

AIA Everest Life Company Limited

Directors' Report and Financial Statements
for the year ended 31 December 2025

Report of Directors

The directors of AIA Everest Life Company Limited ("the Company") have the pleasure of presenting their report together with the audited financial statements of the Company for the year ended 31 December 2025.

Principal Activities

The Company is a limited company incorporated in Hong Kong. The address of its registered office is Room 501, 5th Floor, AIA Building, 1 Stubbs Road, Hong Kong.

The Company is principally engaged in life insurance business in and from Hong Kong.

Financial Statements

The Company's profit for the year ended 31 December 2025 and the Company's financial performance as at that date are set out in the financial statements on pages 11 to 74.

Related Parties Transactions

Details of the related party transactions undertaken by the Company during the year ended 31 December 2025, in the ordinary course of business, are set out in note 22 to the financial statements.

Management contracts

Pursuant to an agreement dated 1 September 2021 made between the Company and AIA International Limited, acting through its Hong Kong Branch ("AIAHK") (the "Outsourcing Agreement"), the Company outsourced its business operations to AIAHK in accordance with the terms of the Outsourcing Agreement. Mr. Wing Shing Chan, a controller of the Company, is interested in this transaction to the extent that he is a director of AIA International Limited. The payment under this agreement during the year is included in note 22 to the financial statements.

Directors'/Controllers' Interests in Transactions, Arrangements or Contracts

Except for the management contracts disclosed in this report, no transactions, arrangements or contracts of significance in relation to the Company's business to which the Company, or its holding companies, or fellow subsidiaries were a party, and in which a director or controller of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Report of Directors (continued)

Recommended Dividend

The directors do not recommend the payment of any dividend in respect of ordinary shares for the year ended 31 December 2025 (2024: nil).

Shares issued in the year

Details of shares issued in the year ended 31 December 2025 are set out in note 18 to the financial statements.

Reinsurance Arrangements

Material reinsurance arrangements subsisting at the end of the year or at any time during the year are as follows:

Life, Critical Illness, Accident and Health Insurance

The Company has material outward reinsurance arrangements with a number of highly rated external reinsurers including Hannover Life Re, Chubb Life and Swiss Re.

Directors

The directors who have held office during the financial year and up to the date of this report were:

Mr. Wai Cheong Fung
Ms. Kit Sum Chung
Mr. Stuart John Valentine
Mr. Choi Cheung Fung
Ms. Ka Wai Lo (appointed with effect from 1 January 2025)

There being no provision in the Company's Articles of Association for retirement by rotation, all directors of the Company shall remain in office.

Controllers

The controllers of the Company during the financial year and up to the date of this report were:

AIA Group Limited ("AIAGL")
AIA Company Limited ("AIA Co")
Mr. Yuan Siong Lee
Mr. Wing Shing Chan
Mr. Chi Kou Ng

Report of Directors (continued)

Payments made to Directors/Controllers

Details of payments made to Directors during the year are set out in note 9 to the financial statements. Apart from the above, no property transferred, payment made, or loan advanced to, nor obligations assumed by or for a director or controller of the Company or his/her nominees or associates during the year.

Directors'/Controllers' interests in arrangements to acquire shares or debentures

During the year ended 31 December 2025, the following equity-linked schemes of AIAGL, the ultimate holding company of the Company, subsisted at the end of the year or any time during the year which enabled certain directors of the Company, to acquire benefits by means of the acquisition or the award of shares in AIAGL, or their equivalent cash value (collectively the "Plans").

(a) Restricted Share Unit Schemes

The restricted share unit scheme adopted by AIAGL on 28 September 2010 with a term of 10 years ("2010 RSU Scheme") was terminated with effect from 31 July 2020. AIAGL adopted a new restricted share unit scheme on 1 August 2020 with a term of 10 years ("2020 RSU Scheme", together with the 2010 RSU Scheme, "RSU Schemes") in place of and under substantially the same terms as the 2010 RSU Scheme. The objectives of the RSU Schemes are to align the participants' interest with those of AIAGL through ownership of the AIAGL's shares and increase in value of the AIAGL's shares.

Under the 2020 RSU Scheme, AIAGL may grant restricted share unit(s) ("RSU(s)") to employees, directors (excluding independent non-executive directors) or officers of AIAGL or any of its subsidiaries giving them a conditional right upon the vesting of the RSUs to obtain the AIAGL's shares or equivalent value in cash. Following the termination of the 2010 RSU Scheme, no further RSUs can be granted thereunder, however, it shall remain in full force and effect for all RSUs granted prior to its termination.

Report of Directors (continued)

Directors'/Controllers' interests in arrangements to acquire shares or debentures (continued)

(b) Share Option Schemes

The share option scheme adopted by AIAGL on 28 September 2010 with a term of 10 years ("2010 SO Scheme") was terminated with effect from 29 May 2020. AIAGL adopted a new share option scheme with effect from 29 May 2020 with a term of 10 years ("2020 SO Scheme", together with the 2010 SO Scheme, "SO Schemes") in place of and under substantially the same terms as the 2010 SO Scheme. The objectives of the SO Schemes are to align the participants' interest with those of AIAGL through ownership of the AIAGL's shares and increase in value of the AIAGL's shares.

Under the 2020 SO Scheme, AIAGL may grant share option(s) ("SO(s)") to employees, directors (excluding independent non-executive directors) or officers of AIAGL or any of its subsidiaries giving them a conditional right upon the exercising of the SOs to obtain the AIAGL's shares or equivalent value in cash. Following the termination of the 2010 SO Scheme, no further SOs can be granted thereunder, however, it shall remain in full force and effect for all SOs granted prior to its termination.

(c) Employee Share Purchase Plans

The employee share purchase plan adopted by AIAGL on 25 July 2011 with a term of 10 years ("2011 ESPP") was terminated with effect from 31 October 2020. AIAGL adopted a new employee share purchase plan on 1 August 2020 with a term of 10 years ("2020 ESPP", together with the 2011 ESPP, "ESPPs") in place of and under substantially the same terms as the 2011 ESPP. The objectives of ESPPs are to facilitate and encourage long-term AIAGL share ownership by employees and to encourage employee retention.

Under the 2020 ESPP, eligible employees of AIAGL or any of its subsidiaries may elect to purchase the AIAGL's shares, giving such employees a conditional right through the grant of matching restricted stock purchase units ("RSPUs") to obtain the AIAGL's shares.

Report of Directors (continued)

Directors'/Controllers' interests in arrangements to acquire shares or debentures (continued)

During the year, Mr. Wai Cheong Fung, Ms. Kit Sum Chung and Mr. Lo Ka Wai, directors of the Company, and Mr. Yuan Siong Lee and Mr. Wing Shing Chan, controllers of the Company, had interests in one or more of the Plans and had acquired benefits by means of the acquisition of shares of AIAGL pursuant to one or more of the Plans.

Apart from the above, at no time during the year was the Company, its holding companies or fellow subsidiaries a party to any arrangement to enable the directors or controllers of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Business Review

No business review is presented for the year ended 31 December 2025 as the Company is a wholly owned subsidiary of AIAGL and is not required to prepare such business review under Section 388(3)(b) of the Companies Ordinance Cap.622.

Statutory Business in Hong Kong

The Company has not, during the year ended 31 December 2025, effected any new contract in Hong Kong.

Permitted Indemnity Provisions

Pursuant to the Company's Articles of Association, subject to the relevant statutes, every director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in or about the execution of his/her office or which may attach to him/her in his/her capacity as a director of the Company.

During the year ended 31 December 2025, Directors and Officers Liability Insurance which indemnifies directors and officers of the Company against certain liabilities arising in the course of their duties to the Company was in force and remains in force as at the date of this report.

Report of Directors (continued)

Auditor

The financial statements have been audited by PricewaterhouseCoopers who will retire and will not offer themselves for re-appointment. The change of auditors is subject to the approval by the sole member.

On behalf of the Board



Wai Cheong Fung
Chairman
27 April 2026

Independent Auditor's Report

To the Members of AIA Everest Life Company Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of AIA Everest Life Company Limited (the "Company"), which are set out on pages 11 to 74, comprise:

- the statement of financial position as at 31 December 2025;
- the statement of profit or loss for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information 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 2025, and of its financial performance and its cash flows for the year then ended in accordance with HKFRS Accounting Standards as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") as issued by the HKICPA. 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 HKICPA's Code of Ethics for Professional Accountants (the "Code"), as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Reports of Directors on pages 1 to 6, 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.

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 HKFRS Accounting Standards as issued by the HKICPA and the Hong Kong Companies Ordinance, 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 Section 405 of the Hong Kong Companies Ordinance, 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 HKSAAs 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 HKSAAs, 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.
- 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.

The engagement partner on the audit resulting in this independent auditor's report is HUANG, Ka Ming (practising certificate number: P07526).



PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 27 April 2026

Statement of profit or loss for the year ended 31 December 2025

(Expressed in Hong Kong dollars)

	Note	2025 HK\$'000	2024 HK\$'000
Insurance revenue	5, 15	126,549	163,714
Insurance service expenses	7, 15	(37,950)	(56,565)
Net expenses from reinsurance contracts held	15	(1,024)	(4,690)
Insurance service result		87,575	102,459
Interest revenue on			
Financial assets measured at fair value through profit or loss	6	546,476	694,173
Financial assets not measured at fair value through profit or loss	6	65,187	28,437
Other investment return	6	649,235	211,154
Investment return	6	1,260,898	933,764
Net finance expenses from insurance contracts	6	(299,153)	(307,509)
Net finance income from reinsurance contracts held	6	2	8
Net investment result	6	961,747	626,263
Other operating revenue		-	2
Other expenses	7	(8,486)	(14,363)
Profit before tax		1,040,836	714,361
Tax expenses	8	(135,321)	(51,233)
Net profit		905,515	663,128

The notes on pages 17 to 74 form part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2025

(Expressed in Hong Kong dollars)

	2025 HK\$'000	2024 HK\$'000
Net profit	905,515	663,128
Other comprehensive expense		
Items that may be reclassified subsequently to profit or loss:		
Net finance expenses from insurance contracts (net of tax expenses of: 2025: HK\$92m; 2024: HK\$66m)	(464,981)	(333,855)
Subtotal	<u>(464,981)</u>	<u>(333,855)</u>
Total comprehensive income	<u>440,534</u>	<u>329,273</u>
Attributable to:		
Equity shareholders of the Company	<u>440,534</u>	<u>329,273</u>
Total comprehensive income	<u>440,534</u>	<u>329,273</u>

The notes on pages 17 to 74 form part of these financial statements.

Statement of financial position at 31 December 2025

(Expressed in Hong Kong dollars)

	Notes	As at 31 December 2025 HK\$'000	As at 31 December 2024 HK\$'000
Assets			
Intangible assets	10	4,875	5,410
Property, plant and equipment	11	-	11
Insurance contract assets	15	1,502	690
Financial investments:			
At fair value through profit or loss			
Debt securities	12	12,145,305	18,383,045
Equity shares and investment funds	12	197,092	205,120
Deferred tax assets	17	85,196	128,634
Other assets	13	96,639	122,879
Cash and cash equivalents	14	3,379,048	629,355
Total assets		<u>15,909,657</u>	<u>19,475,144</u>
Liabilities			
Insurance contract liabilities	15	12,846,555	16,842,076
Reinsurance contract liabilities	15	508	3,263
Other liabilities	16	109,299	117,044
Total liabilities		<u>12,956,362</u>	<u>16,962,383</u>
Equity			
Share capital	18	2,496,291	2,496,291
Insurance finance reserves	19	829,527	1,294,508
Accumulated losses		(372,523)	(1,278,038)
Total equity		<u>2,953,295</u>	<u>2,512,761</u>
Total liabilities and equity		<u>15,909,657</u>	<u>19,475,144</u>

Approved and authorised for issue by the Board of Directors on 27 April 2026.


Wai Cheong Fung
Director


Ka Wai Lo
Director

The notes on pages 17 to 74 form part of these financial statements.

Statement of changes in equity for the year ended 31 December 2025 (Expressed in Hong Kong dollars)

	Share capital	Accumulated losses	Insurance finance reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2024, as previously reported	2,496,291	(1,941,166)	1,628,363	2,183,488
Profit for the year	-	663,128	-	663,128
Net finance expenses from insurance contracts	-	-	(333,855)	(333,855)
Total comprehensive income/(loss) for the year	-	663,128	(333,855)	329,273
Balance at 31 December 2024 and 1 January 2025	2,496,291	(1,278,038)	1,294,508	2,512,761
Profit for the year	-	905,515	-	905,515
Net finance expenses from insurance contracts	-	-	(464,981)	(464,981)
Total comprehensive income/(loss) for the year	-	905,515	(464,981)	440,534
Balance at 31 December 2025	2,496,291	(372,523)	829,527	2,953,295

The notes on pages 17 to 74 form part of these financial statements.

Cash flow statement for the year ended 31 December 2025 (Expressed in Hong Kong dollars)

	Notes	2025 HK\$'000	2024 HK\$'000
Operating activities			
Profit before tax		1,040,836	714,361
Adjustments for:			
Amortisation of intangible assets	10	535	536
Depreciation on owned property, plant and equipment	11	11	232
Net gain on debt and equity securities and investment funds at fair value through profit or loss	6	(583,108)	(332,167)
Interest income	6	(611,663)	(722,610)
Foreign exchange (gain)/loss		(63,689)	113,252
Operating loss before changes in working capital		(217,078)	(226,396)
(Increase)/decrease in insurance assets		(812)	63
Decrease in reinsurance assets		-	819
Decrease in insurance contract liabilities		(4,552,385)	(4,177,245)
(Decrease)/increase in reinsurance contract liabilities		(2,755)	805
Increase in other assets		601	251,368
Decrease in other liabilities		(7,746)	(19,761)
Net cash used in operations		(4,780,175)	(4,170,347)
Proceeds from sale of investments in securities		15,097,807	11,384,717
Payments for purchase of investments in securities		(8,124,374)	(7,481,777)
Interest received		556,435	701,023
Net cash generated from operating activities		2,749,693	433,616

Cash flow statement for the year ended 31 December 2025 (continued)

(Expressed in Hong Kong dollars)

	Note	2025 HK\$'000	2024 HK\$'000
Increase in cash and cash equivalents		2,749,693	433,616
Cash and cash equivalents at 1 January	14	629,355	196,248
Effect of foreign exchange rate		-	(509)
Cash and cash equivalents at 31 December	14	<u>3,379,048</u>	<u>629,355</u>

The notes on pages 17 to 74 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars)

1 General Information

AIA Everest Life Company Limited ("the Company") was incorporated and domiciled in Hong Kong and its registered office is Room 501, 5th Floor, AIA Building, 1 Stubbs Road, Hong Kong.

The principal activity of the Company is life insurance business.

2 Material accounting policy information

(a) Basis of preparation and Statement of compliance

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) and the Hong Kong Companies Ordinance.

The financial statements have been prepared using the historical cost convention, as modified by the revaluation of financial assets and liabilities measured at fair value through profit or loss ("FVTPL"), which are carried at fair value. Additionally, insurance and reinsurance contract assets and liabilities are measured using a fulfilment cash flow and contractual service margin ("CSM") basis.

For the purposes of compliance with Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622), these financial statements have been prepared to present a true and fair view of the state of affairs and profit or loss of the Company only. Consequently, they have been prepared in accordance with all applicable HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong.

The Company's functional currency and the presentation currency are the Hong Kong dollars ("HK\$"). The financial statements are presented in thousands of Hong Kong dollars (HK\$'000) unless otherwise stated.

- (i) The following relevant new standards have been adopted for the first time for the financial year ended 31 December 2025 and have no material impacts on the Company:

1. Amendments to HKAS21, Lack of Exchangeability

2 Material accounting policy information (continued)

(a) Basis of preparation and Statement of compliance (continued)

- (ii) The following relevant new amendments to standards have been issued but are not effective for the financial year ended 31 December 2025 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:
1. Amendments to HKFRS9 and HKFRS7, Amendments to the Classification and Measurement of Financial Instruments;
 2. Annual Improvements to HKFRS Accounting Standards — Volume 11 to HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKAS 7;
 3. New standard to HKFRS 18, Presentation and Disclosure in Financial Statements;
 4. New standard to HKFRS 19, Subsidiaries without Public Accountability: Disclosures;
 5. Amendments to Hong Kong Interpretation 5, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause;
 6. Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- (iii) The material accounting policies adopted in the preparation of the Company's financial statements are set out below. These policies have been applied consistently in all periods presented.

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held

(1) Insurance Contracts and reinsurance contracts held classification

The Company classified its contracts written as either insurance contracts or investment contracts, depending on the level of insurance risk. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk. Some insurance and investment contracts, referred to as participating business, have DPF, which may entitle the customer to receive, as a supplement to guaranteed benefits, additional non-guaranteed benefits, such as policyholder dividends or bonuses. In the event that a scenario (other than those lacking commercial substance) exists in which an insured event would require the Company to pay significant additional benefits, the contract is accounted for as an insurance contract. Contracts held by the Company under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance contracts held.

Certain contracts with DPF supplement the amount of guaranteed benefits due to policyholders. These contracts are distinct from other insurance contracts as the Company has discretion in the amount and/or timing of the benefits declared, and how such benefits are allocated between groups of policyholders. Customers may be entitled to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- the amount or timing is contractually at the discretion of the Company; and
- that are contractually based on:
 - the return on a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the Company; or
 - the profit or loss of the Company, fund or other entity that issues the contract.

The Company's products may be divided into the following main categories:

Policy type	Description of benefits payable	Basis of accounting for Insurance contracts
Traditional participating life	Participating products include protection and savings elements. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience	The general measurement model is applied to these insurance contracts
Non-participating life, annuities and other protection products	Benefits payable are not at the discretion of the insurer	The general measurement model is applied to these insurance contracts except for some insurance contracts where the permitted premium allocation approach (PAA) simplification (see note 2b(7)) is applied

The basis of accounting for insurance contracts and reinsurance contracts held is discussed in notes 2(b) below.

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held (continued)

(2) Separating components from insurance contracts and reinsurance contracts held

At inception, the Company separates the following components from an insurance contract or a reinsurance contract held and accounts for them as if they were stand-alone financial instruments:

- derivatives embedded in the contract whose economic characteristics and risks are not closely related to those of the host contract, and whose terms would not meet the definition of an insurance contract or a reinsurance contract held as a stand-alone instrument; and
- distinct investment components — i.e. investment components that are not highly inter-related with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction.

After separating any financial instrument components, the Company separates any promises to transfer distinct goods or services other than insurance coverage and investment services and accounts for them as separate contracts with customers (i.e. not as insurance contracts). A good or service is distinct if the policyholder can benefit from it either on its own or with other resources that are readily available to the policyholder. A good or service is not distinct and is accounted for together with the insurance component if the cash flows and risks associated with the good or service are highly inter-related with the cash flows and risks associated with the insurance component, and the Company provides a significant service of integrating the good or service with the insurance component.

(3) Level of aggregation and recognition of group of insurance contracts and reinsurance contracts held

Insurance contracts

Insurance contracts are aggregated into groups for measurement purposes. Groups of contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into semi-annual cohorts and each semi-annual cohort into three groups based on the profitability of contracts:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the portfolio.

An insurance contract issued by the Company is recognised from the earliest of:

- the beginning of its coverage period (i.e. the period during which the Company provides services in respect of any premiums within the boundary of the contract);
- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- when facts and circumstances indicate that the contract is onerous.

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held (continued)

(3) Level of aggregation and recognition of group of insurance contracts and reinsurance contracts held (continued)

Insurance contracts (continued)

An insurance contract acquired in a transfer of contracts or a business combination is recognised on the date of acquisition. When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

Reinsurance contracts held

Reinsurance contracts held by the Company cover underlying insurance contracts.

A group of reinsurance contracts held is recognised on the following dates:

- Reinsurance contracts held that provide proportionate coverage: Generally later of the beginning of the coverage period of the group of reinsurance contracts held, or the date on which any underlying insurance contract is initially recognised.
- Other reinsurance contracts held: The beginning of the coverage period of the group of reinsurance contracts held. However, if the Company recognises an onerous group of underlying insurance contracts on an earlier date and the related reinsurance contract held was entered into on or before that earlier date, then the group of reinsurance contracts held is recognised on that earlier date.
- Reinsurance contracts acquired: The date of acquisition.

(4) Fulfilment cash flows and contract boundaries

(i) Fulfilment cash flows

Fulfilment cash flows comprise:

- estimates of future cash flows;
- an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows; and
- a risk adjustment for non-financial risk.

Further details of the related methodology and assumptions in respect of estimation of fulfilment cash flows are provided in note 15.

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held (continued)

(4) Fulfilment cash flows and contract boundaries (continued)

(ii) Contract boundaries

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group, determined as follows.

(iii) Insurance contracts

Cash flows are within the boundary of a contract if they arise from substantive rights and obligations that exist during the reporting period under which the Company can compel the policyholder to pay premiums or has a substantive obligation to provide insurance contract services.

A substantive obligation to provide insurance contract services ends when:

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

(iv) Reinsurance contracts held

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

A substantive right to receive services from the reinsurer ends when the reinsurer:

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

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Company's substantive rights and obligations and, therefore, may change over time.

(5) Insurance acquisition cash flows

Insurance acquisition cash flows are allocated to groups of contracts using a systematic and rational allocation method and considering, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort. At each reporting date, the Company revises the amounts allocated to groups to reflect any changes in assumptions that determine the inputs to the allocation method used. Amounts allocated to a group are not revised once all contracts have been added to the group.

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held (continued)

(5) Insurance acquisition cash flows (continued)

Insurance acquisition cash flows arising before the recognition of the related groups of contracts are recognised as an asset. Such an asset is recognised for each group of contracts to which the insurance acquisition cash flows are allocated. The asset is derecognised, fully or partially, when the insurance acquisition cash flows are included in the measurement of the related groups of contracts.

When the Company acquires insurance contracts in a transfer of contracts, at the date of acquisition it recognises an asset for insurance acquisition cash flows at the fair value for the rights to obtain:

- renewals of contracts recognised at the date of acquisition; and
- other future contracts after the date of acquisition without paying again insurance acquisition cash flows that the acquiree has already paid.

(i) Recoverability assessment

At each reporting date, if facts and circumstances indicate that an asset for insurance acquisition cash flows may be impaired, then the Company:

- recognises an impairment loss in profit or loss so that the carrying amount of the asset does not exceed the expected net cash inflow of the related group; and
- if the asset relates to future renewals, recognises an impairment loss in profit or loss to the extent that it expects those insurance acquisition cash flows to exceed the net cash inflow for the expected renewals and this excess has not already been recognised as an impairment loss.

The Company recognises any reversal of impairment losses in profit or loss when the impairment conditions no longer exist or have improved.

(6) Measurement – insurance contracts not measured under the PAA

On initial recognition, the Company measures a group of contracts as the total of: (a) the fulfilment cash flows, which comprise estimates of future cash flows, an adjustment to reflect time value of money and associated financial risks, and a risk adjustment for non-financial risk; and (b) the contractual service margin (CSM).

The measurement of the fulfilment cash flows of a group of contracts does not reflect the Company's non-performance risk.

The risk adjustment for non-financial risk for a group of contracts, determined separately from the other estimates, is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held (continued)

(6) Measurement – insurance contracts not measured under the PAA (continued)

The CSM of a group of contracts represents the unearned profit that the Company will recognise as it provides services under those contracts. On initial recognition of a group of contracts, if the total of the fulfilment cash flows, any cash flows arising at that date and any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group (including assets for insurance acquisition cash flows) is a net inflow, then the group is not onerous. In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition.

If the total is a net outflow, then the group is onerous. In this case, the net outflow is recognised as a loss in profit or loss. A loss component is created to depict the amount of the net cash outflows, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous groups and are excluded from insurance revenue. In the case of a business combination, the net outflow is recognised as an adjustment to goodwill or a gain on a bargain purchase for contracts acquired.

For groups of contracts acquired in a transfer of contracts or a business combination, the consideration received for the contracts is included in the fulfilment cash flows as a proxy for the premiums received at the date of acquisition. In a business combination, the consideration received is the fair value of the contracts at that date.

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage (LRC) and the liability for incurred claims (LIC). The LRC comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date. The LIC includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

The fulfilment cash flows of groups of contracts are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk. Changes in fulfilment cash flows are recognised as follows.

- Changes relating to future services are adjusted against the CSM (or recognised in the insurance service result in profit or loss if the group is onerous);
- Changes relating to current or past services are recognised in the insurance service result in profit or loss; and
- Effects of the time value of money, financial risk and changes therein on estimated future cash flows are recognised as insurance finance income or expenses for insurance contracts without direct participation features or adjusted against CSM for insurance contracts with direct participation features.

The CSM of each group of contracts is calculated at each reporting date as follows.

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held (continued)

(6) Measurement – insurance contracts not measured under the PAA (continued)

Insurance contracts without direct participation features

The carrying amount of the CSM at each reporting date is the carrying amount at the start of the reporting period, adjusted mainly for:

- the CSM of any new contracts that are added to the group in the period;
- interest accreted on the carrying amount of the CSM during the period, measured at the discount rates determined on initial recognition that are applied to nominal cash flows that do not vary based on the returns on underlying items;
- changes in fulfilment cash flows that relate to future services, except to the extent that:
 - any increases in the fulfilment cash flows exceed the carrying amount of the CSM, in which case the excess is recognised in insurance service expenses and recognised as a loss component in LRC; or
 - any decreases in the fulfilment cash flows adjust the loss component in the LRC and the corresponding amount is recognised in insurance service expenses. If the loss component is reduced to zero, the excess reinstates the CSM;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue for services provided in the period.
- Changes in fulfilment cash flows that relate to future services mainly comprise:
- experience adjustments arising from premiums received in the period that relate to future services and related cash flows, measured at the discount rates determined on initial recognition;
- changes in estimates of the present value of future cash flows in the LRC, measured at the discount rates determined on initial recognition, except for those that relate to the effects of the time value of money, financial risk and changes therein;
- differences between (a) any investment component expected to become payable in the period, determined as the payment expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable; and (b) the actual amount that becomes payable in the period;
- differences between (a) any loan to a policyholder expected to become repayable in the period, determined as the repayment expected at the start of the period plus any insurance finance income or expenses related to that expected repayment before it becomes repayable; and (b) the actual amount that becomes repayable in the period; and
- changes in the risk adjustment for non-financial risk that relate to future services.

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held (continued)

(6) Measurement – insurance contracts not measured under the PAA (continued)

Insurance contracts without direct participation features (continued)

To determine how to identify a change in discretionary cash flows, the basis is generally determined at inception of the contract. Changes in cash flows arising from the Company's discretion are regarded as relating to future services and accordingly adjust the CSM, these cash flows are determined based on the relevant contract terms, dividend and bonus philosophy.

(7) Measurement – insurance contracts measured under the PAA

The Company generally uses the PAA to simplify the measurement of groups of contracts in the following circumstances:

- where the coverage period of each contract in the group of contracts is one year or less; or
- the Company reasonably expects that the resulting measurement of the LRC would not differ materially from the result of applying the accounting policies of contracts not measured under the PAA.

On initial recognition of each group of contracts, the carrying amount of the LRC is measured as the premiums received on initial recognition minus any insurance acquisition cash flows allocated to the group at that date, and adjusted for amounts arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group. The Company has elected the accounting policy choice to defer insurance acquisition cash flows through the LRC.

Subsequently, the carrying amount of the LRC is increased by (i) any premiums received; and (ii) any amortisation of the insurance acquisition cash flows, and decreased by (i) insurance acquisition cash flows paid; (ii) the amount recognised as insurance revenue for coverage provided; and (iii) any investment component paid or transferred to the LIC. On initial recognition of each group of contracts, the Company expects that the time gap between providing each part of the coverage and the related premium due date is not significant. Accordingly, the Company has chosen not to adjust the LRC to reflect the time value of money and the effect of financial risk.

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Company recognises a loss in profit or loss and increases the LRC to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage (including the risk adjustment for non-financial risk) exceed the carrying amount of the LRC as loss component. The fulfilment cash flows are adjusted for the time value of money and the effect of financial risk (using current estimates) if the LIC is also adjusted for the time value of money and the effect of financial risk. In subsequent periods, unless facts and circumstances indicate that the group of contracts is no longer onerous, the loss component is remeasured at each reporting date as the difference between the current estimates of the fulfilment cash flows that relate to remaining coverage (including the risk adjustment for non-financial risk) and the carrying amount of the LRC without loss component.

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held (continued)

(7) Measurement – insurance contracts measured under the PAA (continued)

The Company recognises the LIC of a group of insurance contracts for the amount of the fulfilment cash flows relating to incurred claims. The fulfilment cash flows are discounted (at current rates) unless the cash flows are expected to be paid in one year or less from the date the claims are incurred.

(8) Reinsurance contracts held

Reinsurance contracts held measured under the PAA

The Company applies the same accounting principles to measure a group of reinsurance contracts held under the PAA.

If a loss-recovery component is established for a group of reinsurance contracts held measured under the PAA, the Company adjusts the carrying amount of the asset.

(9) Derecognition and contract modification

The Company derecognises a contract when it is extinguished — i.e. when the specified obligations in the contract expire or are discharged or cancelled.

The Company also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the Company treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

On the derecognition of a contract in a group of contracts not measured under the PAA:

- the fulfilment cash flows allocated to the group are adjusted to eliminate those that relate to the rights and obligations derecognised;
- the CSM of the group is adjusted for the change in the fulfilment cash flows that relate to future services, except where such changes are allocated to a loss component; and
- the number of coverage units for the expected remaining services is adjusted to reflect the coverage units derecognised from the group.

If a contract is derecognised because it is transferred to third party, then the CSM is also adjusted for the premium charged by the third party, unless the contract is onerous.

If a contract is derecognised because its terms are modified, then the CSM is also adjusted for the premium that would have been charged had the Company entered into a contract with the new contract's terms at the date of modification, less any additional premium charged for the modification. The new contract recognised is measured assuming that, at the date of modification, the issuer received the premium that it would have charged less any additional premium charged for the modification.

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held (continued)

(10) Presentation

Portfolios of insurance contracts and reinsurance contracts held in an asset position are presented separately from those in a liability position. Portfolios of insurance contracts issued are presented separately from portfolios of reinsurance contracts held. Any assets recognised for insurance acquisition cash flows arising before the recognition of the related group of insurance contracts are included in the carrying amount of the related portfolios of insurance contracts. Any assets or liabilities for cash flows arising before the recognition of the related group of reinsurance contracts held are included in the carrying amount of the related portfolios of reinsurance contracts held.

The Company disaggregates amounts recognised in the income statement and the statement of comprehensive income into (a) an insurance service result, comprising insurance revenue and insurance service expenses, and (b) insurance finance income or expenses.

Income and expenses from reinsurance contracts held are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance contracts held, other than insurance finance income or expenses, are presented on a net basis as “net expenses from reinsurance contracts held” in the insurance service result.

The Company does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

Insurance revenue and insurance service expenses exclude any investment components and are recognised as follows.

Insurance revenue — insurance contracts not measured under the PAA

The Company recognises insurance revenue as it satisfies its performance obligations — i.e. as it provides services under groups of contracts. For contracts not measured under the PAA, the insurance revenue relating to services provided for each period represents the total of the changes in the LRC that relate to services for which the Company expects to receive consideration, but excludes expected investment components and mainly comprises the following items:

- A release of the CSM, measured based on coverage units provided;
- Changes in the risk adjustment for non-financial risk relating to current services;
- Claims and other insurance service expenses incurred in the period, generally measured at the amounts expected at the beginning of the period; and
- Other amounts, including experience adjustments for premium receipts for current or past services and amounts related to incurred policyholder tax expenses.

For insurance acquisition cash flows recovery, the Company allocates a portion of premiums related to the recovery in a systematic way based on the passage of time over the expected coverage of a group of contracts. The allocated amount is recognised as insurance revenue with the same amount recognised as insurance service expenses.

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held (continued)

(10) Presentation (continued)

Release of the CSM — insurance contracts not measured under the PAA

The amount of the CSM of a group of insurance contracts that is recognised as insurance revenue in each reporting period is determined by identifying the coverage units in the group, allocating the CSM remaining at the end of the reporting period (before any allocation) equally to each coverage unit provided in the current period and expected to be provided in future periods, and recognising in profit or loss the amount of the CSM allocated to coverage units provided in the current period. The number of coverage units is the quantity of services provided by the contracts in the group, determined considering for each contract the quantity of benefits provided and its expected coverage period.

Insurance revenue — insurance contracts measured under the PAA

For contracts measured under the PAA, the insurance revenue for each period is the amount of expected premium for providing services in the period. The Company allocates the expected premium to each period on the following bases:

- the passage of time; or
- the expected timing of incurred insurance service expenses, if the expected pattern of release of risk during the coverage period differs significantly from the passage of time.

Loss components — insurance contracts not measured under the PAA

For contracts not measured under the PAA, the Company establishes a loss component of the LRC for onerous groups of contracts. The loss component determines the amounts of fulfilment cash flows that are subsequently excluded from insurance revenue when they occur. When the fulfilment cash flows occur, they are allocated between the loss component and the LRC excluding the loss component on a systematic basis.

Changes in estimates of fulfilment cash flows relating to future services and changes in the Company's share of the fair value of underlying items are allocated solely to the loss component. If the loss component is reduced to zero, then any excess over the amount allocated to the loss component creates or reinstates the CSM for the group of contracts.

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held (continued)

(10) Presentation (continued)

Insurance service expenses

Insurance service expenses arising from insurance contracts are recognised in profit or loss generally as they are incurred. They exclude repayments of investment components and mainly comprise the following items:

- Incurred claims and other insurance service expenses;
- Amortisation of insurance acquisition cash flows: for contracts not measured under the PAA, this is equal to the amount of insurance revenue recognised in the period that relates to recovering insurance acquisition cash flows. For contracts measured under the PAA, the Company amortises insurance acquisition cash flows on a straight-line basis over the coverage period of the group of contracts;
- Losses on onerous contracts and reversals of such losses; and
- Adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein.

Net expenses from reinsurance contracts held

Net expenses from reinsurance contracts held mainly comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers.

The Company recognises an allocation of reinsurance premiums paid as reinsurance expenses within net expenses from reinsurance contracts held for the coverage or other services received by the Company under groups of reinsurance contracts held. For contracts measured under the PAA, the allocation of reinsurance premiums paid for each period is the amount of expected premium payments for receiving services in the period.

Insurance finance income or expenses

Insurance finance income or expenses comprise changes in the carrying amounts of groups of insurance contracts and reinsurance contracts held arising from the effects of the time value of money, financial risk and changes therein. This includes changes in the measurement of groups of contracts caused by changes in the value of underlying items (excluding additions and withdrawals).

2 Material accounting policy information (continued)

(b) Insurance Contracts and reinsurance contracts held (continued)

(10) Presentation (continued)

Insurance finance income or expenses (continued)

The Company has chosen to disaggregate insurance finance income or expenses between profit or loss and other comprehensive income. The amount included in profit or loss is determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts. The systematic allocation is determined as follows:

- Contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders: for insurance finance income or expenses arising from the estimates of future cash flows, using either a rate that allocates the remaining revised expected insurance finance income or expenses over the remaining duration of the group of contracts at a constant rate (i.e. the effective yield) or an allocation that is based on the amounts credited in the period and expected to be credited in future periods; and for insurance finance income or expenses arising from the CSM, the discount rates determined on initial recognition of the group of contracts. This selection of the rate applied is based on the characteristics of contracts.
- Contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to the policyholders: the discount rates determined on initial recognition of the group of contracts.

Amounts presented in other comprehensive income are accumulated in the insurance finance reserve. If the Company derecognises a contract without direct participation features as a result of a transfer to a third party or a contract modification, then any remaining amounts of accumulated other comprehensive income for the contract are reclassified to profit or loss. The Company presents insurance finance income or expenses for all other contracts in profit or loss.

(c) Financial assets

(i) At initial recognition

Financial assets are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, a financial asset is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Transaction costs of financial assets carried at FVTPL are expensed in income statement. Immediately after initial recognition, an expected credit losses ("ECL") allowance is recognised for financial assets measured at amortised cost which results in an accounting loss being recognised in income statement when an asset is newly originated.

2 Material accounting policy information (continued)

(c) Financial assets (continued)

(ii) At subsequent measurement

Financial assets at FVTPL

For debt securities, if the business model is achieved both by collecting contractual cash flows and selling financial assets; and the asset's contractual cash flows represent solely payments of principal and interest ("SPPI"), debt securities would be classified as fair value through other comprehensive income.

However, the Company elects to designate these instruments as FVTPL in order to reduce the mismatch of the market fluctuation of bonds and reserve movement due to interest rate volatility in the income statement, which meets the condition stated under HKFRS 9 Para B4.1.30 (a).

And for the debt securities that do not pass the SPPI test, it is mandatory to be measured at FVTPL.

For equity securities and investment funds, the business model are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sales. Consequently they are stated at FVTPL.

Financial assets at amortised cost

The Company's business model in managing its financial assets involves collecting the contractual cash flows from these financial assets which represents solely payment of principal and interest.

These assets mainly comprise of other receivables and cash and cash equivalents.

- Cash and cash equivalents includes cash in hand, and other short-term highly liquid investments with original maturities of three months or less,

Subsequent to initial measurement, the Company measures its financial assets at amortised cost. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

A gain or loss on a financial asset that is subsequently measured at amortised cost is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets are recognised using the effective interest method.

2 Material accounting policy information (continued)

(c) Financial assets (continued)

(iii) Impairment

The Company assesses on forward looking basis the ECL associated with its financial assets carried at amortised cost.

The Company recognises loss allowances for ECL on financial assets measured at amortised cost, which measured at either lifetime ECL or 12-month ECL according to a 'three-stage' impairment model. A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1'. If a significant increase in credit risk since initial recognition is identified but the financial instrument is not yet assessed as credit-impaired, the financial instrument is moved to 'Stage 2'. If the financial instrument is credit-impaired, it is then moved to 'Stage 3'. Financial instruments in Stages 2 and 3 have their loss allowances measured at Lifetime ECL which are the ECL that result from all possible default events over the expected life of a financial instrument. Financial instruments in Stage 1 have their loss allowances measured at 12-month ECL which are the portion of ECL that results from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECL is the maximum contractual period over which the Company is exposed to credit risk.

ECL are a probability-weighted estimate of credit losses and are measured as the present value of all cash shortfalls - i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive.

For deposits and receivables, the Company applied the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Loss allowance for ECL of financial assets measured at amortised cost is deducted from the gross carrying amount of the assets.

(iv) Recognition of financial assets

Purchases and sales of financial instruments are recognised on the trade date, which is the date at which the Company commits to purchase or sell the assets.

2 Material accounting policy information (continued)

(c) Financial assets (continued)

(v) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. In transfers where control over the asset is retained, the Company continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which the Company is exposed to changes in the fair value of the asset.

(vi) Offset of financial assets

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.

3 Critical accounting estimates and judgments

Critical accounting judgements made in applying the Company's accounting policies are described below.

(a) Level of aggregation and recognition of group of insurance contracts

For contracts issued to which the Company does not apply the premium allocation approach, the judgements exercised in determining whether contracts are onerous on initial recognition or those that have no significant possibility of becoming onerous subsequently are:

- based on the likelihood of changes in assumptions which, if they occurred, would result in the contracts becoming onerous; and
- using information about profitability estimation for the relevant group of products.

The accounting policy on level of aggregation and recognition of group of insurance contracts is described in note 2(b) (3).

(b) Measurement of insurance contracts not measured under the premium allocation approach

The asset or liability for groups of insurance contracts is measured as the total of fulfilment cash flows and CSM.

The fulfilment cash flows of insurance contracts represents the present value of estimated future cash outflows, less the present value of estimated future cash inflows and adjusted for a provision for the risk adjustment for non-financial risk. The assumptions used and the techniques for estimating fulfilment cash flows and risk adjustment for non-financial risk are based on actual experience by each geographical market and policy form. The Company exercises significant judgement in making appropriate assumptions and techniques.

3 Critical accounting estimates and judgments (continued)

(b) Measurement of insurance contracts not measured under the premium allocation approach (continued)

CSM represents the unearned profits that the Company will recognise as it provides services under the insurance contracts in a group. The amounts of CSM recognised in profit or loss are determined by identifying the coverage units in the group, allocating the CSM at the end of period equally to each coverage unit provided in the current period and expected to be provided in the future. The number of coverage units in a group is the quantity of the services provided by the contracts in the group, determined by considering for each contract the quantity of the services provided under a contract and its expected coverage period. The Company exercises judgements in determining the quantity of the services provided under a contract which will affect the amounts recognised in the consolidated financial statements as insurance revenue from insurance contracts issued.

The judgements exercised in the valuation of insurance contracts affect the amounts recognised in the financial statements as assets or liabilities of insurance contracts. Further details of the related accounting policies, key risk and variables, and the sensitivities of assumptions to the key variables in respect of insurance contracts are provided in notes 2(b)(3), 4 and 15.

(c) Determination of coverage unit

The CSM of a group of contracts is recognised as insurance revenue in each period based on the number of coverage units provided in the period, which is determined by considering for each contract the quantity of the services provided, its expected coverage period and time value of money.

The quantity of services provided by insurance contracts could include insurance coverage, investment-return service and investment-related service, as applicable. In assessing the services provided by insurance contracts, the terms and benefit features of the contracts are considered.

For contracts providing predominately insurance coverage, the quantity of services is determined for the contract as a whole based on the expected maximum benefits less investment component. For contracts providing multiple services, the quantity of services is determined based on the benefits provided to policyholder for each service with the relative weighting considered in the calculation through the use of factors. Relevant elements are considered in determining the quantity of services including among others, benefit payments and premiums. The Company applies judgement in these determinations.

Expected coverage period is derived based on the likelihood of an insured event occurring to the extent they affect the expected duration of contracts in the group. Determining the expected coverage period is judgemental since it involves making an expectation of when claims and lapse will occur.

4 Insurance and financial risk management

(a) Risk management objectives and policies for mitigating insurance risk

The Company primarily provides life insurance. Insurance risks are managed through the application of various policies and procedures relating to claims and reinsurance as well as experience monitoring.

The Company uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include experience monitoring, sensitivity analyses and scenario analyses.

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

Reinsurance strategy

The Company uses proportional, non-proportional, automatic and facultative reinsurance to spread insurance risks it assumes. Participating reinsurers have to meet minimum credit risk requirements of the Company. AIAHK's Financial Risk Committee would monitor the compliance with Reinsurance Management Standard which forms part of the overall enterprise risk management framework and sets out the practices to manage the selection, implementation, monitoring, control, review and documentation of reinsurance arrangements.

(b) Insurance risk management

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

Insurance risk

Insurance risk is the risk arising from changes in claims experience, business expenses, and the acquisition and persistency of insurance business. This also includes changes to assumptions regarding future experience for these risks.

4 Insurance and financial risk management (continued)

(b) Insurance risk management (continued)

Management of risks

The Company manages insurance risks through reinsurance and claim management and monitoring external and internal emerging trends and issues.

For long term insurance contracts with discretionary participation features, the Company has complete contractual discretion on the annual dividend declared. In practice, the Company considers policyholders' reasonable expectations when setting the annual dividend rate.

The Company maintains an implicit surrender charge for early surrender where possible.

Concentration of insurance risks

Insurance risks concentration may appear in the case that the mortality coverage per person is significantly large or in product lines covering accident, natural disaster or terrorist attack perils. The majority of the insurance risk is covered by the Company's automatic reinsurance arrangement and the corresponding maximum exposure of mortality risk per life per product retained by the Company is HK\$500,000.

Sensitivity analysis on insurance risk

The table below sets out the sensitivity analysis in respect of insurance contracts and reinsurance contracts held to key variables affecting insurance risk exposures. This analysis assumes that all other variables remain constant. Information below presents the sensitivities both before and after risk mitigation by reinsurance, and illustrates the estimated impact on profits and equity arising from a change in a single variable before taking into account the effects of taxation. The effects on these items are mainly as below:

- The effects on profit or loss are changes in fulfilment cash flows relating to loss components or that recognised as insurance finance income or expenses in profit or loss.
- The effects on equity are the effects on profit and loss and other comprehensive income arising from changes in fulfilment cash flows relating to loss components and insurance finance income or expenses.

4 Insurance and financial risk management (continued)

(b) Insurance risk management (continued)

Sensitivity analysis before/ after risk mitigation by reinsurance

	Impact on profit before tax	2025 Impact on total equity (before the effects of taxation)	CSM	Impact on profit before tax	2024 Impact on total equity (before the effects of taxation)	CSM
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Expense: increase by 10%	(2,278)	726	(15,566)	(2,903)	960	(17,496)
Expense: decrease by 10%	2,278	(726)	15,566	2,903	(960)	17,496
Mortality/morbidity rate: increase by 10%	6,353	(14,084)	(3,344)	6,586	(12,202)	(3,698)
Mortality/morbidity rate: decrease by 10%	(6,831)	15,144	3,417	(7,062)	13,027	3,779
Lapse/discontinuance rate: increase by 10%	19,282	(3,372)	5,751	21,701	(2,959)	5,363
Lapse/discontinuance rate: decrease by 10%	(21,347)	3,458	(6,017)	(24,067)	2,936	(5,556)

General nature of participation features

The Company has a range of policies which participate in the profits of the life funds in the form of an annual dividend or maturity dividend. The level of dividend is determined by a number of factors including but not limited to the Company's investment return, claims experience, persistency experience, policy expenses, future business growth and retention of earnings in support of the life insurance business, together with interests of the shareholders and the policyholders.

The dividend allocation process as adopted by the Company is based on the contributions made by the respective participating policies to the participating business. While the contribution of each participating policy is different, the dividend review process seeks to achieve a reasonable and fair allocation amongst classes and generations of all participating policies, taking into account factors such as availability of policy-related information, investment return, claim and administrative expenses, etc.

(c) Asset and liability matching

The Company actively manages its assets using an approach that balances quality, diversification, asset and liability matching, liquidity, investment return and reasonable policyholder expectation. The goal of the investment process is to maximise investment returns at a tolerable risk level, whilst ensuring that the assets and liabilities are managed on a cash flow and relevant duration basis.

The Company establishes target asset portfolios which represent the investment strategies used to fund its liabilities based on the investment policy approved by the Company from time to time. The estimates used in determining the approximate amounts and timing of payments to or on behalf of policyholders for insurance liabilities are regularly evaluated.

4 Insurance and financial risk management (continued)

(d) Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Company's business. The Company is also exposed to market price risk arising from its investments in securities.

The Company's exposure to these risks and the financial risk management policies and practices used by the Company to manage these risks are described below.

(i) Market risk

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

(1) Interest rate risk

The Company's exposure to market risk for changes in interest rates is concentrated in its debt security portfolio and unlisted bond funds, amounting to HK\$12,145,305,000 (2024: HK\$18,383,045,000) as at 31 December 2025. The Company monitors this exposure through periodic reviews of its asset and liability positions. Estimates of cash flows, as well as the impact of interest rate fluctuations relating to its investment portfolio and insurance liabilities are reviewed periodically.

(2) Equity price risk

The portfolio of marketable equity securities and investment funds, which the Company carries on the statement of financial position at fair value, has exposure to price risk. This risk is defined as the potential loss in market value resulting from an adverse change in prices. The extent of exposure to equities at any time is subject to the terms of the Company's strategic assets allocations.

All equity securities and investment funds are classified as fair value through profit or loss (2024: fair value through profit or loss).

Sensitivity analysis

Sensitivity analysis to the key variables, namely interest rate and equity risk, affecting insurance contracts and reinsurance contracts held, and financial instruments held by the Company is set out below.

In calculating the sensitivity to changes in interest rates and equity prices, the Company has made assumptions about the corresponding impact of asset valuations on liabilities to policyholders.

Information is presented to illustrate the estimated impact on profits, total equity and CSM arising from a change in a single variable before taking into account the effects of taxation. The effects on these items are as mainly follows:

- The effects on profit or loss are changes relating to loss components and changes in investment return, insurance finance income or expenses and foreign exchange differences that are recognised in profit or loss.

4. Insurance and financial risk management (continued)

(d) Financial risk management and fair values (continued)

(i) Market risk (continued)

(2) Equity price risk (continued)

Sensitivity analysis (continued)

- The effects on equity are the effects on profit or loss, and the effects on other comprehensive income arising from net changes in net investment results and net insurance finance income or expenses.
- The effects on CSM reflects the change of the corresponding market risks that impacts CSM.

The impact of any impairments of financial assets has been ignored for the purpose of illustrating the sensitivity of profit before tax, total equity and CSM before the effects of taxation to changes in interest rates and equity prices on the grounds that default events reflect the characteristics of individual issuers.

Sensitivity analysis on interest rate and equity risk

An analysis of the Company's sensitivity to 10% increase or decrease in equity prices, and 50 basis points parallel increase or decrease in yield curves at the reporting date, assuming that all other variables remain constant, is presented below.

	2025			2024				
	Impact on profit before tax	Impact on total equity before the effect of taxation	Impact on allocated equity before the effect of taxation	Impact on CSM	Impact on profit before tax	Impact on total equity before the effect of taxation	Impact on allocated equity before the effect of taxation	Impact on CSM
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Insurance and reinsurance contracts held								
Equity price: increase by 10%	-	(17,668)	-	-	-	(17,490)	-	-
Equity price: decrease by 10%	-	17,669	-	-	-	17,489	-	-
Interest rate: increase by 50 basis point	9	203,077	9	115	8	219,195	8	90
Interest rate: decrease by 50 basis point	(10)	(230,875)	(10)	(131)	(8)	(236,168)	(8)	(97)
Financial Instruments								
Equity price: increase by 10%	19,709	19,709	19,709	-	20,512	20,512	20,512	-
Equity price: decrease by 10%	(19,709)	(19,709)	(19,709)	-	(20,512)	(20,512)	(20,512)	-
Interest rate: increase by 50 basis point	(252,497)	(252,497)	(252,497)	-	(281,844)	(281,844)	(281,844)	-
Interest rate: decrease by 50 basis point	270,389	270,389	270,389	-	302,358	302,358	302,358	-

4 Insurance and financial risk management (continued)

(d) Financial risk management and fair values (continued)

(i) Market risk (continued)

(3) Foreign exchange rate risk

Premiums are received in either Hong Kong dollars and United States dollars and the Company aims to hold assets with currency exposures in line with its insurance liabilities to limit the associated foreign exchange risks. The currency position between assets and liabilities is monitored by the Company periodically.

As the Hong Kong dollar is pegged to the United States dollar, the exposure to foreign exchange risk is considered not significant. It is estimated that a hypothetical 5% (2024: 5%) increase/decrease in foreign exchange rate for all currency exposures (excluding United States Dollar) against Hong Kong dollars would increase/decrease the Company's profit before tax and equity (before effects of taxation) by approximately HK\$75,000 (2024: HK\$66,000).

The following table details the Company's exposure at the end of the reporting period to foreign exchange risk arising from recognised assets or liabilities denominated in a currency other than the Company's functional currency of Hong Kong dollars. For presentation purposes, the amounts of the exposure are expressed in Hong Kong dollars.

As at 31 December 2025	United States Dollar HK\$'000	Chinese Yuan HK\$'000	Total HK\$'000
ASSETS			
Intangible assets	4,304	-	4,304
Investments in securities	12,342,397	-	12,342,397
Insurance and reinsurance contract assets	112	-	112
Other assets	95,495	-	95,495
Cash and cash equivalents	3,280,668	5,880	3,286,548
Total assets	15,722,976	5,880	15,728,856
LIABILITIES			
Insurance contract liabilities	4,686,022	-	4,686,022
Reinsurance contract liabilities	50	-	50
Other liabilities	60,002	4,373	64,375
Total liabilities	4,746,074	4,373	4,750,447
Net position	10,976,902	1,507	10,978,409
5% strengthening of original currency			
Impact on profit before tax and equity	n/a	75	75

4 Insurance and financial risk management (continued)

(d) Financial risk management and fair values (continued)

(i) Market risk (continued)

(3) Foreign exchange rate risk (continued)

As at 31 December 2024	United States Dollar HK\$'000	Chinese Yuan HK\$'000	Total HK\$'000
ASSETS			
Intangible assets	4,304	-	4,304
Investments in securities	18,588,165	-	18,588,165
Insurance and reinsurance contract assets	106	-	106
Other assets	120,925	-	120,925
Cash and cash equivalents	406,960	5,613	412,573
Total assets	<u>19,120,460</u>	<u>5,613</u>	<u>19,126,073</u>
LIABILITIES			
Insurance contract liabilities	6,915,305	-	6,915,305
Reinsurance contract liabilities	979	-	979
Other liabilities	59,728	4,296	64,024
Total liabilities	<u>6,976,012</u>	<u>4,296</u>	<u>6,980,308</u>
Net position	<u>12,144,448</u>	<u>1,317</u>	<u>12,145,765</u>
5% strengthening of original currency			
Impact on profit before tax and equity	<u>n/a</u>	<u>66</u>	<u>66</u>

4 Insurance and financial risk management (continued)

(d) Financial risk management and fair values (continued)

(ii) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position after deducting any impairment allowance.

- Credit risk of investments in debt securities

The Company's portfolio of debt securities is subject to credit risk. This risk is defined as the potential loss in market value resulting from adverse changes in a debtor's ability to repay. The Company manages this risk through restriction on credit rating concentration in its investment portfolio and applying rating standards and limits as set out in the investment policy based on the business requirement.

- Credit risk of reinsurance contract assets

The Company's exposure to credit risk is primarily through its reinsurance arrangements, where amounts due under a reinsurance contract may not be paid. Unless otherwise specified, the Company manages this risk through regular monitoring of each reinsurer's credit risk exposure against the risk tolerance in accordance with the AIA Group Reinsurance Credit Risk Standard.

- Credit risk of financial assets other than investments in debt securities

The Company assesses whether other receivables and cash and cash equivalents are credit impaired based on the 12-month ECL. Cash and cash equivalents were deposited in financial institution, and all other receivables do not contain significant financing components and do not have history of default. The measured credit risk associated has not increased significantly, no additional loss allowance is recognised after application of ECL model.

Management considers that credit risk on reinsurance assets has not increased significantly since the initial recognition with reference to the counterparty historical default rate and current financial position.

4 Insurance and financial risk management (continued)

(d) Financial risk management and fair values (continued)

(iii) Liquidity risk

The Company has to meet daily calls on its cash resources, notably from claims arising from its life insurance contracts. There is a risk that cash will not be available to settle liabilities when due.

The Company manages liquidity risk by formulating policies and general strategies of liquidity management to ensure that the Company can meet its financial obligations in normal circumstances and that an adequate stock of high-quality liquid assets is maintained in order to contain the possibility of a liquidity crisis.

Apart from liquidity management and regulatory compliance, the Company always strives to maintain a comfortable liquidity cushion as a safety net for coping with unexpectedly large funding requirements and maintain a contingency plan to be enacted should there be a company specific crisis.

Contractual maturities of financial assets and liabilities

As at 31 December 2025						
	Within 1 year or on demand HK\$'000	More than 1 year but less than 5 years HK\$'000	More than 5 years but less than 10 years HK\$'000	More than 10 years HK\$'000	No fixed maturity ⁽¹⁾ HK\$'000	Total HK\$'000
Financial Assets						
Investments in securities	4,229,075	4,027,743	1,094,521	2,793,966	197,092	12,342,397
Other assets	96,639	-	-	-	-	96,639
Cash and cash equivalents	3,379,048	-	-	-	-	3,379,048
Total	7,704,762	4,027,743	1,094,521	2,793,966	197,092	15,818,084
Financial liabilities						
Other liabilities	109,299	-	-	-	-	109,299
Total	109,299	-	-	-	-	109,299

As at 31 December 2024						
	Within 1 year or on demand HK\$'000	More than 1 year but less than 5 years HK\$'000	More than 5 years but less than 10 years HK\$'000	More than 10 years HK\$'000	No fixed maturity ⁽¹⁾ HK\$'000	Total HK\$'000
Financial Assets						
Investments in securities	7,288,007	6,796,253	1,497,509	2,801,276	205,120	18,588,165
Other assets	122,879	-	-	-	-	122,879
Cash and cash equivalents	629,355	-	-	-	-	629,355
Total	8,040,241	6,796,253	1,497,509	2,801,276	205,120	19,340,399
Financial liabilities						
Other liabilities	117,044	-	-	-	-	117,044
Total	117,044	-	-	-	-	117,044

4 Insurance and financial risk management (continued)

(d) Financial risk management and fair values (continued)

(iii) Liquidity risk (continued)

Contractual maturities of insurance and reinsurance contract liabilities

	As at 31 December 2025						Total HK\$'000
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Insurance contract							
Insurance contract assets	440	(3,548)	-	-	-	-	(3,108)
Reinsurance contracts	-	-	-	-	-	-	-
Total	440	(3,548)	-	-	-	-	(3,108)
Liabilities under insurance contracts⁽²⁾							
Insurance contract liabilities	4,159,643	2,070,229	1,439,748	468,237	337,448	3,851,176	12,326,481
Reinsurance contract liabilities	508	-	-	-	-	-	508
Total	4,160,151	2,070,229	1,439,748	468,237	337,448	3,851,176	12,326,989

	As at 31 December 2024						Total HK\$'000
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Insurance contract							
Insurance contract assets	477	(3,283)	-	-	-	-	(2,806)
Reinsurance contracts	-	-	-	-	-	-	-
Total	477	(3,283)	-	-	-	-	(2,806)
Liabilities under insurance contracts⁽²⁾							
Insurance contract liabilities	4,939,694	3,851,640	1,873,305	1,289,423	422,568	3,872,691	16,249,321
Reinsurance contract liabilities	3,263	-	-	-	-	-	3,263
Total	4,942,957	3,851,640	1,873,305	1,289,423	422,568	3,872,691	16,252,584

Notes:

- (1) Financial assets with no fixed maturity are equities or receivables on demand which the Company has choice to call.
- (2) The amounts of payable on demand of insurance contracts are HK\$11,450,982,817 as at 31 December 2025 (31 December 2024: HK\$14,498,187,845).

4 Insurance and financial risk management (continued)

(d) Financial risk management and fair values (continued)

(iv) Fair value measurement

Fair value hierarchy

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three “levels” based on the observability of inputs available in the marketplace used to measure their fair values as discussed below:

1. **Level 1:** Fair value measurements that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date. Market price data is generally obtained from exchange or dealer markets. The Company does not adjust the quoted price for such instruments. Assets measured at fair value on a recurring basis and classified as Level 1 are actively traded equities.
2. **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset and liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include government securities issued by non-G7 countries (the United States, Canada, France, Germany, Italy, Japan, the United Kingdom), most investment grade corporate bonds and unlisted investment funds.
3. **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Unobservable inputs are only used to measure fair value to the extent that relevant observable inputs are not available, allowing for circumstances in which there is little, if any, market activity for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement. In making the assessment, the Company considers factors specific to the asset or liability.

4 Insurance and financial risk management (continued)

(d) Financial risk management and fair values (continued)

(iv) Fair value measurement (continued)

	As at 31 December 2025			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Debt securities – FVTPL designated				
- Listed	-	11,502,258	-	11,502,258
- Unlisted	-	517,539	-	517,539
Debt securities – FVTPL - mandatory				
- Listed	-	125,508	-	125,508
Equity securities:				
- Listed	-	-	-	-
- Unlisted	-	-	-	-
Investment funds:				
- Listed	-	-	-	-
- Unlisted	-	197,092	-	197,092
	<u>-</u>	<u>12,342,397</u>	<u>-</u>	<u>12,342,397</u>

	As at 31 December 2024			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Debt securities – FVTPL designated				
- Listed	-	15,576,016	-	15,576,016
- Unlisted	-	2,699,163	-	2,699,163
Debt securities – FVTPL - mandatory				
- Listed	-	107,866	-	107,866
Equity securities:				
- Listed	-	-	-	-
- Unlisted	-	-	-	-
Investment funds:				
- Listed	-	-	-	-
- Unlisted	-	205,120	-	205,120
	<u>-</u>	<u>18,588,165</u>	<u>-</u>	<u>18,588,165</u>

During the year ended 31 December 2025 and 2024, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3. The Company's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

5 Insurance revenue

	Note	2025 HK\$'000	2024 HK\$'000
Contracts not measured under the PAA			
Amounts related to changes in liabilities for remaining coverage			
Contractual service margin recognised for services provided	15	76,380	98,877
Change in risk adjustment for non-financial risk for risk expired	15	1,947	1,188
Expected incurred claims and other insurance service expenses		43,771	58,731
Others		(31)	(48)
Recovery of insurance acquisition cash flows		136	171
		<u>122,203</u>	<u>158,919</u>
Contracts measured under the PAA	15	<u>4,346</u>	<u>4,795</u>
Total insurance revenue		<u>126,549</u>	<u>163,714</u>
Represented by:			
Contracts under the fair value approach		126,549	163,714

6 Investment return

	Note	2025 HK\$'000	2024 HK\$'000
Investment return			
Interest revenue on financial assets			
- Listed securities		508,250	610,705
- Unlisted securities		38,257	83,468
- Bank		2,731	2,263
- Treasury bills		62,425	26,174
		<u>611,663</u>	<u>722,610</u>
Other investment return			
At fair value through profit or loss			
- Net gains on debt and equity securities and investment funds		583,108	332,167
- Net foreign exchange gain/(loss)		66,127	(121,013)
		<u>649,235</u>	<u>211,154</u>
Total investment return		<u>1,260,898</u>	<u>933,764</u>
Net finance expense from insurance contracts			
Interest accreted		(465,684)	(814,479)
Effect of changes in interest rates and other financial assumptions		(294,746)	32,094
Effect of measuring changes in estimates at current rates and adjusting the CSM at the rates on initial recognition		(65,358)	31,382
Net foreign exchange (loss)/gain		<u>(30,227)</u>	<u>43,666</u>
Total net finance expenses from insurance contracts	15	<u>(856,015)</u>	<u>(707,337)</u>
Net finance income from reinsurance contracts held			
Net foreign exchange gains		<u>2</u>	<u>8</u>
Total net finance incomes from reinsurance contracts held	15	<u>2</u>	<u>8</u>
Net investment result		<u>404,885</u>	<u>226,435</u>
Net finance expenses from insurance contracts are represented by:			
Amount recognised in income statement		(299,153)	(307,509)
Amount recognised in other comprehensive income		(556,862)	(399,828)

7 Expenses

	Note	2025 HK\$'000	2024 HK\$'000
Claims and benefits		3,685	13,358
Commission and other acquisition expenses incurred		273	507
Depreciation		11	231
Amortisation of intangible assets		535	535
Investment management expenses and others		33,833	38,550
Auditors' remuneration		1,654	2,571
Other operating expenses		5,064	13,739
Restructuring and other non-operating costs		1,245	1,266
		46,300	70,757
Amortisation of insurance acquisition cash flows	15	136	171
Insurance service and other expenses		46,436	70,928
Insurance service and other expenses represented by:			
		2025 HK\$'000	2024 HK\$'000
Insurance service expenses			
- Contracts not measured under the PAA	15	36,935	55,025
- Contracts measured under the PAA	15	1,015	1,540
Other expenses		8,486	14,363
Total		46,436	70,928

8 Income Tax and Organisation for Economic Co-operation and Development (“OECD”) Pillar Two model rules

(a) Taxation in the statement of profit or loss represents:

	2025 HK\$'000	2024 HK\$'000
Current tax		
- Hong Kong Profits tax		
a) Current year	-	-
b) Over-provision in prior years	-	-
- Withholding tax on investment income	-	-
- Realised capital gain tax on investment income	-	-
Deferred tax		
- Origination and reversal of temporary differences	135,321	51,233
Tax expenses	<u>135,321</u>	<u>51,233</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% (2024:16.5%) on the estimated assessable profits arising in Hong Kong during the year.

AIAGL, the ultimate holding company of the Company, is within the scope of the OECD Pillar Two model rules (the Global Anti-Erosion Proposal, or “GloBE”). Pillar Two legislation was enacted in Hong Kong, the jurisdiction of incorporation of the AIAGL, and became effective on 1 January 2025. Under the Hong Kong legislation, the AIAGL is subject to pay a top-up tax for the difference between its GloBE effective tax rate per jurisdiction and the 15% minimum rate.

As at 31 December 2025, no top-up tax was allocated to the Company.

8 Income Tax and Organisation for Economic Co-operation and Development (“OECD”) Pillar Two model rules (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	2025 HK\$'000	2024 HK\$'000
Profit before tax	1,040,836	714,361
Notional tax on profit before tax, calculated at 16.5% (2024: 16.5%)	171,738	117,870
Tax effect of non-taxable revenue	(25,229)	(29,081)
Tax effect of non-deductible expenses	1,654	5,801
Tax effect of tax losses not recognised	(12,843)	(43,775)
Others	1	418
Tax expense	135,321	51,233

9 Directors’ emoluments

Directors’ emoluments disclosed pursuant to Section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2025 HK\$'000	2024 HK\$'000
Directors’ fees	800	800
Salaries, allowances and benefits in kind	-	-
Retirement scheme contributions	-	-
	800	800
The aggregate emoluments of the three highest-paid directors	800	800

10 Intangible assets

	<i>Computer software HK\$'000</i>
Cost:	
At 1 January 2024	6,831
At 31 December 2024	6,831
At 1 January 2025	6,831
At 31 December 2025	6,831
Accumulated amortisation:	
At 1 January 2024	885
Charge for the year	536
At 31 December 2024	1,421
At 1 January 2025	1,421
Charge for the year	535
At 31 December 2025	1,956
Net book value:	
At 31 December 2025	4,875
At 31 December 2024	5,410

11 Property, plant and equipment

	<i>Computers</i> HK\$'000
Cost:	
At 1 January 2024, 31 December 2024, 1 January 2025 and 31 December 2025	2,036
Accumulated depreciation:	
At 1 January 2024	1,793
Charge for the year	232
At 31 December 2024	2,025
At 1 January 2025	2,025
Charge for the year	11
At 31 December 2025	2,036
Net book value:	
At 31 December 2025	-
At 31 December 2024	11

12 Investments in securities

		<i>FVTPL</i>	
		2025	2024
		HK\$'000	HK\$'000
Debt securities (note i)			
Listed in Hong Kong		3,001,342	4,083,914
Listed outside Hong Kong		8,626,424	11,599,968
Unlisted		517,539	2,699,163
		12,145,305	18,383,045
Investment funds (note ii)			
Unlisted		197,092	205,120
		197,092	205,120
Total investments in securities		12,342,397	18,588,165
Current portion		4,426,167	7,493,127
Non-current portion		7,916,230	11,095,038
		12,342,397	18,588,165

12 Investments in securities (continued)

Notes:

- (i) In compiling the tables, external ratings have been used in accordance with the Company's credit risk assessment framework. Where external ratings are not readily available an internal rating methodology has been adopted, if applicable. Credit risk limits are set according to the Company's credit risk assessment framework, which define the relative risk level of a debt security.

External ratings		Internal ratings	Reported as
Standard and Poor's and Fitch	Moody's		
AAA	Aaa	1	AAA
AA+ to AA-	Aa1 to Aa3	2+ to 2-	AA
A+ to A-	A1 to A3	3+ to 3-	A
BBB+ to BBB-	Baa1 to Baa3	4+ to 4-	BBB
BB+ and below	Ba1 and below	5+ and below	Below investment grade

Debt securities by type comprise the following:

	FVTPL	
	2025	2024
	HK\$'000	HK\$'000
Government bonds		
AA	1,468,157	4,045,899
A	116,331	44,140
BBB	156,503	152,216
Subtotal	1,740,991	4,242,255
Corporate bonds		
AA	564,803	1,759,748
A	5,045,037	5,996,621
BBB	4,706,748	6,130,408
Below investment grade	87,726	254,013
Subtotal	10,404,314	14,140,790
Total	12,145,305	18,383,045

12 Investments in securities (continued)

(ii) Interests in investment funds

Included in financial assets at FVTPL on the Company's statement of financial position are certain investments in investment funds (see note 4(d)(iv)) in which they have been designed so that voting or similar rights are not the dominant factor in deciding who controls these schemes. These investment funds include investments in mutual funds and unit trusts. These schemes provide the Company with a variety of investment opportunities through managed investment strategies.

Owing to the passive nature of these investments, the maximum exposure to loss from these interests is limited to the associated price risk. The maximum exposure to loss, which represents the maximum loss that the Company could be required to report as a result of its involvement with these investment funds regardless of the probability of the loss being incurred, is equivalent to the carrying amount of these investments (see note 4(d)(iv)).

13 Other assets

	2025 HK\$'000	2024 HK\$'000
Accrued interest receivables	95,495	121,133
Amount due from a fellow subsidiary	-	508
Other receivables and prepayments	1,144	1,238
	<u>96,639</u>	<u>122,879</u>

Notes:

- (i) Other assets are expected to be recovered within one year.
- (ii) The Company does not hold any collateral over other assets.
- (iii) The amount due from a fellow subsidiary is unsecured, interest free and repayable on demand.

14 Cash and cash equivalents

	2025 HK\$'000	2024 HK\$'000
Cash at bank	164,897	289,800
Treasury bills with original maturity of up to three months	3,214,151	339,555
Cash and cash equivalents	<u>3,379,048</u>	<u>629,355</u>

Note: No cash and cash equivalents were pledged as at 31 December 2025 and 2024.

15 Insurance contracts and reinsurance contracts held

Movement in carrying amounts

The following reconciliations show how the net carrying amounts of insurance contracts and reinsurance contracts held changed during the year as a result of cash flows and amounts recognised in the income statement and statement of comprehensive income. The Company presents a table separately analyses movements in the liabilities for remaining coverage and movements in the liabilities for incurred claims and reconciles these movements to the line items in the income statement and statement of comprehensive income. A second reconciliation is presented for contracts not measured under the premium allocation approach, which separately analyses changes in the estimates of the present value of future cash flows, the risk adjustment for non-financial risk and the contractual service margin.

The estimates of the present value of future cash flows from insurance and reinsurance contract assets represent the Company's maximum exposure to credit risk from these assets.

15 Insurance contracts and reinsurance contracts held (continued)

Movement in carrying amounts (Continued)

Analysis by remaining coverage and incurred claims of insurance contracts not measured under the premium allocation approach

Year ended 31 December 2025

	Notes	Liabilities for remaining coverage		Liabilities for incurred claims	Total
		Excluding loss component	Loss component		
HKD'000					
Opening assets		(1,066)	145	92	(829)
Opening liabilities		16,802,556	-	39,450	16,842,006
Net opening balance		16,801,490	145	39,542	16,841,177
Insurance revenue	5	(122,203)	-	-	(122,203)
Insurance service expenses					
Incurred claims and other insurance service expenses		-	(12)	35,402	35,390
Amortisation of insurance acquisition cash flows		136	-	-	136
Losses and reversal of losses on onerous contracts		-	(7)	-	(7)
Adjustments to liabilities for incurred claims		-	-	1,416	1,416
Total insurance service expenses		136	(19)	36,818	36,935
Investment components		(4,933,176)	-	4,933,176	-
Insurance service result		(5,055,243)	(19)	4,969,994	(85,268)
Net finance expenses from insurance contracts	6	855,859	6	150	856,015
Effect of movements in exchange rates		-	-	-	-
Total changes in the income statement and statement of comprehensive income		(4,199,384)	(13)	4,970,144	770,747
Cash flows					
Premiums received		196,213	-	-	196,213
Claims and other insurance service expenses paid, including investment components		-	-	(4,994,728)	(4,994,728)
Insurance acquisition cash flows paid		-	-	-	-
Other amounts received		-	-	31,442	31,442
Total cash flows		196,213	-	(4,963,286)	(4,767,073)
Adjusted for:					
Non-cash operating items		-	-	-	-
Total non-cash items		-	-	-	-
Net closing balance		12,798,319	132	46,400	12,844,851
Closing assets		(1,866)	132	92	(1,642)
Closing liabilities		12,800,185	-	46,308	12,846,493
Net closing balance		12,798,319	132	46,400	12,844,851

15 Insurance contracts and reinsurance contracts held (continued)

Movement in carrying amounts (Continued)

Analysis by remaining coverage and incurred claims of insurance contracts not measured under the premium allocation approach (continued)

Year ended 31 December 2024

	Notes	Liabilities for remaining coverage		Liabilities for incurred claims	Total
		Excluding loss component	Loss component		
HKD'000					
Opening assets		(998)	-	92	(906)
Opening liabilities		20,564,909	-	54,510	20,619,419
Net opening balance		20,563,911	-	54,602	20,618,513
Insurance revenue	5	(158,919)	-	-	(158,919)
Insurance service expenses					
Incurred claims and other insurance service expenses		-	(9)	53,294	53,285
Amortisation of insurance acquisition cash flows		172	-	-	172
Losses and reversal of losses on onerous contracts		-	154	-	154
Adjustments to liabilities for incurred claims		-	-	1,414	1,414
Total insurance service expenses		172	145	54,708	55,025
Investment components		(5,054,932)	-	5,054,932	-
Insurance service result		(5,213,679)	145	5,109,640	(103,894)
Net finance expenses from insurance contracts	6	707,390	-	(53)	707,337
Effect of movements in exchange rates		-	-	-	-
Total changes in the income statement and statement of comprehensive income		(4,506,289)	145	5,109,587	603,443
Cash flows					
Premiums received		743,868	-	-	743,868
Claims and other insurance service expenses paid, including investment components		-	-	(5,163,486)	(5,163,486)
Insurance acquisition cash flows paid		-	-	-	-
Other amounts received		-	-	38,839	38,839
Total cash flows		743,868	-	(5,124,647)	(4,380,779)
Adjusted for:					
Non-cash operating items		-	-	-	-
Total non-cash items		-	-	-	-
Net closing balance		16,801,490	145	39,542	16,841,177
Closing assets		(1,066)	145	92	(829)
Closing liabilities		16,802,556	-	39,450	16,842,006
Net closing balance		16,801,490	145	39,542	16,841,177

15 Insurance contracts and reinsurance contracts held (continued)

Movement in carrying amounts (Continued)

Analysis by measurement component of insurance contracts not measured under the premium allocation approach

		Year ended 31 December 2025			
		Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM (Contracts under Fair value approach)	Total
HK\$'000	Notes				
Opening assets		(2,944)	3	2,112	(829)
Opening liabilities		16,249,250	6,786	585,970	16,842,006
Net opening balance		16,246,306	6,789	588,082	16,841,177
Insurance service result					
Changes that relate to current services		(8,350)	(1,947)	(76,380)	(86,677)
CSM recognised for services provided	5	-	-	(76,380)	(76,380)
Change in risk adjustment for non-financial risk	5	-	(1,947)	-	(1,947)
Experience adjustments		(8,350)	-	-	(8,350)
Others		-	-	-	-
Changes that relate to future services		10,618	1,928	(12,553)	(7)
Contracts initially recognised in the year		-	-	-	-
Changes in estimates that adjust the CSM		10,625	1,928	(12,553)	-
Changes in estimates that result in losses and reversal of losses on onerous contracts		(7)	-	-	(7)
Changes that relate to past services		1,416	-	-	1,416
Total insurance service result		3,684	(19)	(88,933)	(85,268)
Net finance expenses from insurance contracts	6	840,256	-	15,759	856,015
Effect of movements in exchange rates		-	-	-	-
Total changes in the income statement and statement of comprehensive income		843,940	(19)	(73,174)	770,747
Cash flows		(4,767,073)	-	-	(4,767,073)
Other non-cash items		-	-	-	-
Net closing balance		12,323,173	6,770	514,908	12,844,851
Closing assets		(3,247)	4	1,601	(1,642)
Closing liabilities		12,326,420	6,766	513,307	12,846,493
Net closing balance		12,323,173	6,770	514,908	12,844,851

15 Insurance contracts and reinsurance contracts held (continued)

Movement in carrying amounts (Continued)

Analysis by measurement component of insurance contracts not measured under the premium allocation approach (continued)

		Year ended 31 December 2024			
		Estimates of present value of future cash flows	Risk adjustment for non- financial risk	CSM (Contracts under Fair value approach)	Total
HK\$'000	Notes				
Opening assets		(3,616)	2	2,708	(906)
Opening liabilities		19,932,283	5,884	681,252	20,619,419
Net opening balance		19,928,667	5,886	683,960	20,618,513
Insurance service result					
Changes that relate to current services		(5,400)	(1,188)	(98,877)	(105,465)
CSM recognised for services provided	5	-	-	(98,877)	(98,877)
Change in risk adjustment for non-financial risk	5	-	(1,188)	-	(1,188)
Experience adjustments		(5,400)	-	-	(5,400)
Others		-	-	-	-
Changes that relate to future services		11,507	2,091	(13,442)	156
Contracts initially recognised in the year		-	-	-	-
Changes in estimates that adjust the CSM		11,352	2,091	(13,442)	1
Changes in estimates that result in losses and reversal of losses on onerous contracts		155	-	-	155
Changes that relate to past services		1,414	-	-	1,414
Total insurance service result		7,521	903	(112,319)	(103,895)
Net finance expenses from insurance contracts	6	690,896	-	16,441	707,337
Effect of movements in exchange rates		-	-	-	-
Total changes in the income statement and statement of comprehensive income		698,417	903	(95,878)	603,442
Cash flows		(4,380,778)	-	-	(4,380,778)
Other non-cash items		-	-	-	-
Net closing balance		16,246,306	6,789	588,082	16,841,177
Closing assets		(2,944)	3	2,112	(829)
Closing liabilities		16,249,250	6,786	585,970	16,842,006
Net closing balance		16,246,306	6,789	588,082	16,841,177

15 Insurance contracts and reinsurance contracts held (continued)

Movement in carrying amounts (Continued)

Analysis by remaining coverage and incurred claims of insurance contracts measured under the premium allocation approach

		Year ended 31 December 2025				
HK\$'000	Notes	Liabilities for remaining coverage		Liabilities for incurred claims		Total
		Excluding loss component	Loss component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk	
Opening assets		137	-	2	-	139
Opening liabilities		67	-	3	-	70
Net opening balance		204	-	5	-	209
Insurance revenue	5	(4,346)	-	-	-	(4,346)
Insurance service expenses						
Incurred claims and other insurance service expenses		-	-	923	-	923
Amortisation of insurance acquisition cash flows		-	-	-	-	-
Changes relate to past service: Adjustments to liabilities for incurred claims		-	-	92	-	92
Total insurance service expenses		-	-	1,015	-	1,015
Investment components		-	-	-	-	-
Other changes		-	-	-	-	-
Insurance service result		(4,346)	-	1,015	-	(3,331)
Net finance expenses from insurance contracts		-	-	-	-	-
Effect of movements in exchange rates		-	-	-	-	-
Total changes in the consolidated income statement and consolidated statement of comprehensive income		(4,346)	-	1,015	-	(3,331)
Cash flows						
Premiums received		4,327	-	-	-	4,327
Claims and other insurance service expenses paid, including investment components		-	-	(1,003)	-	(1,003)
Insurance acquisition cash flows paid		-	-	-	-	-
Other amounts received		-	-	-	-	-
Total cash flows		4,327	-	(1,003)	-	3,324
Net closing balance		185	-	17	-	202
Closing assets		126	-	14	-	140
Closing liabilities		59	-	3	-	62
Net closing balance		185	-	17	-	202

15 Insurance contracts and reinsurance contracts held (continued)

Movement in carrying amounts (Continued)

Analysis by remaining coverage and incurred claims of insurance contracts measured under the premium allocation approach (continued)

		Year ended 31 December 2024				
HK\$'000	Notes	Liabilities for remaining coverage		Liabilities for incurred claims		Total
		Excluding loss component	Loss component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk	
Opening assets		161	-	(8)	-	153
Opening liabilities		73	-	4	-	77
Net opening balance		234	-	(4)	-	230
Insurance revenue	5	(4,795)	-	-	-	(4,795)
Insurance service expenses						
Incurred claims and other insurance service expenses		-	-	465	-	465
Amortisation of insurance acquisition cash flows		-	-	-	-	-
Changes relate to past service: Adjustments to liabilities for incurred claims		-	-	1,075	-	1,075
Total insurance service expenses		-	-	1,540	-	1,540
Investment components		-	-	-	-	-
Other changes		-	-	-	-	-
Insurance service result		(4,795)	-	1,540	-	(3,255)
Net finance expenses from insurance contracts		-	-	-	-	-
Effect of movements in exchange rates		-	-	-	-	-
Total changes in the consolidated income statement and consolidated statement of comprehensive income		(4,795)	-	1,540	-	(3,255)
Cash flows						
Premiums received		4,765	-	-	-	4,765
Claims and other insurance service expenses paid, including investment components		-	-	(1,531)	-	(1,531)
Insurance acquisition cash flows paid		-	-	-	-	-
Other amounts received		-	-	-	-	-
Total cash flows		4,765	-	(1,531)	-	3,234
Net closing balance		204	-	5	-	209
Closing assets		137	-	2	-	139
Closing liabilities		67	-	3	-	70
Net closing balance		204	-	5	-	209

15 Insurance contracts and reinsurance contracts held (continued)

Movement in carrying amounts (Continued)

Analysis by measurement component of reinsurance contracts held measured under the premium allocation approach

		Year ended 31 December 2025				
		Asset for remaining coverage		Asset for incurred claims		Total
HK\$'000	Note	Excluding loss recovery component	Loss recovery component	Estimate of present value of future cash flows	Risk adjustment for non- financial risk	
Opening assets		-	-	-	-	
Opening liabilities		(9,176)	-	5,913	-	(3,263)
Net opening balance		(9,176)	-	5,913	-	(3,263)
Changes in the income statement and statement of comprehensive income						
Net expenses from reinsurance contracts held (excluding effect of changes in non-performance risk of reinsurers)		(4,560)	-	3,536	-	(1,024)
Effect of changes in non-performance risk of reinsurers		-	-	-	-	-
Net expenses from reinsurance contracts held		(4,560)	-	3,536	-	(1,024)
Investment components		-	-	-	-	-
Net finance income from reinsurance contracts held	6	1	-	1	-	2
Effect of movements in exchange rates		-	-	-	-	-
Total changes in the income statement and statement of comprehensive income		(4,559)	-	3,537	-	(1,022)
Cash flows						
Premiums paid		9,983	-	-	-	9,983
Amounts received		-	-	(6,206)	-	(6,206)
Other amounts paid		-	-	-	-	-
Total cash flows		9,983	-	(6,206)	-	3,777
Net closing balance		(3,752)	-	3,244	-	(508)
Closing assets		-	-	-	-	-
Closing liabilities		(3,752)	-	3,244	-	(508)
Net closing balance		(3,752)	-	3,244	-	(508)

15 Insurance contracts and reinsurance contracts held (continued)

Movement in carrying amounts (Continued)

Analysis by measurement component of reinsurance contracts held measured under the premium allocation approach (continued)

		Year ended 31 December 2024			
		Asset for remaining coverage		Asset for incurred claims	Total
HK\$'000	Note	Excluding loss recovery component	Loss recovery component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk
Opening assets		(3,874)	-	4,693	-
Opening liabilities		(2,490)	-	32	-
Net opening balance		(6,364)	-	4,725	-
Changes in the income statement and statement of comprehensive income					
Net expenses from reinsurance contracts held (excluding effect of changes in non-performance risk of reinsurers)		(6,032)	-	1,342	-
Effect of changes in non-performance risk of reinsurers		-	-	-	-
Net expenses from reinsurance contracts held		(6,032)	-	1,342	-
Investment components		-	-	-	-
Net finance income from reinsurance contracts held	6	10	-	(2)	-
Effect of movements in exchange rates		-	-	-	-
Total changes in the income statement and statement of comprehensive income		(6,022)	-	1,340	-
Cash flows					
Premiums paid		3,210	-	-	-
Amounts received		-	-	(152)	-
Other amounts paid		-	-	-	-
Total cash flows		3,210	-	(152)	-
Net closing balance		(9,176)	-	5,913	-
Closing assets		-	-	-	-
Closing liabilities		(9,176)	-	5,913	-
Net closing balance		(9,176)	-	5,913	-

15 Insurance contracts and reinsurance contracts held (continued)

Effect of contracts initially recognised in the year

In 2025, there is no profitable or onerous insurance contract issued. (2024: Nil) There is no reinsurance contract initially recognised in the year. (2024: Nil)

Analysis of contractual service margin

The following table illustrates when the Company expects to recognise the remaining contractual service margin as revenue for contracts not measured under the premium allocation approach.

HK\$'000	Total	Five years or less	After five years through ten years	After ten years
2025				
Insurance contracts	514,908	203,265	119,888	191,755
2024				
Insurance contracts	588,082	247,875	128,952	211,255

15 Insurance contracts and reinsurance contracts held (continued)

Fulfilment cash flows

The Company's objective in estimating future cash flows is to determine the expected value or probability-weighted mean of the full range of possible outcomes. The Company incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows reflect the Company's view of current conditions at the reporting date and the estimates of any relevant market variables are consistent with observable market prices.

When estimating future cash flows, the Company takes into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not taken into account until the change in legislation is substantively enacted.

Cash flows are within the boundary of a contract if they arise from substantive right and obligations that exist during the reporting period. They relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

Methodology and assumptions

Mortality

Assumptions have been developed by each business unit based on their recent historical experience, and their expectations of current and expected future experience including mortality improvement. Where historical experience is not credible, reference has been made to pricing assumptions supplemented by market data, where available.

Mortality assumptions have been expressed as a percentage of either standard industry experience tables or, where experience is sufficiently credible, as a percentage of tables that have been developed internally by the Company.

Morbidity

Assumptions have been developed by each business unit based on their recent historical experience, and their expectations of current and expected future experience. Morbidity rate assumptions have been expressed as a percentage of standard industry experience tables or as expected claims ratios.

15 Insurance contracts and reinsurance contracts held (continued)

Fulfilment cash flows (continued)

Persistency

Persistency covers the assumptions required, where relevant, for policy lapse (including surrender), premium persistency, premium holidays, partial withdrawals and policy loan take up.

Assumptions have been developed by each of the business units based on their recent historical experience, and their best estimate expectations of currency and expected future experience. Persistency assumptions would vary by policy year and product type with different rates for regular and single premium products where appropriate.

Where experience for a particular product was not credible enough to allow any meaningful analysis to be performed, experience for similar products was used as a basis for future persistency experience assumptions.

In the case of surrenders, the valuation assumes that current surrender value bases will continue to apply in the future.

Expenses

The expense assumptions have been set based on the most recent expense analysis. The purpose of the expense analysis is to allocate total expenses between acquisition, maintenance and other activities, and then to allocate these acquisition and maintenance expenses that can be directly attributed to the portfolio of insurance contracts to derive unit cost assumptions.

Where the expenses associated with certain activities have been identified as being one-off, these expenses have been excluded from the expense analysis.

Expense assumptions have been determined for acquisition and maintenance activities that can be directly attributed to the portfolio of insurance contracts, split by product type, and unit costs expressed as a percentage of premiums, sum assured and an amount per policy. Where relevant, expense assumptions have been calculated per distribution channel.

Expense assumptions do not make allowance for any anticipated future expense savings as a result of any strategic initiatives aimed at improving policy administration and claims handling efficiency.

Assumptions for commission rates and other sales-related payments have been set in line with actual experience.

Reinsurance

Reinsurance assumptions have been developed based on the reinsurance arrangements in-force as at the reporting date and the recent historical and expected future experience.

15 Insurance contracts and reinsurance contracts held (continued)

Fulfilment cash flows (continued)

An adjustment to reflect the time value of money and the financial risks related to future cash flows

The Company adjusts the estimate of future cash flows to reflect the time value of money and the financial risks related to those cash flows. The cash flows are discounted by the discount rates to reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts.

The top-down approach has been primarily adopted for the derivation of discount rates. A top-down approach starts with considering a yield curve that reflects the current market rates of return of a reference portfolio of assets that have similar characteristics of the insurance contracts, and adjust this downwards to eliminate any factors not relevant to the insurance contracts (primarily the allowance for credit risk). The assessment of credit risk premium is done on external and internal ratings when the reference portfolio contains assets which are locally rated. Alternatively, a bottom-up approach could be used under which discount rates are determined by adjusting the liquid risk-free yield curve to reflect the liquidity characteristics of the insurance contracts.

To reflect the liquidity characteristics of the insurance contracts, the risk-free spot rates are adjusted by an illiquidity premium.

In constructing the discount rates, market observable rates are used up to the last available market data point which is reliable and also relevant in reflecting the characteristics of the insurance contracts. The market observable rates are extrapolated between this point and an ultimate forward rate derived using long-term estimates by applying generally accepted technique such as Smith-Wilson method etc.

The tables below set out the spot rates used to discount the cash flows of insurance contracts for major currencies. To reflect the liquidity characteristics of the insurance contracts, the risk-free spot rates are adjusted by an illiquidity premium.

As at 31 December

2025	1 year		5 years		10 years		15 years		20 years	
	Risk free	With illiquidity premium	Risk free	With illiquidity premium	Risk free	With illiquidity premium	Risk free	With illiquidity premium	Risk free	With illiquidity premium
Spot rates										
HKD	2.63%	3.13%	2.72%	3.35%	3.10%	3.91%	3.33%	4.18%	3.64%	4.44%

An adjustment to reflect the time value of money and the financial risks related to future cash flows

As at 31 December

2024	1 year		5 years		10 years		15 years		20 years	
	Risk free	With illiquidity premium	Risk free	With illiquidity premium	Risk free	With illiquidity premium	Risk free	With illiquidity premium	Risk free	With illiquidity premium
Spot rates										
HKD	3.88%	3.88%	3.60%	3.60%	3.65%	3.65%	3.72%	3.72%	3.75%	3.75%

15 Insurance contracts and reinsurance contracts held (continued)

Fulfilment cash flows (continued)

An adjustment to reflect the time value of money and the financial risks related to future cash flows (continued)

For the insurance contracts with cash flows that vary based on the returns on any financial underlying items, the Company applies risk-neutral measurement techniques. Stochastic modelling is applied for insurance contracts with significant financial options and guarantees to estimate the expected present value. A large number of possible economic scenarios for market variables such as interest rates and equity returns are considered using risk neutral approach and consistent with market observable price.

Risk adjustments for non-financial risk

Risk adjustments for non-financial risk are generally determined by considering the expected cash flows arising from insurance contracts in each segment for each of the geographical markets in which the Company operates, consistent with the way that non-financial risk is managed. Risk adjustments are determined separately from estimates from the present value of future cash flows, using the confidence level technique.

Applying a confidence level technique, the Company estimates the probability distribution of the expected present value of the future cash flows from insurance contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at 75th percentile (the target confidence level) over the expected present value of the future cash flows.

Contractual service margin

The CSM of a group of contracts is recognised as insurance revenue in each period based on the number of coverage units provided in the period, which is determined by considering for each contract the quantity of the services provided, its expected coverage period and time value of money.

For a group of contracts that is onerous at the start of a reporting period and becomes profitable subsequently that CSM is recognised during the reporting period, the total amount of recognised CSM is released to profit or loss if there are no more future coverage units.

Investment components

The Company identifies the investment component of an insurance contract by determining the amount that it would be required to repay to the policyholder in all circumstances, regardless of whether an insured event occurs. Investment components are excluded from insurance revenue and insurance service expenses. Generally, for relevant contracts, surrender value would be determined as an investment component.

16 Other liabilities

	2025	2024
	HK\$'000	HK\$'000
Unpresented cheque	93,708	99,938
Amounts due to fellow subsidiaries (ii)	15,332	3,166
Investment creditor	55	54
Insurance levy payables	9	97
Others	195	13,789
	<u>109,299</u>	<u>117,044</u>

Notes:

- (i) Other liabilities are expected to be settled within one year.
- (ii) The amounts due to the fellow subsidiaries are unsecured, interest free and repayable on demand.

17 Deferred tax assets

The components of deferred tax assets in the statement of financial position and the movements during the year as follows:

	<i>Insurance contract liabilities</i> HK\$'000	<i>Revaluation of financial instruments</i> HK\$'000	<i>Total</i> HK\$'000
At 1 January 2024	113,897	-	113,897
Charged to statement of profit or loss for the year	(51,233)	-	(51,233)
Credited to other comprehensive income	65,970	-	65,970
	<u>128,634</u>	<u>-</u>	<u>128,634</u>
At 31 December 2024 and at 1 January 2025	128,634	-	128,634
Charged to statement of profit or loss for the year	(135,321)	-	(135,321)
Credited to other comprehensive income	91,883	-	91,883
	<u>85,196</u>	<u>-</u>	<u>85,196</u>
At 31 December 2025	85,196	-	85,196

As at 31 December 2025, the Company has unused tax losses carried forward of HK\$632,518,000 (2024: HK\$710,357,000). The tax losses have no expiry date. No deferred tax asset is recognised for the unused tax losses.

18 Share capital

	2025		2024	
	<i>No. of shares (‘000)</i>	<i>Amount HK\$’000</i>	<i>No. of shares (‘000)</i>	<i>Amount HK\$’000</i>
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	500,000	2,496,291	500,000	2,496,291

There were no ordinary shares issued (2024: nil) during the year ended 31 December 2025.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

19 Insurance finance reserves

The insurance finance reserve comprises the cumulative insurance finance income or expenses recognised in other comprehensive income.

20 Capital management

The Company’s primary objectives when managing capital are to safeguard the Company’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for policyholders.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Company monitors its capital structure to comply with the applicable capital and solvency requirements under the Hong Kong Insurance Ordinance (“HKIO”). For this purpose, the Company defines capital as share capital and reserves.

On this basis, the amount of capital employed at 31 December 2025 was HK\$3,384,430,000 under HKRBC regime (2024: HK\$3,163,723,000 under HKRBC regime). The Company’s capital management policy follows AIA risk management standard to ensure that the Company hold sufficient capital for current statutory minimum solvency in all but the most extreme market conditions.

During 2025 and 2024, the Company complied with the capital and solvency requirements under the Hong Kong Insurance Ordinance.

21 Immediate and ultimate holding company

At the date of statement of financial position, the immediate holding company of the Company is AIA Co, whose immediate and ultimate holding company is AIAGL, a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited.

22 Related-party transactions

Except as disclosed in the elsewhere of financial statement, the Company had the following material transactions with its related parties during the year:

	2025 HK\$'000	2024 HK\$'000
Investment management fee paid to fellow subsidiaries	32,825	37,799
Management fee paid to a fellow subsidiary	4,054	7,947