred corporate income tax assets in respect of deductible temporary differences are recognised to the extent that the realization of the related tax benefit through future taxable profits is probable. For the above amounts the recognition of the deferred corporate income tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences.

All deferred taxes are non-current by nature.

9. FINANCIAL ASSETS

	Notes	2021 US$'000	2020 US$'000
Total financial investments:			
Policy loans	10	9,144	11,368
Held-to-maturity financial assets	(i)	4,497,005	4,327,493
Available-for-sale financial assets	(ii), 11	2,746,019	3,148,111
Financial assets at fair value through profit or loss	(iii)	12,505	8,588
		7,264,673	7,495,560
Current portion:			
Held-to-maturity financial assets		214,917	315,625
Available-for-sale financial assets	11	67,982	113,666
		282,899	429,291
Non-current portion:			
Policy loans	10	9,144	11,368
Held to maturity financial assets		4,282,088	4,011,868
Available-for-sale financial assets	11	2,678,037	3,034,445
Financial assets at fair value through profit or loss		12,505	8,588
		6,981,774	7,066,269
		7,264,673	7,495,560

On August 31, 2021, the Company reclassified 81 securities with a fair value of US$436,707,000 out of available-for-sale and into held-to-maturity. The fair value at the time of the reclassification became the new amortised cost of these securities and any unrealised gain or loss is amortised over the remaining lives of the securities in accordance with the effective interest method. Reclassifying available-for-sale assets to held-to-maturity will help asset and liability volatility matching on HK Global basis.

For the securities reclassified in 2021, the cumulative gain of US$27,135,000 in other comprehensive income as at August 31, 2021 (that is, the difference between the fair value of US$436,707,000 and the amortised cost of US$409,573,000)

On November 30, 2020, the Company reclassified 86 securities with a fair value of US$478,791,000 out of available-for-sale and into held-to-maturity. The fair value at the time of the reclassification became the new amortised cost of these securities and any unrealised gain or loss is amortised over the remaining lives of the securities in accordance with the effective interest method.

For the securities reclassified in 2020, the cumulative gain of US$ 40,715,000 in other comprehensive income as at November 30, 2020 (that is, the difference between the fair value of US$ 478,791,000 and the amortised cost of US$ 438,076,000)

9. FINANCIAL ASSETS (CONTINUED)

(i) The held-to-maturity financial assets analysed by category of instrument and issuer as at the reporting date is as follows:

	2021	2020
	US$'000	US$'000
Fixed rate bonds, at market value:		
Listed government bonds	272,275	122,151
Unlisted government bonds	31,792	-
Listed others	2,525,827	2,673,835
Unlisted others	1,540,252	1,403,576
Variable rate bonds, at market value:		
Listed others	35,716	36,136
Unlisted others	91,143	91,795
Total held-to-maturity financial assets	4,497,005	4,327,493

(ii) The available-for-sale financial assets analysed by category of instrument and issuer as at the reporting date is as follows:

	2021	2020
	US$'000	US$'000
Fixed rate bonds, at market value:		
Listed government bonds	360,954	573,335
Unlisted government bonds	7,767	36,516
Listed others	1,631,831	1,598,331
Unlisted others	665,582	857,665
Variable rate bonds, at market value:		
Listed others	25,813	24,179
Unlisted others	53,702	57,487
Equity		
Listed	370	598
Total available-for-sale financial assets	2,746,019	3,148,111

9. FINANCIAL ASSETS (CONTINUED)

(iii) The financial assets at fair value through profit or loss analysed by category of instrument and issuer as at the reporting date is as follows:

	Notes	2021 US$'000	2020 US$'000
Fixed rate bonds, at market value:			
Listed others		10,133	8,190
Variable rate bonds, at market value:			
Unlisted others		383	398
Derivative financial instruments	(a)	1,989	-
Total financial assets at fair value through profit or loss		12,505	8,588

(a) Derivative financial instruments are measured at fair value through profit or loss.

	Contractual notional amount US$'000	Fair value asset US$'000
December 31, 2021		
Derivatives not held for hedging		
Interest rate swaps	316,644	1,989
Total	316,644	1,989
December 31, 2020		
Derivatives not held for hedging		
Interest rate swaps	-	-
Total	-	-

The amount of fair value asset is on net basis. On gross basis, the amount of derivatives assets is US$3,330,000 (2020: nil) and the amount of derivatives liabilities is US$1,341,000 (2020: nil).

9. FINANCIAL ASSETS (CONTINUED)

The following table shows detail about the carrying amounts and fair values of all financial assets that have reclassified:

	As at December 31 2021	
	US$'000	US$'000
	Carrying amount	Fair value
Securities reclassified in 2020	460,493	437,791
Securities reclassified in 2021	434,779	430,475
	895,272	868,266

The total amount recognised in the profit and loss in relation to those securities reclassified as held-to-maturity is as follows:

	2021	2020	2021	2020
	US$'000	US$'000	US$'000	US$'000
	Amortisation		Interest income	
Securities reclassified in 2020	(17,930)	(368)	12,205	1,085
Securities reclassified in 2021	(1,928)	-	4,059	-

If the securities had not been reclassified as held-to-maturity, the total amount recognised in profit or loss would have been as follows:

	2021
	US$'000
	Profit impact
Securities reclassified in 2020	
-Prior year impact	(592)
-During the year	(1,182)
	(1,774)
Securities reclassified in 2021	
-During the year	(1,116)

9. FINANCIAL ASSETS (CONTINUED)

	As at December 31 2021			
	US$'000	US$'000	US$'000	US$'000
	Securities reclassified in 2021	Securities reclassified in 2020	Securities reclassified in 2018	Total
Profit for the year				91,825
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Held to Maturity financial assets				
Reclassification adjustment for amortization	(1,875)	(1,986)	(13,450)	(17,311)
Available-for-sale financial assets				
Changes in fair value	(67,457)	(77,107)	9,745	(134,819)
Reclassification adjustment for loss included in profit or loss	760	804	995	2,559
Income tax effect	5,525	6,316	(798)	11,043
Exchange fluctuation reserve	171	181	224	576
Total other comprehensive income for the year	(62,876)	(71,792)	(3,284)	(137,952)

	As at the date of reclassification	
		US$'000
	Effective Interest Rate	Expected recoverable amount
Securities reclassified in 2020	2.7% to 6.1%	1,309
Securities reclassified in 2021	2.5% to 7.5%	1,242

10. POLICY LOANS

The policy loans are made to policyholders and are secured by the policies' cash surrender value. Policy loans are repayable at the discretion of the policyholders as long as the interest plus the principal of the loans does not equal or exceed the cash value or until the policy matures. The policy loans are interest-bearing at a rate between 4.8% and 7.4% per annum for 2021 and 2020 depending on the policy. The carrying amounts reasonably approximate to their fair values at the reporting date.

11. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

	Notes	2021 US$'000	2020 US$'000
Quoted fixed-interest securities, at fair value:			
Hong Kong		6,514	14,081
Elsewhere		2,717,837	2,975,688
		2,724,351	2,989,769
Other listed financial investments:			
Hong Kong		-	-
Elsewhere		21,667	158,342
	(i)	21,667	158,342
Total available-for-sale financial investments	9	2,746,019	3,148,111
Current portion		67,982	113,666
Non-current portion		2,678,037	3,034,445
	9	2,746,019	3,148,111

(i) Other listed financial investments mainly represent hybrid securities, common stock, and beneficial interest in transit with no fixed maturity date.

The available-for-sale financial investments included in the statement of financial position analysed by category of issuer as at the reporting date were as follows:

	Note	2021 US$'000	2020 US$'000
Governments or public authorities		368,721	609,851
Banks and other financial institutions		548,575	607,459
Corporate entities		1,828,723	1,930,801
Total	9	2,746,019	3,148,111

The maturity profile of the available-for-sale financial investments as at the reporting date was as follows:

	2021 US$'000	2020 US$'000
With a residual maturity of:		
One year or less	67,982	113,666
One to five years	503,156	355,095
Five to ten years	804,785	939,601
Over ten years	1,370,096	1,739,749
Quoted fixed-interest securities	2,746,019	3,148,111

11. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS (CONTINUED)

During 2021, the highest effective interest rate of quoted fixed-interest securities is 12.25% (2020: 12.25%) per annum, and 95% (2020: 95%) of the fixed-interest securities held by the Company were investment-grade fixed-interest securities. The unrealised gain related to the Company's available-for-sale financial investments fair value change recognised in other comprehensive income, net of related tax effect, amounted to US$120,587,000 (2020: US$179,588,000). Net losses of US$2,559,000 (2020: Net gains of US$45,000) were removed from other comprehensive income during the year and recognised in profit or loss with the remaining net unrealised gain at the reporting date being US$143,849,000 (2020: US$296,727,000) for available for sale financial assets and net unrealised gains US$198,394,000 (2020: US$182,809,000) for held to maturity financial assets.

12. PREPAYMENT AND OTHER DEBTORS – UNSECURED

	2021	2020
	US$'000	US$'000
Prepayments	672	631
Other net debtors	2,529	4,817
	3,201	5,448

The carrying amounts disclosed above reasonably approximate to their fair values at the reporting date.

13. CASH AND CASH EQUIVALENTS

	2021	2020
	US$'000	US$'000
Cash at bank	84,516	50,374

Cash at bank earns interest at floating rates based on daily bank deposit rates.

The carrying amounts disclosed above reasonably approximate to their fair values at the reporting date.

14. FAIR VALUE HIERARCHY

The Company's financial assets and liabilities carried at fair value are classified, for disclosure purposes, based on a hierarchy defined by IFRS 13. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

As at December 31, 2021, the Company held the following financial instruments measured at fair value:

	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	US$'000	US$'000	US$'000	US$'000
Fixed-interest securities:				
Governments or public authority	111,290	257,431	-	368,721
Other fixed-interest listed	-	2,370,522	19,281	2,389,803
	111,290	2,627,953	19,281	2,758,524

US$10,021,000 of other fixed-interest listed securities was transferred from Level 3 into Level 2. The transfer from Level 3 to Level 2 assets at December 31, 2021 is a result of securities having a corroborated price source at December 31, 2021. US$8,545,000 of other fixed-interest listed securities was transferred from Level 2 into Level 3. The transfer from Level 2 to Level 3 assets at December 31, 2021 is a result of securities having an uncorroborated price source at December 31, 2021.

14. FAIR VALUE HIERARCHY (CONTINUED)

As at December 31, 2020, the Company held the following financial instruments measured at fair value:

	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	US$'000	US$'000	US$'000	US$'000
Fixed-interest securities:				
Governments or public authority	298,608	311,243	-	609,851
Other fixed-interest listed	122	2,528,467	18,259	2,546,848
	298,730	2,839,710	18,259	3,156,699

During the year ended December 31, 2020, there were no transfers of financial instruments between Level 1 and Level 2. US$125,274,000 of other fixed-interest listed securities was transferred from Level 3 into Level 2. The transfer from Level 3 to Level 2 assets at December 31, 2020 is a result of securities having a corroborated price source at December 31, 2020. US$13,148,000 of other fixed-interest listed securities was transferred from Level 2 into Level 3. The transfer from Level 2 to Level 3 assets at December 31, 2020 is a result of securities having an uncorroborated price source at December 31, 2020.

Management has assessed that the fair values of assets and liabilities not measured at fair value including loans, receivables for securities, premiums deferred and uncollected, reinsurance receivables, prepayments and other debtors, accrued income, balances with related companies, cash and cash equivalents, premium deposits, advance premium, claims payable, accrued expenses and other creditors approximate their carrying amounts largely due to the short term maturities of these instruments.

14. FAIR VALUE HIERARCHY (CONTINUED)

As at December 31, 2021, the Company held financial instruments at amortised cost of US$4,497,005,000. If these financial instruments were measured at fair value, they would be reported as follows:

	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	US$'000	US$'000	US$'000	US$'000
Held-to-maturity securities:				
Governments or public authority	124,514	-	-	124,514
Other fixed-interest listed	-	4,630,025	-	4,630,025
	124,514	4,630,025	-	4,754,539

As at December 31, 2020, the Company held financial instruments at amortised cost of US$4,327,493,000. If these financial instruments were measured at fair value, they would be reported as follows:

	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	US$'000	US$'000	US$'000	US$'000
Held-to-maturity securities:				
Governments or public authority	134,833	-	-	134,833
Other fixed-interest listed	-	4,617,515	-	4,617,515
	134,833	4,617,515	-	4,752,348

14. FAIR VALUE HIERARCHY (CONTINUED)

The movements in fair value measurements in Level 3 during the year were as follows:

	2021	2020
	US$'000	US$'000
Available-for-sale investments – unlisted:		
At January 1	18,259	121,617
Total losses recognised in profit or loss	(923)	(189)
Total (losses)/gains recognised in other comprehensive income	523	(2,680)
Transfer in	8,545	13,148
Transfer out	(10,021)	(125,274)
Purchases	6,697	12,000
Disposals	(3,799)	(363)
At December 31	19,281	18,259

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

General risks

As a life insurance company, the Company is in the "risk" business, and as a result is exposed to a variety of risks. The Company manages risk where business is transacted, based on principles and policies established at the TLIC and AEGON N.V. level.

The operations of the Company are subject to local regulatory requirements in Hong Kong. The regulators are interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters and that the risk levels are at acceptable levels.

Results of the Company's sensitivity analyses are presented throughout this section to show the estimated sensitivity of net income and equity to various scenarios. For each type of market risk, the analysis shows how net income and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

General risks (continued)

Each sensitivity analysis reflects the extent to which the shock tested would affect management's critical accounting estimates and judgment in applying the Company's accounting policies. Market-consistent assumptions underlying the measurement of non-listed assets and liabilities are adjusted to reflect the shock tested. The shock may also affect the measurement of assets and liabilities based on assumptions that are not observable in the market. Although management's short-term assumptions may change if there is a reasonable change in a risk factor, long-term assumptions will generally not be revised unless there is evidence that the movement is permanent. This fact is reflected in the sensitivity analyses provided below.

The sensitivities do not reflect what the net income for the period would have been if risk variables had been different because the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the results of the sensitivities intended to be an accurate prediction of future equity or earnings. The analysis does not take into account the impact of future new business, which is an important component of future earnings. It also does not consider all methods available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates. Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects do not tend to be linear. No risk management process can clearly predict future results.

Insurance risk

The Company is in the business of insuring against the risk of mortality, disability, accidents, and related risks.

Generally speaking, the Company retained all of the first US$1,000,000 face amount per policy, namely, First Dollar Retention. For face amount in excess of US$1,000,000, TLB had a 50:50 quota share with third party reinsurers (TPR), subject to a maximum retention of $10,000,000 per life. The form of reinsurance arrangements are yearly renewal term (YRT). This retention structure applies to both UL and Term business.

As part of the Company's quality control process, the Company regularly allows reinsurers to audit its underwriting and claim practices and procedures to ensure that they meet the highest industry standards.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Underwriting risk

The Company's earnings depend significantly upon the extent to which actual claims experience is consistent with the assumptions used in setting the prices for products and establishing the technical liabilities and liabilities for claims. To the extent that actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, income would be reduced. Furthermore, if these higher claims were part of a permanent trend, the Company might be required to increase liabilities, which could reduce income. Note that the impact of mortality changes is partially offset by significant use of third-party reinsurance and affiliate coinsurance.

Sensitivity analysis of net income and shareholder's equity to various underwriting risks is shown in the table that follows. The sensitivities represent an increase or decrease of lapse, mortality rates. The impact on benefit payments from changes in lapse rates will be offset by changes in provisions. Increases in mortality rates lead to an increase in the level of benefits and claims and liabilities. The impact on net income and equity of sales transactions of investments required to meet the higher cash outflow are reflected in the sensitivities.

	Estimated Effect (In US$ Million)			
	2021		2020	
	On Equity	On Profit before tax	On Equity	On Profit before tax
20% increase in lapse rates	0.8	0.8	0.4	0.4
20% decrease in lapse rates	(0.8)	(0.8)	(0.4)	(0.4)
10% increase in mortality rates	(0.7)	(0.7)	(1.7)	(1.7)
10% decrease in mortality rates	0.7	0.7	1.7	1.7

A shock in mortality rates will generally not lead to a change in the assumptions underlying the measurement of the insurance liabilities, as management will recognize that the shock is temporary. However, a long-term expected change in mortality expectations will lead to a change in liabilities. Life insurers are also exposed to longevity risk. In practice, however, this longevity risk can be mitigated, for example, by adjusting premium rates or through reinsurance transactions.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk

Market risk is the risk of changes in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk), and market prices (price risk), whether such changes in price are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. These risks have been discussed in the aforesaid sections.

Credit risk

Premium receivables (included in premiums deferred and uncollected)

The credit risk in respect of customer balances, incurred on the non-payment of premiums or contributions, will only persist during the grace period specified in the policy documents or trust deed on the expiry of which either the premium is paid or the policy will be terminated or changed to reduced paid-up or term cover according to the provision of the policy.

Investment securities

The Company limits its exposure by setting minimum limits of its portfolio mix in fixed-interest securities and maximum limits of its portfolio mix in equities and other investments. The Company also sets maximum limits on currency, maturity, and credit limit on its fixed-income portfolios. The Company only deals with institutions with high creditworthiness.

It is the Company's investment policy to invest in investment-grade fixed-interest securities to limit exposure to credit risk. The Company allows a maximum of 15% of invested assets to be invested in non-investment-grade (below Standard & Poor's rating BBB-) fixed-interest securities. At December 31, 2021 and 2020, the amount of the non-investment-grade fixed-interest securities held by the Company was approximately 5.22% and 4.78% of its invested assets, respectively.

Reinsurance

Certain premiums and benefits are assumed from and ceded to other insurance companies under various reinsurance agreements. The Company reinsures portions of the risk on certain insurance policies which exceed its established limits, thereby providing a greater diversification of risk and minimising exposure on larger risks. The Company remains primarily liable with respect to any insurance ceded and would not be relieved of this liability in the event that the assuming insurance company became unable to meet its obligation under the reinsurance treaty.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Credit rating

The ratings distribution of the Company's invested assets, organized by rating category, is presented in the table below. Disclosures of ratings follow the Company's Credit Name Limit Policy ("CNLP"). Under the CNLP, a composite rating is used which is based on a combination of the ratings received from external rating agencies.

	2021	2020
	US$'000	US$'000
AAA	770,148	1,067,820
AA+	106,761	94,601
AA	237,405	228,773
AA-	337,956	278,827
A+	563,793	606,932
A	903,030	912,366
A-	936,173	939,350
BBB+	998,859	1,020,979
BBB	1,298,489	1,299,406
BBB-	724,372	677,267
BB+	140,711	131,482
BB	77,355	75,709
BB-	84,060	74,813
B+	11,489	8,507
B	26,579	26,334
B-	11,960	16,411
CCC+	913	6,242
CCC	12,192	4,250
CCC-	1,706	197
CC	231	909
C	1,699	2,619
D	7,657	10,276
Not rated	1,991	122
Total invested assets	7,255,529	7,484,192

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Past due but not impaired assets

An asset is past due when a counterparty has failed to make a payment when contractually due. Assets are impaired when there is objective evidence of impairment which results in an impairment charge to profit or loss relating to this asset. After the impairment loss is reversed in subsequent periods, the asset is no longer considered to be impaired. When the terms and conditions of financial assets have been renegotiated, the terms and conditions of the new agreement apply in determining whether the financial assets are past due. Securities in the amount of US$3,223,613 were past due but not impaired as at December 31, 2021 (2020: US$1,505,683).

	2021	2020
Past due	US$'000	US$'000
0 – 6 months	1,603	1,291
6 – 12 months	1,365	215
More than 12 months	256	-
Total	3,224	1,506

Interest rate risk

Interest rate risk is the risk that the value or the future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Company's interest risk policy requires it to manage the interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities.

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curve on net income and equity. Increases in interest rates result in higher investment income together with decrease in the fair value of investments, which is recognised in other comprehensive income. Similarly, a decrease in interest rate increases the universal policy liabilities mostly offset by the increase in the fair value of investments, which is recognized in other comprehensive income.

	Parallel Movement of Yield Curve (In US$ Millions)			
	Impact on Profit Before Tax		Impact on Shareholder's Equity	
	2021	2020	2021	2020
Shift up 100 basis points	2.6	2.2	(255.6)	(325.1)
Shift down 100 basis points	(56.7)	(237.4)	256.4	90.0

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Company's policy is to match its assets and liabilities by currency to minimise its exposure to currency risk. The Company sells policies denominated in United States dollars, and its assets are appropriately invested to meet these liabilities. As at the reporting date, there were no investments denominated in foreign currency. The Company's foreign currency exposure from transactions denominated in Hong Kong dollar and other foreign currencies. While Hong Kong dollar is pegged to the United States dollar, the balance of other foreign currency liabilities is not material.

Equity risk

The Company's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's price risk policy requires it to manage such risk by setting and monitoring objectives and constraints on investments and diversification plans and to limit the investment in each country, sector, and market.

Significant changes in equity markets are not expected to have a material impact on the Company's net income or equity due to limited equity investments.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

Liquidity risk is inherent in the Company's business. Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from the inability to sell financial assets quickly at their fair values, counterparty failing to repay contractual obligation, insurance liability falling due for payment earlier than expected or inability to generate cash inflows as anticipated.

The major liquidity risks the Company confronts are the daily calls on its available cash resources in respect of claims arising from insurance.

The Company manages liquidity through a company liquidity risk policy, which includes determining what constitutes liquidity risk for the Company and the minimum proportion of funds to meet emergency calls, the setting up of contingency funding plans, specifying the sources of funding and the events that would trigger the plan, specifying the concentration of funding sources, the reporting of liquidity risk exposures and breaches to the monitoring authority, monitoring the compliance with liquidity risk policy, and the reviewing of the Company's liquidity risk policy for pertinence and changing environment.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The tables below analyze certain financial assets and liabilities of the Company as at December 31, 2021 and 2020, into their relevant maturity group based on their remaining periods at the reporting date to their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows. (For Structured Securities, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.)

At December 31,2021

	1 year or less US$'000	2 years or less but > 1 year US$'000	3 years or less but > 2 years US$'000	4 years or less but > 3 years US$'000	5 years or less but > 4 years US$'000	> 5 years US$'000	Total US$'000
Financial assets:							
Policy loans	-	-	-	-	-	9,144	9,144
Receivables for securities	46,899	-	-	-	-	-	46,899
Held-to-maturity financial assets	214,917	257,449	398,061	356,224	235,030	3,035,324	4,497,005
Available-for-sale financial investments – fixed interest securities	67,982	48,168	106,668	131,823	216,497	2,174,881	2,746,019
Financial assets at fair value through profit or loss	-	-	-	-	-	10,516	10,516
- Derivative financial instruments	-	173	-	-	788	1,028	1,989
Premiums deferred and uncollected	2,600	-	-	-	-	-	2,600
Reinsurance receivables	31,266	-	-	-	-	-	31,266
Prepayment and other debtors	3,201	-	-	-	-	-	3,201
Accrued investment income	66,058	-	-	-	-	-	66,058
Receivable from related companies	15,175	-	-	-	-	-	15,175
Cash and cash equivalents	84,516	-	-	-	-	-	84,516
	532,614	305,790	504,729	488,047	452,315	5,230,893	7,514,388
Financial liabilities:							
Insurance contract liabilities net of reinsurance assets - Class A (Note 25)	145,729	147,486	152,094	154,620	156,026	5,190,029	5,945,984
Insurance contract liabilities net of reinsurance assets - Class C (Note 25)	-	-	-	-	-	12,123	12,123
Premium deposits	-	-	-	-	-	3,093	3,093
Advance premium	1,428	-	-	-	-	-	1,428
Claims payable	37,339	-	-	-	-	-	37,339
Accrued expenses and other creditors	61,490	-	-	-	-	-	61,490
Lease liabilities	1,349	260	48	4	1	-	1,662
Payable to related companies	5,033	-	-	-	-	-	5,033
	252,368	147,746	152,142	154,624	156,027	5,205,245	6,068,152

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

At December 31,2020

	1 year or less US$'000	2 years or less but > 1 year US$'000	3 years or less but > 2 years US$'000	4 years or less but > 3 years US$'000	5 years or less but > 4 years US$'000	> 5 years US$'000	Total US$'000
Financial assets:							
Policy loans	-	-	-	-	-	11,368	11,368
Receivables for securities	4,610	-	-	-	-	-	4,610
Held-to-maturity financial assets	315,625	232,357	284,689	402,194	361,381	2,731,247	4,327,493
Available-for-sale financial investments – fixed interest securities	113,666	13,450	68,809	123,694	149,142	2,679,350	3,148,111
Financial assets at fair value through profit or loss	-	-	-	-	-	8,588	8,588
Premiums deferred and uncollected	4,684	-	-	-	-	-	4,684
Reinsurance receivables	76,510	-	-	-	-	-	76,510
Prepayment and other debtors	5,448	-	-	-	-	-	5,448
Accrued investment income	66,443	-	-	-	-	-	66,443
Receivable from related companies	32,054	-	-	-	-	-	32,054
Cash and cash equivalents	50,374	-	-	-	-	-	50,374
	669,414	245,807	353,498	525,888	510,523	5,430,553	7,735,683
Financial liabilities:							
Insurance contract liabilities net of reinsurance assets - Class A (Note 25)	110,027	107,306	108,825	115,772	124,846	5,405,024	5,971,800
Insurance contract liabilities net of reinsurance assets - Class C (Note 25)	-	-	-	-	-	-	-
Premium deposits	-	-	-	-	-	3,093	3,093
Advance premium	884	-	-	-	-	-	884
Claims payable	102,084	-	-	-	-	-	102,084
Accrued expenses and other creditors	94,953	-	-	-	-	-	94,953
Lease liabilities	2,972	1,096	-	-	-	-	4,068
Payable to related companies	2,955	-	-	-	-	-	2,955
	313,875	108,402	108,825	115,772	124,846	5,408,117	6,179,837

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

Externally imposed capital requirements are set and regulated by the Hong Kong Insurance Ordinance. These requirements are put in place to ensure sufficient solvency margins, to safeguard the Company's ability to continue as a going concern, and to maintain healthy capital ratios in order to support its business objectives and maximise shareholder value.

The Company manages as capital its equity as disclosed in the statement of financial position. The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis, in accordance with the Hong Kong Insurance Ordinance. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Company's activities.

The Company fully complied with the externally imposed capital requirements during the reported period, and no changes were made to its objectives, policies and processes from the previous period.

16. REINSURANCE

The Company is involved in the assumption of reinsurance from other companies and the cession of reinsurance to other companies, including affiliated companies. Risks are reinsured with other companies to permit the recovery of a portion of the direct losses. Policy liabilities and accruals are reported in the accompanying financial statements on a gross basis for ceded reinsurance. The Company remains primarily liable whether or not the reinsuring companies meet their obligations under these reinsurance treaties.

Premiums earned and provision and claims liability amounts reflect the following reinsurance ceded amounts:

			Ceded/Retroceded to		
	Direct Amount	Unaffiliated Assumed Companies	Affiliated Ceded Companies	Unaffiliated Ceded Companies	Net Amount
	US$'000	US$'000	US$'000	US$'000	US$'000
Year ended December 31, 2021:					
Premium revenue	147,539	-	728	(42,135)	106,132
At December 31, 2021:					
Provision for future policy benefits	8,866,560	28,400	(2,910,122)	(26,731)	5,958,107
Policy and contract claims payable	37,178	161	(12,714)	(18,828)	5,797
	8,903,738	28,561	(2,922,836)	(45,559)	5,963,904

16. REINSURANCE (CONTINUED)

			Ceded/Retroceded to		
	Direct Amount	Unaffiliated Assumed Companies	Affiliated Ceded Companies	Unaffiliated Ceded Companies	Net Amount
	US$'000	US$'000	US$'000	US$'000	US$'000
Year ended December 31, 2020:					
Premium revenue	165,844	-	(3,263)	(37,193)	125,388
At December 31, 2020:					
Provision for future policy benefits	8,942,761	32,136	(2,976,794)	(26,303)	5,971,800
Policy and contract claims payable	101,826	258	(9,167)	(66,759)	26,158
	9,044,587	32,394	(2,985,961)	(93,062)	5,997,958

17. PAYABLE TO POLICYHOLDERS

	Notes	2021	2020
		US$'000	US$'000
Current:			
Class A		37,328	101,584
Class C		11	500
Claims payable	18	37,339	102,084
Non-current:			
Premium deposits – Class A	19	3,093	3,093
		40,432	105,177

Claims incurred but not reported as at December 31, 2021, amounted to US$1,227,000 (2020: US$1,559,000) and are included in claims payable.

18. CLAIMS PAYABLE

	2021	2020
	US$'000	US$'000
Gross claims payable (Note 17)	37,339	102,084
Policy and contract claims payable by:		
Affiliated Ceded Companies (Note 16)	(12,714)	(9,167)
Unaffiliated Ceded Companies (Note 16)	(18,828)	(66,759)
Total Policy and contract claims payable	(31,542)	(75,926)
Net claims payable	5,797	26,158
The movement during the year is as follows:		
At January 1	26,158	6,639
Provided during the year, net of payments made	(20,361)	19,519
At December 31	5,797	26,158
Net claims payable under life and annuity contracts	5,797	26,158

19. PREMIUM DEPOSITS

Premium deposits are amounts that are left on deposit with the Company for the payment of future premiums.

	2021	2020
	US$'000	US$'000
At January 1	3,093	3,122
Net received during the year	-	(29)
At December 31 (Note 17)	3,093	3,093

20. INTANGIBLE ASSETS

	Computer software US$'000
Cost	
At January 1 2020	2,903
Additions	2,065
At December 31 2020	4,968
Additions	1,629
At December 31 2021	6,597
Accumulated amortisation	
At January 1 2020	(130)
Charge for the year	(550)
At December 31 2020	(680)
Charge for the year	(705)
At December 31 2021	(1,385)
Net book value	
At December 31 2020	4,288
At December 31 2021	5,212

21. LEASES

This note provides information for leases where the Company is a lessee.

(i) Amounts recognised in the statement of financial position
The statement of financial position shows the following amounts relating to leases:

	2021	2020
	US$'000	US$'000
Right-of-use assets		
- Properties	1,411	3,619
- Equipment	18	5
	1,429	3,624
Lease liabilities		
- Current lease liabilities	1,349	2,973
- Non-current lease liabilities	313	1,095
	1,662	4,068

Note:

Additions to the right-of-use assets during the 2021 financial year were US$760,000 (2020: US$202,000).

(ii) Amounts recognised in the statement of profit or loss and other comprehensive income

	2021	2020
	US$'000	US$'000
Depreciation charge of right-of-use assets		
- Properties	2,948	3,048
- Equipment	4	7
	2,952	3,055
Interest expense (included in finance cost)	107	198
Expense relating to short-term leases (included in operating expenses)	-	-

21. LEASES (CONTINUED)

(iii) The Company's leasing activities and how these are accounted for

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

22. ACCRUED EXPENSES AND OTHER CREDITORS

	2021	2020
	US$'000	US$'000
Current portions:		
Commission payables	1,320	325
Reinsurance payables	5,634	4,430
Unearned policy loan interest	693	793
Accounts payable	10,880	22,837
Accrued bonuses and vacation	4,329	4,781
Accrued salaries	266	419
Pledged collateral	38,368	61,368
	61,490	94,953

Pledged collateral

TLB pledges assets that are on its statement of financial position in repurchase transactions. More specifically, TLB enters into dollar roll repurchase agreement transactions whereby the Company takes delivery of MBS pools and sells them to a counterparty along with an agreement to repurchase substantially the same pools at some point in the future, typically one month forward. TLB receives cash from the counterparty in an amount at least equal to the fair value of the securities transferred by the Company as of the transaction date. The Company does not have the legal right to recall or substitute the underlying assets prior to the transaction's scheduled termination. Upon scheduled termination, the counterparty is obligated to return substantially similar assets. These transactions are accounted for as collateralized borrowings and the repurchase agreement liability is included in accrued expenses and other creditors.

23. NET RECEIVABLE/(PAYABLE) TO RELATED COMPANIES

	2021	2020
	US$'000	US$'000
Receivable related to coinsurance agreement	14,349	30,132
Receivable/(payable) related to reinsurance agreement	-	-
Receivable/(payable) related to service agreements	826	1,922
	15,175	32,054
Payable related to service agreements	(5,033)	(2,955)
	(5,033)	(2,955)

24. REINSURANCE RECEIVABLES

	2021	2020
	US$'000	US$'000
Claims Recoverable	(276)	584
In course of settlement (ICOS)	29,987	74,329
Ceded Incurred but not reported (IBNR)	1,555	1,597
	31,266	76,510

25. INSURANCE CONTRACT LIABILITIES

Insurance contract liabilities are composed of liabilities for expected future non-guaranteed and guaranteed benefits and take into account expected future premium receipts.

	2021	2020
	US$'000	US$'000
Class A	8,880,457	8,972,655
Class C	14,503	2,242
Gross insurance contract liabilities	8,894,960	8,974,897
Reinsurers' share of insurance contract liabilities		
Class A	(2,934,473)	(3,000,855)
Class C	(2,380)	(2,242)
Net insurance contract liabilities	5,958,107	5,971,800

Amounts in insurance contract liabilities are as follows:

	2021		
	Gross Liabilities	Reinsurers' Share	Net Liabilities
	US$'000	US$'000	US$'000
At January 1	8,974,897	(3,003,097)	5,971,800
Premiums received	147,539	(41,407)	106,132
Liabilities for death, surrender, maturity	(227,476)	107,651	(119,825)
Claims paid, surrender, maturity	(302,745)	68,668	(234,077)
Changes in insurance contract liabilities	75,269	38,983	114,252
At December 31	8,894,960	(2,936,853)	5,958,107

25. INSURANCE CONTRACT LIABILITIES (CONTINUED)

	2020		
	Gross Liabilities	Reinsurers' Share	Net Liabilities
	US$'000	US$'000	US$'000
At January 1	8,227,353	(2,194,883)	6,032,470
Premiums received	165,844	(40,456)	125,388
Liabilities for death, surrender, maturity	581,700	(767,758)	(186,058)
Claims paid, surrender, maturity	(448,194)	128,319	(319,875)
Changes in insurance contract liabilities	1,029,894	(896,077)	133,817
At December 31	8,974,897	(3,003,097)	5,971,800

Key assumptions

The valuation of liabilities is based upon the regulatory requirements of Hong Kong and the prevailing statutory requirements of the state of domicile of the Company's parent company. For traditional policies (e.g. par whole life, term, non-par whole life), the Company valued its direct liabilities using U.S. statutory requirements. Based on the testing performed, US statutory reserves are in excess of the Hong Kong minimum method described in Hong Kong Insurance Ordinance CAP 41E and continues to provide an adequate reserve basis for Traditional Life policies. Both methods use a net level premium reserve method with a cash value floor but use different assumptions. The Company is holding the larger of the two aggregate amounts.

For Universal Life and Indexed Universal Life policies, liability has been set at 100% of cash surrender value plus the greater of unearned Cost of Insurance and Sterling Reserve for non-coinsured non-secondary guarantee products, 120% of account value for secondary guarantee products and 161% (2020: 165%) of account value for coinsured products floored by the cash surrender value. This amount was determined to be adequate to meet the requirements of CAP 41E and Actuarial Guidance Note 3, based on cash flow testing results.

The principles upon which distributions of profits to participating policyholders are made are based upon a predetermined profit margin which varies by product.

The mortality tables used in the valuation of traditional policies for US statutory requirements are AE, 41CSO, 58CSO, 80CSO, and 2001CSO. For purposes of calculating Hong Kong regulatory provisions, the Company used its expected mortality assumption plus a margin for adverse deviation.

The assumed rate of interest in the US statutory liability calculations varies from 2.5% to 6.0%. For purposes of calculating Hong Kong regulatory provisions, the Company used a prudent rate based on:

25. INSURANCE CONTRACT LIABILITIES (CONTINUED)

Key assumptions (Continued)

a. For HKD-denominated products, the average of (1) the rate of Government Bond issued by HKSAR Government as at the valuation date, and (2) average rates of Government Bond issued by HKSAR Government from Jan 2019 to Dec 2021.
b. For USD-denominated products, the average of (1) US government long term treasury yield as at the valuation date, and (2) average rates of US government long term treasury fixed-interest securities from 2019-2021.
c. For non-coinsured block of universal life policies, the setting of valuation interest rate (VIR) which makes references to the second supplement of AGN3 issued by the ASHK and the generally adopted approach among market players.

No explicit provision is made for future expenses or profits in the valuation. These items are implicitly covered by the conservative interest and mortality assumptions used in the calculations of the net premiums.

Sensitivities

The Company's actual claims are compared to the mortality experience assumed in the calculation of the insurance contract liabilities. Mortality experience in 2021 and 2020 has been favorable compared to expectations.

At December 31, 2021 (in US$ million)

	Assumption Change	Impact on Gross Liabilities	Impact on Net Liabilities	Impact on Profit Before Tax	Impact on Equity
Mortality	Increase by 10% (i.e., (mortality rate *1.1))	72.6	-	(0.7)	(0.7)
Investment return	Decrease by 100 basis points	291.5	54.2	(66.7)	246.4

At December 31, 2020 (in US$ million)

	Assumption Change	Impact on Gross Liabilities	Impact on Net Liabilities	Impact on Profit Before Tax	Impact on Equity
Mortality	Increase by 10% (i.e., (mortality rate *1.1))	90.5	-	(1.7)	(1.7)
Investment return	Decrease by 100 basis points	506.6	235.1	(237.4)	90.0

26. RETIREMENT AND COMPENSATION PLANS

All Hong Kong full-time employees are eligible to participate in a defined contribution retirement plan to which both the Company and the employee contribute. The Company and employee contributions are calculated and accrued according to Mandatory Provident Fund Scheme rules or exempted Occupational Retirement Schemes Ordinance whichever is applicable. The Company's expense was US$583,000 and US$799,000 for 2021 and 2020, respectively.

As required by law, the Company makes contributions to the Singapore statutory pension scheme, the Central Provident Fund ("CPF"). CPF contributions are recognised as expense in the same period as the employment that gives rise to the contributions. The Company's expense was US$260,000 and US$358,000 for 2021 and 2020, respectively.

27. DIVIDENDS

The directors approved an interim dividend of US$75,260,400 of which US$70,800,000 was paid to TLIC and US$4,460,400 to AIBV in the year ending December 31, 2021.

The directors approved an interim dividend of US$34,998,212 of which US$32,924,000 was paid to TLIC and US$2,074,212 to AIBV in the year ending December 31, 2020.

28. CONTINGENT LIABILITIES

As at December 31, 2021, the Company has undertaken a Letter of Credit with Citi Bank, N.A. for policies ceded by a 3rd party insurer for an amount of US$2,000,000. The Letter of Credit shall be automatically extended, without written amendment, to July 31 in each succeeding calendar year, unless with a written notice and be at least 60 calendar days after the date of written notification.

As at December 31, 2020, the Company has undertaken a Letter of Credit with Citi Bank, N.A. for policies ceded by a 3rd party insurer for an amount of US$2,000,000. The Letter of Credit shall be automatically extended, without written amendment, to July 31 in each succeeding calendar year, unless with a written notice and be at least 60 calendar days after the date of written notification.

29. RELATED PARTY TRANSACTIONS

Details of the material transactions with companies related to the Company were as follows:

	Notes	2021	2020
		US$'000	US$'000
Transactions with fellow subsidiaries:			
AEGON USA Investment Management LLC			
Interest income on short-term intercompany loans	(i)	-	3
Investments handling fee	(ii)	7,129	7,217
AEGON INSIGHTS LIMITED			
Management fee	(v)	(110)	(177)
AEGON ASIA			
Management fee	(v)	1,010	1,432
BLUE SQUARE RE N.V.			
Reinsurance net expense	(iv)	-	1,178
Recapture expenses	(iv)	-	5,000
AEGON ASSET MANAGEMENT			
Management fee	(v)	(3)	(2)
AEGON INVESTMENT MANAGEMENT B.V.			
Management fee	(v)	370	-
TRANSAMERICA (BERMUDA) SVC CTR			
Management fee	(v)	281	169
MONEY SERVICES, INC.			
Other expense allocation transaction	(v)	2,098	1,704
Transactions with ultimate holding company:			
AEGON NV			
Management fee	(v)	3,491	2,888
Transactions with immediate holding company:			
Transamerica Life Insurance Company ("TLIC")			
Coinsurance net (income) expense	(iii)	(46,224)	(57,397)
Interest expense on intercompany loans	5, (i)	-	33
Other expense allocation transaction	6, (v)	2,470	3,697

(i) Interest is charged based on expenses paid or other funds services provided by related parties. Interest expense is charged on a monthly basis based on rates equivalent to market.

(ii) AEGON USA Investment Management, LLC charges a fee to manage the Company's assets. Fees are based on assets under management. The terms of the arrangement were agreed between the Company and its counterparty.

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(iii) Net coinsurance expense (income) with TLIC under a coinsurance agreement. The terms of the arrangement were agreed between the Company and its counterparty.

(iv) Net reinsurance expense to Blue Square Re N.V. under a reinsurance agreement. The terms of the arrangement were agreed between the Company and its counterparty.

(v) Member companies in AEGON group have engaged in an Expenses Allocation Agreement (the "Agreement"). Expenses incurred that are allocable according to the Agreement are allocated through intercompany transactions. The terms of the arrangement were agreed between the Company and its counterparties.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2022.