

AIG INSURANCE HONG KONG LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2025

AIG INSURANCE HONG KONG LIMITED

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2025**

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AIG INSURANCE HONG KONG LIMITED

REPORT OF THE DIRECTORS

The directors submit their report together with the audited consolidated financial statements of AIG Insurance Hong Kong Limited (the “Company”) and its subsidiary (the “Group”) for the year ended 31 December 2025.

Principal activities

The Company is incorporated and domiciled in Hong Kong. The principal activity of the Group during the year was underwriting general insurance business in Hong Kong and Macau.

Results and appropriations

The results of the Group for the year are set out in the consolidated statement of comprehensive income on pages 9 to 10.

No interim dividend (2024: HKD5.83 per share) was declared and paid during the year.

The directors recommended a final dividend of HKD18.31 per share after reporting date (2024: HKD27.12 per share). Details of the dividends for the year are set out in note 27 to the consolidated financial statements.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 11 to 12 of the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HKD217,840 (2024: HKD208,000).

Shares issued in the year

Details of the shares in issue in the year ended 31 December 2025 are set out in note 13 to the consolidated financial statements.

AIG INSURANCE HONG KONG LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Directors

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

Ms. YIP Yok Tak Amy (independent non-executive director)
Mr. Roger David STEEL (independent non-executive director)
Ms. POON Suk Fong Louisa
Ms. SZE Lai Kuen (resigned on 27 February 2026)
Ms. SUN Liqin L

All existing directors were not subject to retirement from office in accordance with Articles 21 and 22 of the Company's Articles of Association, they would continue to be in office.

Directors' material interests in transactions, arrangement and contracts that are significant in relation to the Company's business

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in equity or debt securities

Under the stock award plans of American International Group, Inc., a certain number of shares of American International Group, Inc. common stock may be granted to officers and other key employees of American International Group, Inc. and its subsidiaries at prices not less than the fair market value at date of grant.

Management contracts

There exist agreements for management and administration services, in respect of which the Group provides services to various related companies and under which costs are reimbursed and fees are payable.

Permitted Indemnity Provisions

Pursuant to the Company's Articles of Association, every director or former director may be indemnified out of the Company's assets against any liability incurred by the director to a person other than the Company or an associated company of the Company in connection with any negligence, default, breach of duty or breach of trust in relation to the Company or associated company (as the case may be).

AIG INSURANCE HONG KONG LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Auditors

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

S.D.

Director
POON Suk Fong Louisa
21 April 2026



羅兵咸永道

Independent Auditor's Report

To the Member of AIG Insurance Hong Kong Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of AIG Insurance Hong Kong Limited (the "Company") and its subsidiary (the "Group"), which are set out on pages 8 to 79, comprise:

- the consolidated statement of financial position as at 31 December 2025;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2025, and of its consolidated financial performance and its consolidated 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 ("HKSAs") as issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated 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 Group 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 of the Company are responsible for the other information. The other information comprises the information included in the Report of the Directors, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 HKSA's 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 consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee 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 Wong Kin Lap (practising certificate number: P05269)



PricewaterhouseCoopers
 Certified Public Accountants
 Hong Kong, 21 April 2026

AIG INSURANCE HONG KONG LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2025**

	Note	2025 HKD	2024 HKD
ASSETS			
Property, plant and equipment	5	8,784,591	3,670,933
Right-of-use assets	6	78,301,944	14,316,120
Intangible assets	7	6,751,035	9,943,403
Club debentures	9	25,760,667	25,959,000
Reinsurance contract assets	14	2,251,934,410	2,149,507,693
Debt investments	10	647,137,036	-
Current income tax asset		9,478,655	-
Intercompany balance receivables	24	19,089,225	14,122,216
Prepayments and other receivables	11	18,271,431	25,002,465
Cash and bank balances	12	2,845,188,449	3,730,776,744
Total assets		<u>5,910,697,443</u>	<u>5,973,298,574</u>
EQUITY			
Capital and reserves attributable to the equity holders			
Share capital	13	1,246,318,848	1,246,318,848
Other reserves		21,355,181	14,978,783
Reserve on post-retirement obligation		8,316,015	15,784,568
Retained earnings		524,180,112	796,142,435
Total equity		<u>1,800,170,156</u>	<u>2,073,224,634</u>
LIABILITIES			
Deferred tax liabilities	8	2,454,926	98,831
Post-retirement obligation	23	85,290,714	71,835,924
Lease liabilities	6	78,371,956	13,918,855
Insurance contract liabilities	14	3,874,131,877	3,710,425,030
Current income tax liabilities		4,454,212	27,786,947
Intercompany balance payables	24	9,245,530	14,978,096
Other payables	15	56,578,072	61,030,257
Total liabilities		<u>4,110,527,287</u>	<u>3,900,073,940</u>
Total equity and liabilities		<u>5,910,697,443</u>	<u>5,973,298,574</u>

The consolidated financial statements on pages 8 to 13 were approved by the Board of Directors and were signed on the Company's behalf on 21 April 2026.

S.D.

S.D.

.....
Director
POON Suk Fong Louisa

.....
Director
YIP Yok Tak Amy

The notes on pages 14 to 79 are an integral part of these consolidated financial statements.

AIG INSURANCE HONG KONG LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2025**

	Note	2025 HKD	2024 HKD
Insurance revenue	14	1,708,613,201	1,819,140,453
Insurance service expenses	14,18	(1,257,926,271)	(1,009,005,005)
Net expenses from reinsurance contracts held	14	(221,630,393)	(482,359,535)
Insurance service result		<u>229,056,537</u>	<u>327,775,913</u>
Interest revenue using the effective interest method		116,541,467	112,048,809
Expenses on funds withheld		-	(4,862,037)
Net investment income		<u>116,541,467</u>	<u>107,186,772</u>
Net insurance finance expenses from insurance contracts issued		(156,517,088)	(106,578,561)
Insurance finance income from reinsurance contracts held		<u>87,849,245</u>	<u>60,669,670</u>
Net insurance finance expenses		<u>(68,667,843)</u>	<u>(45,908,891)</u>
Net insurance and investment result	16	<u>47,873,624</u>	<u>61,277,881</u>
Net foreign exchange losses		(640,325)	(2,349,637)
Other income	17	13,328,014	17,086,727
Other operating expenses	18	(141,854,930)	(153,590,555)
Profit before tax		<u>147,762,920</u>	<u>250,200,329</u>
Income tax expenses	21	(19,725,243)	(31,976,645)
Profit for the year		<u>128,037,677</u>	<u>218,223,684</u>

AIG INSURANCE HONG KONG LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2025**

	Note	2025 HKD	2024 HKD
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Change in fair value of debt investments at fair value through other comprehensive income		6,940,369	-
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Actuarial (losses)/gains on post-retirement obligation, net of tax		(7,468,553)	15,555,874
Change in fair value of equity investments at fair value through other comprehensive income	9	(198,333)	(2,958,000)
Other comprehensive income, net of tax		<u>(726,517)</u>	<u>12,597,874</u>
Total comprehensive income		<u><u>127,311,160</u></u>	<u><u>230,821,558</u></u>

The notes on pages 14 to 79 are an integral part of these consolidated financial statements.

AIG INSURANCE HONG KONG LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2025**

	Note	Other reserves				Retained earnings HKD	Total HKD
		Share capital HKD	Share-based payment HKD	Fair value reserve HKD	Reserve on post-retirement obligation HKD		
Balance at 1 January 2025		1,246,318,848	1,773,783	13,205,000	15,784,568	796,142,435	2,073,224,634
Profit for the year		-	-	-	-	128,037,677	128,037,677
Other comprehensive income							
Change in fair value of debt investments at fair value through other comprehensive income		-	-	6,940,369	-	-	6,940,369
Actuarial losses on post-retirement obligation for the year	23	-	-	-	(9,176,840)	-	(9,176,840)
Change in fair value of equity investments at fair value through other comprehensive income	9	-	-	(198,333)	-	-	(198,333)
Deferred tax thereon	8	-	-	-	1,708,287	-	1,708,287
Other comprehensive income, net of tax		-	-	6,742,036	(7,468,553)	-	(726,517)
Total comprehensive income for the year		-	-	6,742,036	(7,468,553)	128,037,677	127,311,160
Share-based payment transactions		-	(365,638)	-	-	-	(365,638)
Dividend paid	27	-	-	-	-	(400,000,000)	(400,000,000)
Total transactions with owners in their capacity as owners		-	(365,638)	-	-	(400,000,000)	(400,365,638)
Balance at 31 December 2025		1,246,318,848	1,408,145	19,947,036	8,316,015	524,180,112	1,800,170,156

The notes on pages 14 to 79 are an integral part of these consolidated financial statements.

AIG INSURANCE HONG KONG LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2025**

	Note	Other reserves				Reserve on post-retirement obligation HKD	Retained earnings HKD	Total HKD
		Share capital HKD	Share-based payment HKD	Fair value reserve HKD				
Balance at 1 January 2024		1,246,318,848	2,487,069	16,163,000		228,694	663,918,751	1,929,116,362
Profit for the year		-	-	-		-	218,223,684	218,223,684
Other comprehensive income								
Actuarial gains on post-retirement obligation for the year	23	-	-	-		18,281,923	-	18,281,923
Change in fair value of equity investments at fair value through other comprehensive income	9	-	-	(2,958,000)		-	-	(2,958,000)
Deferred tax thereon	8	-	-	-		(2,726,049)	-	(2,726,049)
Other comprehensive income, net of tax		-	-	(2,958,000)		15,555,874	-	12,597,874
Total comprehensive income for the year		-	-	(2,958,000)		15,555,874	218,223,684	230,821,558
Share-based payment transactions		-	(713,286)	-		-	-	(713,286)
Dividend paid	27	-	-	-		-	(86,000,000)	(86,000,000)
Total transactions with owners in their capacity as owners		-	(713,286)	-		-	(86,000,000)	(86,713,286)
Balance at 31 December 2024		1,246,318,848	1,773,783	13,205,000		15,784,568	796,142,435	2,073,224,634

The notes on pages 14 to 79 are an integral part of these consolidated financial statements.

AIG INSURANCE HONG KONG LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2025**

	Note	2025 HKD	2024 HKD
Cash flows from operating activities			
Net cash flow generated from/(used in) operating activities	22	63,768,734	(605,623,077)
Cash flows from investing activities			
Purchases of property, plant and equipment	5	(9,311,090)	-
Purchases of intangible assets	7	-	(2,318,135)
Interests received		122,006,224	52,338,175
Purchases of debt investments		(714,533,866)	-
Maturities of debt investments		81,000,000	-
Purchases of term deposits		(552,727,117)	(1,430,670,546)
Maturities of term deposits		1,371,337,784	1,917,724,432
Net cash flow generated from investing activities		297,771,935	537,073,926
Cash flows from financing activities			
Lease payments		(16,390,739)	(26,961,376)
Payments owed on funds withheld		-	(17,089,108)
Dividends paid		(400,000,000)	(86,000,000)
Net cash flow used in financing activities		(416,390,739)	(130,050,484)
Net decrease in cash and cash equivalents		(54,850,070)	(198,599,635)
Cash and cash equivalents at the beginning of the year		376,679,766	575,279,401
Cash and cash equivalents at the end of the year	12	321,829,696	376,679,766

The notes on pages 14 to 79 are an integral part of these consolidated financial statements.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

AIG Insurance Hong Kong Limited (the "Company") and its subsidiary (together forming the "Group") underwrite general insurance business.

The Company is a limited company incorporated in Hong Kong. The address of its registered office is 7/F, One Island East, 18 Westlands Road, Island East, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 21 April 2026.

2 Summary of material accounting policy information

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes Hong Kong Accounting Standards ("HKASs")) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

(i) New and amended standards and interpretations adopted by the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2025 which have been adopted by the Group for the year ended 31 December 2025. None of these has a material effect on the consolidated financial statements of the Group.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

a Basis of preparation (continued)

(ii) New and amended standards and interpretations not yet adopted by the Group

A number of new standards and amendments to standards and interpretations are effective after 1 January 2026 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a material impact on the consolidated financial statements of the Group, except the following set out below:

HKFRS 18, Presentation and Disclosure in Financial Statements

In July 2024, the HKICPA issued HKFRS 18 'Presentation and Disclosure in Financial Statements' ("HKFRS 18"), effective for annual reporting periods beginning on or after 1 January 2027. HKFRS 18 will replace HKAS 1 Presentation of Financial Statements, introducing new requirements that will help to achieve comparability of the financial performance of similar entities and provide more relevant information and transparency to users.

Even though HKFRS 18 will not impact the recognition or measurement of items in the consolidated financial statements, it is expected to change the presentation and disclosure of the consolidated financial statements, in particular those related to the consolidated statement of comprehensive income and providing management-defined performance measures within the consolidated financial statements.

The Group is currently assessing the detailed implications of applying the new standard on the Group's consolidated financial statements. The Group expects to apply this new standard from its mandatory effective date of 1 January 2027. Retrospective application is required, and so the comparative information for the financial year ending 31 December 2026 will be restated in accordance with HKFRS 18.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

b Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Group comprises the Hong Kong office and the Macau branch. The functional currency of the Hong Kong office and the Macau branch are HKD and Macau Pataca ("MOP") respectively. The consolidated financial statements of the Group are presented in HKD.

c Property, plant and equipment

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvement	Over the unexpired period of the lease
Furniture and fixtures	5 years
Computer equipment	3 years

d Intangible assets

(i) Computer software

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- (i) It is technically feasible to complete the software product so that it will be available for use;
- (ii) Management intends to complete the software product and use or sell it;
- (iii) There is an ability to use or sell the software product;
- (iv) It can be demonstrated how the software product will generate probable future economic benefits;
- (v) Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- (vi) The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortized using the straight-line method over their estimated useful lives of three to seven years.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

e Debt investments at fair value through other comprehensive income ("FVOCI")

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment losses and reversals, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to, and recognized in, profit or loss.

f Impairment of financial assets

The impairment model in HKFRS 9 sets out a three-stage model based on changes in credit quality since initial recognition. The impairment approach is based on an expected credit loss ("ECL") approach that is applied to all financial assets measured at amortized cost ("AC") and debt investments measured at FVOCI. The Group recognizes a loss allowance for ECL for all financial investments measured at AC and debt investments measured at FVOCI using the general approach under HKFRS 9.

The general approach

Under the general approach, the Group recognizes either 12-month or lifetime ECL based on an assessment of whether there has been a significant increase in the credit risk ("SICR") on a financial instrument subsequent to initial recognition. In making this assessment, the Group considers the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of ECL. For the purposes of determining the risk of default, the Group applies the definition used for internal credit risk management purposes for the relevant financial instrument and considers qualitative indicators when appropriate. In measuring the ECL, the Group considers forward looking information which is reasonably available without undue effort.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

f Impairment of financial assets (continued)

Measuring ECL

The ECL is the discounted amount of the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"). The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment and is measured on either a 12-month or lifetime basis, depending on whether a SICR has occurred subsequent to initial recognition or whether an asset is considered to be credit-impaired.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. The assumptions underlying the ECL calculation are monitored and reviewed on an annual basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

The Group applies a definition of default that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and considers qualitative indicators (such as financial covenants) when appropriate.

The Group considers the follows as indicators of a SICR:

- When payments are more than 30 days past due, unless other indicators are present that indicate otherwise.
- Breaching the established threshold to determine whether the remaining lifetime probability of default at the reporting date has increased significantly compared to the residual lifetime PD expected at the reporting date when the exposure was first recognized.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

g Insurance contracts

(i) Summary of measurement approaches

The Group uses the premium allocation approach ("PAA") for all groups of insurance contracts issued and reinsurance contracts held.

The Group issues general insurance products to individuals and companies. These include casualty, financial lines, property, personal accident and motor products. These products offer protection of a policyholder's assets and indemnification of other parties that have suffered damage as a result of a policyholder's accident.

(ii) Definition and classification

A contract is recognized as an insurance contract if it involves the transfer of significant insurance risk by the Group. Insurance risk is transferred to the Group where it agrees to compensate a policyholder if a specified uncertain future event, other than those caused by changes in a financial variable such as interest and foreign exchange rates, adversely affects the policyholder. The Group uses judgement to assess whether a contract transfers insurance risk (i.e., if there is a scenario with commercial substance in which the Group has the possibility of a loss on a present value basis) and whether the insurance risk accepted is significant. Once a contract has been classified as an insurance contract, it remains an insurance contract until derecognized even if the insurance risk becomes insignificant during this period.

In the ordinary course of business, the Group places reinsurance with affiliated and unaffiliated reinsurance and insurance companies in order to manage exposures by limiting its maximum net loss arising from large risks or catastrophic events and protect the capital position of the Group. A reinsurance contract is deemed to transfer significant insurance risk if it transfers to the reinsurer substantially all of the insurance risk from the reinsured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

A variety of traditional reinsurance products are used in connection with the Group's risk management strategy. These products include stop-loss treaties, which are designed to limit exposure to losses resulting from natural catastrophes and other events which may result in significant losses, and quota share treaties which cover specific lines of business. Facultative reinsurance is also used to manage large policy specific individual risk exposures.

(iii) Separation of insurance contracts

Where multiple insurance components are incorporated into a single contract, these multiple insurance components are measured separately where facts and circumstances indicate that separation more appropriately reflects the economic substance of the contract.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

g Insurance contracts (continued)

(iv) Unit of account

The Group identifies portfolios of insurance contracts that are subject to similar risks and managed together. Each portfolio is further disaggregated into the following groups of insurance contracts:

- (i) contracts that are onerous at initial recognition;
- (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or
- (iii) a group of remaining contracts.

These groups are further disaggregated into annual cohorts to ensure contracts within the group are not issued more than one calendar year apart.

These groups represent the level of aggregation at which insurance contracts are initially recognized and measured. Once established at initial recognition, the composition of the groups is not reassessed subsequently.

For each portfolio of contracts, the Group determines the appropriate level at which reasonable and supportable information is available to assess whether these contracts are onerous at initial recognition and, for the remaining contracts, whether they have no significant possibility of becoming onerous subsequently. This level of granularity determines sets of insurance contracts. The Group uses judgement to determine the level at which the Group has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogenous that they can be allocated to the same group without performing an individual contract assessment. Where no such information is identified, insurance contracts are allocated to a group on the basis of a contract-by-contract review.

Where the Group is constrained by laws or regulation from setting a price to different policyholders fully reflective of their different risk profiles, the effect of such constraints is disregarded when applying the aggregation requirements of HKFRS 17.

For insurance contracts measured using the PAA, the Group assumes that no such contracts are onerous at initial recognition, unless facts and circumstances indicate otherwise. If facts and circumstances indicate that some contracts may be onerous, an additional assessment is performed to distinguish onerous contracts from non-onerous contracts. For non-onerous contracts, the Group assesses the likelihood of changes in relevant facts and circumstances in subsequent periods in determining whether contracts have no significant possibility of becoming onerous subsequent to initial recognition.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

g Insurance contracts (continued)

(iv) Unit of account (continued)

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued and, unless the economic substance of the Group's rights and obligations under reinsurance contracts held meet the separation requirements, a group of reinsurance contracts held may provide coverage for underlying contracts that are included in different groups. Each portfolio is further disaggregated into the following groups of reinsurance contracts:

- (i) contracts for which there is a net gain at initial recognition;
- (ii) contracts that at initial recognition, there is no significant possibility of a net gain arising subsequently; or
- (iii) other remaining contracts.

These groups are further disaggregated into annual cohorts to ensure contracts within the group are not entered into more than one calendar year apart.

Reinsurance contracts are assessed for grouping purposes on an individual contract basis. These groups represent the level of aggregation at which reinsurance contracts are initially recognized and measured. Once established at initial recognition, the composition of the groups is not reassessed subsequently.

(v) Recognition and derecognition

The Group initially recognizes a group of insurance contracts issued from the earlier of the following:

- the beginning of the coverage period;
- the date when the first payment from a policyholder in the group becomes due or, if there is no due date, is actually received; and
- the date when the Group determines that the group becomes onerous.

The Group recognizes a group of reinsurance contracts held at the earlier of:

- the beginning of the coverage period of the group of reinsurance contracts held; or
- the date the onerous group of underlying insurance contracts is recognized.

The Group shall delay the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date that any underlying insurance contract is initially recognized, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held.

Only contracts that meet the recognition criteria at the reporting date are included within the groups. Where contracts meet the recognition criteria after the reporting date, they are added to groups in the reporting period in which the recognition criteria are met, subject to meeting the annual cohorts' requirements. The composition of groups is not reassessed in subsequent periods.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

g Insurance contracts (continued)

(v) Recognition and derecognition (continued)

Accounting for contract derecognition

An insurance contract is derecognized when it is extinguished (i.e., when the obligation specified in the insurance contract expires or is discharged or cancelled).

When an insurance contract accounted for under the PAA is derecognized, adjustments to the fulfilment cash flows ("FCF") to remove related rights and obligations and account for the effect of the derecognition result in the following amounts being charged immediately to profit or loss:

- (i) if the contract is extinguished, any net difference between the derecognized part of the liability for remaining coverage ("LRC") of the original contract and any other cash flows arising from extinguishment;
- (ii) if the contract is transferred to the third party, any net difference between the derecognized part of the LRC of the original contract and the premium charged by the third party;
- (iii) if the original contract is modified resulting in its derecognition, any net difference between the derecognized part of the LRC and the hypothetical premium the entity would have charged had it entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium charged for the modification.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

g Insurance contracts (continued)

(vi) Measurement

FCF

Contract boundary

The measurement of a group of insurance contracts includes all the cash flows within the boundary of each contract in the group. The assessment of the contract boundary is reviewed every reporting period.

Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay premiums or the Group has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

- (i) The Group has the practical ability to reprice the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- (ii) Both of the following criteria are satisfied:
 - The Group has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; or
 - The pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

In assessing the practical ability to reprice, the Group considers all risks transferred from the policyholder to the Group, such as insurance risk and financial risk; with other non-policyholder risks, such as lapse or surrender and expense risk, being excluded.

Cash flows outside of the boundary of the insurance contract are excluded from measurement. These cash flows relate to future insurance contracts.

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Group that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or in which the Group has a substantive right to receive insurance contract services from the reinsurer.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

g Insurance contracts (continued)

(vi) Measurement (continued)

FCF (continued)

Contract boundary (continued)

The Group's quota share reinsurance contracts held have an unlimited duration but are cancellable for new business by either party by giving notice effective at the next anniversary date. This cancellation period is included within the contract boundary of the reinsurance contracts. Estimates of future cash flows arising from all underlying contracts either: issued at the reporting date; or, expected to be issued during the cancellation period after the reporting date, are included in each of the reinsurance contracts' measurement.

The excess of loss and accident year stop loss reinsurance contracts held provide coverage for claims incurred during an accident year. Therefore, all cash flows arising from claims incurred and expected to be incurred in the accident year are included in the measurement of the reinsurance contracts held.

Cash flows that are not directly attributable to a portfolio of insurance contracts, such as some product development and training costs, are recognized in other operating expenses as incurred.

Insurance acquisition cash flows

Insurance acquisition cash flows represent cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued). Such costs include:

- costs directly attributable to individual contracts and groups of contracts; and
- costs directly attributable to the portfolio of insurance contracts to which the group belongs.

The Group uses a systematic and rational method (i.e. use of activity-based costing techniques) to allocate:

- (i) Insurance acquisition cash flows that are directly attributable to a group of insurance contracts:
 - to that group; and
 - to groups that include insurance contracts that are expected to arise from the renewals of the insurance contracts in that group.
- (ii) Insurance acquisition cash flows directly attributable to the portfolio of insurance contracts that are not directly attributable to a group of insurance contracts, to groups in the portfolio.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

g Insurance contracts (continued)

(vi) Measurement (continued)

Initial recognition

The Group uses the PAA for measuring insurance contracts issued where:

- The coverage period of the contracts is one year or less; or
- The Group has determined that the LRC measured under the PAA for a group of insurance contracts issued would not differ materially from the LRC measured under the general measurement model ("GMM").

The majority of insurance contracts issued meets first criteria above.

The Group uses the PAA for measuring reinsurance contracts held where:

- The coverage period of the contracts is one year or less; or
- The Group has determined that the assets for remaining coverage ("ARC") measured under the PAA for a group of reinsurance contracts held would not differ materially from the ARC measured under the GMM.

The majority of reinsurance contracts held meets first criteria above.

The Group has determined that all groups of insurance contracts issued and reinsurance contracts held by the Group are eligible to apply the PAA and the Group has elected to apply this measurement model to all groups of insurance contracts.

For insurance contracts issued, insurance acquisition costs are deferred and recognized over the coverage period of the contracts in a group.

For insurance contracts issued, the Group measures the LRC for the group of insurance contracts:

- (i) at the amount of premiums received, if any, in cash; minus
- (ii) any insurance acquisition cash flows paid at that date; plus or minus
- (iii) any amounts arising from the derecognition at that date of:
 - any asset for insurance acquisition cash flows; and
 - any other asset or liability previously recognized for cash flows related to the group of contracts.

For reinsurance contracts held, the asset for remaining coverage is measured at the amount of ceding premiums paid net of ceding commission.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

g Insurance contracts (continued)

(vi) Measurement (continued)

Subsequent measurement

For insurance contracts issued, the carrying amount of a group of insurance contracts at the reporting date is the sum of:

- (i) The LRC, measured as discussed below: and
- (ii) The liability for incurred claims ("LIC"), comprising the FCF related to past service allocated to the group at the reporting date.

At each subsequent reporting date, the LRC for a group of insurance contracts is comprised of:

- (i) The amount of the LRC at the beginning of the period; plus
- (ii) Premiums received in cash during the period; minus
- (iii) Insurance acquisition cash flows paid; minus
- (iv) Amounts of expected premiums recognized as insurance revenue for services provided in the period; plus
- (v) Amortization of insurance acquisition cash flows recognized as insurance service expenses for services provided in the period; plus or minus
- (vi) The effect of any currency exchange differences on the LRC; and plus or minus
- (vii) An adjustment to a financing component.

For reinsurance contracts held, the carrying amount of a group of insurance contracts at the reporting date is the sum of:

- (i) The ARC: and
- (ii) The assets for incurred claims ("AIC"), comprising the FCF related to past service allocated to the group at the reporting date.

At each subsequent reporting date, the ARC for a group of reinsurance contracts held is comprised of:

- (i) The amount of the ARC at the beginning of the period; plus
- (ii) Ceding premiums paid net of ceding commissions in cash during the period; minus
- (iii) Amounts of ceding premiums recognized as reinsurance expenses for services received in the period; plus or minus
- (iv) The effect of any currency exchange differences on the ARC; and plus or minus
- (v) An adjustment to a financing component.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

g Insurance contracts (continued)

(vi) Measurement (continued)

Subsequent measurement (continued)

Adjustment to a financing component

Where insurance contracts in a group of insurance contracts have a significant financing component, the Group adjusts the carrying amount of the LRC to reflect the time value of money and the effect of financial risk using the discount rates determined at initial recognition. The Group has elected not to adjust the carrying amount of the LRC for the time value of money and the effect of financial risk where the period between the Group providing insurance services and the due date for the receipt of the related premium is no more than one year. The Group has also elected not to adjust the carrying amount of the LIC for the time value of money and the effect of financial risk where the period between the date a claim is incurred and the expected settlement date of the relevant cash flows is one year or less.

Onerous contracts

Where a group of insurance contracts is onerous, either at initial recognition or subsequently, the Group increases the carrying amount of the LRC to be equivalent to the FCF determined under the GMM, with the increase recognized immediately in insurance service expenses and presented as a loss component of the LRC for the group. In subsequent periods, the Group amortizes the loss component of the LRC, decreasing insurance service expenses. The reversal of the loss component is based on the passage time over the remaining coverage period of contracts included within the onerous group. Where facts and circumstances indicate that the expected profitability of the onerous group during the remaining coverage period has changed, the Group remeasures the FCF, applying the principles of the GMM, and recognizes any change in the FCF by adjusting the loss component until the loss component is reduced to zero.

For reinsurance contracts held, when a loss is recognized on initial recognition of an onerous group of underlying insurance contracts, the Group adjusts the carrying amount of the ARC for a related reinsurance contract held by the amount of income recognized in profit or loss and establishes or adjusts a loss-recovery component of the ARC for the amount of income recognized.

(vii) Insurance service result from insurance contracts issued

Insurance revenue

Insurance revenue for the period depicts the transfer of promised insurance services at an amount that reflects the portion of consideration the Group expects to be entitled to in exchange for those services.

For groups of contracts measured under the PAA, the Group allocates expected premium receipts and recognizes insurance revenue during the coverage period based on the passage of time.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

g Insurance contracts (continued)

(vii) Insurance service result from insurance contracts issued (continued)

Insurance service expenses

Insurance service expenses include the following:

- Incurred claims and benefits excluding investment components, including an estimate for claims incurred but not reported at the reporting date;
- Other incurred directly attributable insurance service expenses;
- Amortization of insurance acquisition cash flows; and
- Changes that relate to past service (i.e., changes in FCF relating to the LIC);
- Changes that relate to future service – losses (and reversals of losses) on onerous groups of insurance contracts from changes in the loss components.

For contracts measured under the PAA, amortization of insurance acquisition cash flows is based on the passage of time.

(viii) Insurance service result from reinsurance contracts held

The financial performance of groups of reinsurance contracts held is presented on a net basis comprising:

- Reinsurance expenses;
- Incurred claims recoveries;
- Effect of changes in the risk of reinsurers' non-performance;
- Changes relating to past service (i.e., changes that adjust expected amounts recoverable for incurred claims); and
- Amounts relating to the accounting for onerous groups of underlying insurance contracts issued including income on initial recognition of onerous underlying contracts.

Reinsurance expenses are recognized similarly to insurance revenue. The amount of reinsurance expenses recognized in the reporting period depicts the transfer of reinsurance services received at an amount that reflects the portion of ceding premium the Group expects to pay in exchange for those services.

For groups of reinsurance contracts held measured under the PAA, the Group recognizes reinsurance expenses based on the passage of time over the coverage period of the underlying policies.

Ceding commissions that are not contingent on claims of the underlying contracts issued reduce ceding premiums and are accounted for as part of reinsurance expenses.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

g Insurance contracts (continued)

(ix) Insurance finance income or expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

For groups of insurance contracts measured under the PAA, the main amounts within insurance finance income or expenses are:

- Interest accreted on the LRC and LIC; and
- The effect of changes in interest rates and other financial assumptions.

The Group includes all insurance finance income or expenses for the period in profit or loss, and does not apply the other comprehensive income option.

h Employee benefits

(i) Pension

The Group operates both defined contribution plan and defined benefit plan.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee service in the current and prior periods. A defined benefit plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

(ii) Post-retirement obligations

The Group provides retirement benefits through defined contribution plans and defined benefit plans.

Defined contribution plans

Some of the employees are under official retirement schemes (the "ORSO" scheme) and some of the employees are under mandatory provident fund schemes (the "MPF Scheme") established under the Hong Kong Mandatory Provident Fund Ordinance. Contributions to the ORSO or MPF Scheme are charged to the consolidated statement of comprehensive income as incurred in accordance with the rules of the schemes and are reduced by the voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully in the voluntary contributions. The assets of the ORSO or MPF Scheme are held separately from those of the Group in independently administered funds.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

h Employee benefits (continued)

(ii) Post-retirement obligations (continued)

Defined benefit plans

The Group provides post-retirement medical care and life insurance benefits to the retirees. Active employees are eligible for retirement at age 65 or after age 55 and the completion of 15 years of service.

The liability recognized in the consolidated statement of financial position in respect of post-retirement obligations is the present value of the post-retirement benefit obligation at end of the financial reporting period. The post-retirement benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the post-retirement benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related post-retirement benefit liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they occur.

(iii) Share-based compensation

All share-based compensation granted to employees of the Group are made reference to shares in the Group's ultimate parent, American International Group, Inc. ("AIG"), and are classified as equity-settled group share-based compensation.

Equity-settled plans are measured at fair value of the equity instruments on the grant date and recognized as an expense, with a corresponding increase to shareholders' equity, on a straight-line basis over the vesting period.

Where the Group is recharged by a related company for the cost of settling share-based compensation, the charge is recognized in the consolidated financial statements when the share-based awards are settled. The payment, made in cash, is recognized as a decrease in shareholders' equity.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of material accounting policy information (continued)

h Employee benefits (continued)

(iii) Share-based compensation (continued)

The total amount to be expensed is determined by reference to the fair value of the awards as at the grant date. Non-market vesting conditions are included in assumptions regarding the number of awards that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of awards that are expected to vest based on non-market vesting conditions. It recognizes the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

(iv) Employees leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

i Provisions and contingent liabilities

(i) Provisions and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

(ii) Levies

The Group is subject to various insurance-related levies. Related provisions are provided for where there is a present obligation (legal or constructive) as a result of a past event.

j Revenue recognition

The Group recognizes revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity.

- Insurance revenue is recognized as revenue on the basis set out in note 2g(vii).
- Interest revenue is recognized as accrued based on the effective interest method.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Critical accounting estimates and assumptions

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

Estimates of future cash flows to fulfil insurance contracts

The cash flows related to the LIC can generally be categorized into two distinct groups. One group is short-tail classes of business consisting mainly of property, consumer lines, marine and energy. The other group is long-tail commercial lines of business which includes excess and primary liability, directors and officers, professional liability, employers' liability, general liability and related classes.

Short-tail classes do not have a significant delay from the date of accident to date of report to the Group and then settled by the Group. The estimates for these classes are more reliant on the case estimate on individual claims and utilize loss development methodologies in the projection of the future development of these case estimates.

Long-tail classes generally relate to coverage where litigation is frequent or where there is an element of bodily injury, especially in situations with long term injury. For these classes it may take some time from the date of accident for the claim to emerge and for claims to be settled from notification date due to the time taken to establish liability. Estimation of ultimate net indemnity losses and loss expenses for long-tail lines of business is a complex process and depends on a number of factors, including the class and volume of business involved as well as the complexity of the individual claim and the uncertainty of the business environment. The actuarial methods used by the Group for most long-tail commercial lines include loss development methods and expected loss ratio methods, including the Bornhuetter-Ferguson method. Exceptional large claims or events, to the extent that these distort the historical development, are often removed from the analysis and considered separately.

Discount rates

The Group applies a bottom-up approach to derive the discount rate for insurance contracts. The Group determines the discount rates based on liquid risk-free yield curves, for the currency of each insurance contract within the group, which are adjusted to take into account the differences between the liquidity characteristics of the group of insurance contracts and the liquidity characteristics of risk-free financial investments.

The yield curves that have been used to discount estimates of future cash flows to fulfil insurance contracts are as follows:

For the year ended 31 December 2025						
	Currency	1 year	2 years	3 years	5 years	10 years
All lines	HKD	2.6%	2.9%	3.0%	3.2%	3.9%

For the year ended 31 December 2024						
	Currency	1 year	2 years	3 years	5 years	10 years
All lines	HKD	3.9%	3.9%	4.0%	4.1%	4.6%

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Critical accounting estimates and assumptions (continued)

Risk adjustment for non-financial risk

The risk adjustment represents compensation for uncertainty, estimates are made on the degree of diversification benefits and expected favorable and unfavorable outcomes in a way that reflects the Group's degree of risk aversion. The Group estimates an adjustment for non-financial risk separately from all other estimates.

The risk adjustment is calculated at the entity level and then allocated down to each group of insurance contracts in accordance with their risk profiles. For general insurance business, the gross risk adjustment estimation approach uses a statistical modelling tool to generate an independent risk coefficient of variation ("CoV"). The CoV is used as inputs and actuarial judgement is exercised to derive the gross risk adjustment for non-financial risk. The risk adjustment is calibrated at a 75% level of sufficiency after taking into account diversification benefits.

4 Risk and capital management

The Company underwrites general insurance business. As of 31 December 2025, the Company's subsidiary was dormant. The risks of the Company are considered to be the same as those described in the context of the consolidated Group.

Risk management in the context of the Group is discussed below.

a Insurance risk

Insurance risk for general insurance refers to fluctuations in the timing, frequency, and severity of insured events relative to the expectations at the time of underwriting. Insurance risk can also refer to fluctuations in the timing and amount of claim settlements. Some specific examples of insurance risk include variations in the amount or frequency of claims or the unexpected occurrence of multiple claims arising from a single cause. Insurance risk also includes the potential for expense overruns relative to pricing or provisioning assumptions.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

a Insurance risk (continued)

The key components of insurance risk for the Group are:

Underwriting risk

The risk arising from uncertainties about the ultimate amount of net cash flows from premiums, commissions, claims and claims settlement expenses paid under a contract (prospective in nature).

Timing risk

The risk arising from uncertainties about the timing of the receipt and payment of those cash flows.

Reserving risk

The risk that the LIC will be insufficient to cover the ultimate payout of claims (retrospective in nature).

Accumulation / Catastrophe risk

The risk of arising from concentration of exposures by industry, geography, line of business, a single incurred or single insured event, and, in particular

- Risk arising from concentration of exposures exposed to catastrophe perils;
- Risk arising from concentration of exposures of the same insured underwritten by multiple divisions of the Group, each division offering individual and separate limits;
- Clash risk, or risks arising from exposures in which multiple insured suffer losses from the same occurrence, or the same cause of loss, such as a wild fire, a train crash, or a batch of component parts.

Insurance risk will be evaluated on two separate factors – the frequency that the risk can occur and the severity of the impact if the risk occurred. The evaluation can be quantitative and qualitative depending on the information and on the expertise, experience and judgement of those conducting the assessment.

Where risks or aggregation of risks are identified that exceed the risk appetite by the Group, the Local Risk Management Committee has the authority to decide a course of action to mitigate or monitor the risk. The Group has set individual underwriting limits at various levels for all employees and agents that have the authority to underwrite insurance risk. These include both monetary limits and limits on the types of risk that they can underwrite. In addition, the Group may set maximum limits by risk, line of business or in the aggregate, beyond which immediate, emergency actions should be taken. The Group also employs adequate in-house legal resources to review and approve non-standard policy wordings to ensure that these wordings do not expose the Group to more, or higher, claims than it is expecting. Furthermore, there are procedures in place for managing claims and claims approval authority limit delegations.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

a Insurance risk (continued)

The Group manages insurance risks through reinsurance to reduce the effect of potential losses to the Group. Two types of reinsurance agreements, ceding on a quota share basis or excess of loss basis, are usually used to cover insurance liability risk, with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claim provisions and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

(i) Frequency and severity of claims

The concentration of insurance risk in relation to insurance risk accepted is summarized below, with reference to the carrying amount of the LIC.

	2025 HKD	%	2024 HKD	%
Accident and health	60,788,672	2%	56,671,998	2%
Workers compensation	1,256,303,805	36%	1,423,319,519	42%
Auto	175,621,495	5%	188,938,144	6%
Casualty Auto	38,356,092	1%	33,417,019	1%
Energy	99,020,362	3%	79,310,262	2%
Excess	76,266,038	2%	72,997,838	2%
Financial lines	1,322,979,928	38%	1,154,813,240	33%
General liability	136,976,605	4%	141,727,316	4%
Homeowners	10,874,162	0%	28,851,597	1%
Marine	79,546,203	2%	51,479,344	2%
Property	180,335,874	5%	92,996,522	3%
Small business solutions	82,773,337	2%	82,177,698	2%
Surety	4,003,232	0%	2,334,679	0%
Trade credit	5,517,218	0%	6,019,402	0%
Warranty	90,875	0%	9,530	0%
Total	3,529,453,898	100%	3,415,064,108	100%

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

a Insurance risk (continued)

(ii) Sources of uncertainty in the estimation of future claim payments

Claims are generally payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, there are claims provision that relates to incurred but not reported claims ("IBNR"). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts is the LIC at the reporting date.

In calculating the estimated cost of unpaid claims (both reported and not), the Group's estimation techniques include paid and incurred, chain ladder, Bornhuetter-Ferguson and other methods.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims has happened.

In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Note 14c presents the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the Group's estimation technique for claims payments.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

b Market risk

Market risk is defined as the potential loss in value or earnings arising from changes in the values at which assets and liabilities may be traded as a result of external market economic factors including:

- Changes in the overall level of interest rates (interest rate risk);
- Exchange rate movements (foreign currency risk); and
- Equity market movements (price risk).

In addition to the above external factors, market risk may also arise from controllable factors such as allocation to specific asset classes.

(i) Interest rate risk

The Group's investment activities and insurance activities are inherently exposed to interest rate risk. The Group manages this risk by investing in assets that mature within one year and beyond one year respectively that matches with the liabilities.

The table below presents the annual effective interest rate of the Group's debt investments, term deposits and cash and cash equivalents.

	2025	2024
Debt investments	2.059%	-
Term deposits	3.669%	3.147%
Cash and cash equivalents	0.981%	0.721%

Details of the discount rates used for insurance contracts are set out in note 3.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

b Market risk (continued)

(i) Interest rate risk (continued)

The impact on the Group's consolidated statement of comprehensive income of a 50 basis-points increase or decrease in market interest rates from the rates applicable at 31st December, with all other variables held constant, would have been:

	31 December 2025		31 December 2024	
	Impact on profit before tax HKD	Impact on equity HKD	Impact on profit before tax HKD	Impact on equity HKD
<i>Interest rate risk</i>				
<i>Debt investments</i>				
+ 50 basis points	-	(10,961,852)	N/A	N/A
- 50 basis points	-	10,961,852	N/A	N/A
<i>Cash at bank</i>				
+ 50 basis points	1,603,315	1,603,315	1,377,650	1,377,650
- 50 basis points	(1,603,315)	(1,603,315)	(1,377,650)	(1,377,650)
<i>Insurance contracts</i>				
+ 50 basis points	13,749,556	13,749,556	14,332,360	14,332,360
- 50 basis points	(14,050,231)	(14,050,231)	(14,669,281)	(14,669,281)

This analysis is based on a hypothetical situation, as in practice market interest rates rarely change in isolation, and should not be considered a projection of likely future profits or losses.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

b Market risk (continued)

(ii) Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates.

The Group's major revenue, expenditures, financial assets and liabilities, and insurance assets and liabilities are denominated in HKD, MOP and US dollar ("USD") respectively. The other currencies are not significant and represent 0.04% of net insurance and financial assets in 2025 (0.03% in 2024). It is considered that the Group has no significant exposure to the foreign exchange risk as HKD is currently pegged with USD and pegged by MOP.

The following tables summarize the Group's exposure to foreign currency risk at the reporting date by categorizing financial assets, financial liabilities, reinsurance contract assets and insurance contract liabilities by major currency.

	HKD	USD	MOP	Others	Total HKD
As at 31 December 2025					
Club debentures	25,760,667	-	-	-	25,760,667
Reinsurance contract assets	2,113,076,291	103,565,192	37,326,598	(2,033,671)	2,251,934,410
Debt investments	647,137,036	-	-	-	647,137,036
Intercompany balance receivables	-	19,089,225	-	-	19,089,225
Other receivables	17,593,584	-	-	-	17,593,584
Cash and bank balances	2,214,660,222	521,422,436	109,105,791	-	2,845,188,449
Total insurance and financial assets	5,018,227,800	644,076,853	146,432,389	(2,033,671)	5,806,703,371
Insurance contract liabilities	3,631,504,843	174,279,337	71,119,842	(2,772,145)	3,874,131,877
Intercompany balances payables	-	9,245,530	-	-	9,245,530
Other payables	55,667,222	44,980	865,870	-	56,578,072
Total insurance and financial liabilities	3,687,172,065	183,569,847	71,985,712	(2,772,145)	3,939,955,479
Net insurance and financial assets	1,331,055,735	460,507,006	74,446,677	738,474	1,866,747,892
As at 31 December 2024					
Club debentures	25,959,000	-	-	-	25,959,000
Reinsurance contract assets	2,087,807,166	26,737,636	37,431,414	(2,468,523)	2,149,507,693
Intercompany balance receivables	-	14,122,216	-	-	14,122,216
Other receivables	23,983,104	206,890	-	-	24,189,994
Cash and bank balances	3,133,214,524	509,347,831	88,214,389	-	3,730,776,744
Total insurance and financial assets	5,270,963,794	550,414,573	125,645,803	(2,468,523)	5,944,555,647
Insurance contract liabilities	3,573,367,415	65,151,439	75,052,936	(3,146,760)	3,710,425,030
Intercompany balances payables	-	14,978,096	-	-	14,978,096
Other payables	59,460,944	587,337	981,976	-	61,030,257
Total insurance and financial liabilities	3,632,828,359	80,716,872	76,034,912	(3,146,760)	3,786,433,383
Net insurance and financial assets	1,638,135,435	469,697,701	49,610,891	678,237	2,158,122,264

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

b Market risk (continued)

(iii) Price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar instruments traded in the market. The Group is exposed to price changes mainly arising from debt investments at FVOCI amounted to HK\$647,137,036 (2024: nil). Since these debt investments are placed with government with sound credit quality, they would not be subject to significant price risk.

c Credit risk

Credit risk is the potential risk of default of a counterparty or obligor under various legal agreements with the Group, including payment agreements, reimbursement agreements, guarantees, and other financial obligations including financial instruments, reinsurance, etc. It also includes the risk of the counterparty or obligor's credit rating being downgraded, which may impact an insured's payments and other financial obligations to the Group.

The Group mitigates the level of credit risk it accepts by:

- Counterparties with whom the Group assumes credit risk are reviewed at least annually to monitor any changes in their financial profile and strength;
- AIG Credit Risk Management ("AIG CRM") maintains a list of approved bankers for which collateral can be taken in support of insurance programs;
- Investments and approved bank operating accounts are selected and monitored by Regional Investment, Regional Treasury and AIG CRM;
- Reinsurance counterparties are reviewed to ensure their acceptability.

The following tables summarize the financial analysis of financial assets and reinsurance contract assets categorized by Standard & Poor's ("S&P") rating (or equivalent when not available from S&P). The amounts disclosed represent the maximum exposure to credit risk which are their gross carrying amounts. All financial assets are subject to 12-month ECL.

Rating table:

Rating agencies	Standard & Poor's	Equivalent to Moody's	Equivalent to Fitch
Investment grade	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
	BBB+	Baa1	BBB+

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

c Credit risk (continued)

	AA- to AA+ HKD	A- to A+ HKD	B- to BBB+ HKD	Unrated HKD	Total HKD
<u>At 31 December 2025</u>					
Reinsurance contract assets	2,100,570,587	(9,205,975)	(789,628)	161,359,426	2,251,934,410
Debt investments	647,137,036	-	-	-	647,137,036
Intercompany balance receivables	2,689,874	1,594,165	-	14,805,186	19,089,225
Other receivables	-	-	-	17,593,584	17,593,584
Cash and bank balances	604,177,088	2,234,472,366	-	6,538,995	2,845,188,449
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total financial assets and reinsurance contract assets bearing credit risk	<u>3,354,574,585</u>	<u>2,226,860,556</u>	<u>(789,628)</u>	<u>200,297,191</u>	<u>5,780,942,704</u>
	AA- to AA+ HKD	A- to A+ HKD	B to BBB+ HKD	Unrated HKD	Total HKD
<u>At 31 December 2024</u>					
Reinsurance contract assets	(2,812,562)	1,926,038,945	(18,857,059)	245,138,369	2,149,507,693
Intercompany balance receivables	-	6,119,479	-	8,002,737	14,122,216
Other receivables	-	-	-	24,189,994	24,189,994
Cash and bank balances	384,048,908	3,341,081,560	-	5,646,276	3,730,776,744
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total financial assets and reinsurance contract assets bearing credit risk	<u>381,236,346</u>	<u>5,273,239,984</u>	<u>(18,857,059)</u>	<u>282,977,376</u>	<u>5,918,596,647</u>

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

d Liquidity risk

Liquidity is the risk that the Group does not maintain a sufficient amount of liquidity to meet its contractual obligations as and when they fall due without incurring excessive cost.

The Group maintains a level of liquidity sufficient to meet its own financial obligations in a timely manner. Furthermore, the Group will invest excess liquidity in eligible assets in order to achieve a competitive rate of return.

The Group monitors internal and external factors which may change the liquidity risk profile by assessing the following:

- (i) Monitor asset values and other market conditions
 - Assess the impact of market forces, current and forecast, on the value of assets held and their liquidity characteristics;
 - Assess the asset and liability mix in relation to duration, currency and timing of the matching;
 - Assess the actual premium receivable profile, related aging analysis & credit risk and identify any adverse trends;
 - Assess the client mix being pursued by the business to ensure credit risk issues related to premium collection are considered; and
 - Assess the expected reinsurance recoverable and related aging analysis & credit risks and identify any adverse trends.
- (ii) Monitor liability profiles
 - Monitor the value, frequency and volatility of claims liabilities whether actual or identifying potential adverse trends that may affect these factors; and
 - Assess the external forces on the business which may adversely affect the timing and value of non-claim related liabilities.

The table below presents the maturity profiles of the Group's expected future net cash flows arising from insurance and reinsurance contracts and the contractual timing and undiscounted cash flows of the Group's financial assets, financial liabilities and lease liabilities. The LRC for insurance contracts and ARC for reinsurance contracts have been excluded from this analysis. The amounts for insurance and reinsurance contracts represent the estimates of present value of future net cash flows.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

d Liquidity risk (continued)

	Repayable on demand or within 1 year HKD	Over 1 year but within 2 years HKD	Over 2 years but within 3 years HKD	Over 3 years HKD	No fixed maturity HKD	Total HKD
<u>At 31 December 2025</u>						
Club debentures	-	-	-	-	25,760,667	25,760,667
Reinsurance contract assets						
- AIC excluding risk adjustment for non-financial risk	934,364,309	464,811,379	227,027,585	308,210,926	-	1,934,414,199
Debt investments	12,085,125	110,272,421	40,497,429	484,282,061	-	647,137,036
Intercompany balance receivables	19,089,225	-	-	-	-	19,089,225
Other receivables	106,582	14,090,464	-	3,396,538	-	17,593,584
Cash and bank balances	1,758,422,036	805,177,835	281,588,578	-	-	2,845,188,449
Total insurance and financial assets	2,724,067,277	1,394,352,099	549,113,592	795,889,525	25,760,667	5,489,183,160
Lease liabilities	11,902,495	12,025,411	13,694,012	40,750,038	-	78,371,956
Insurance contract liabilities						
- LIC excluding risk adjustment for non-financial risk	1,364,788,994	808,237,138	407,833,203	561,250,921	-	3,142,110,256
Intercompany balance payables	9,245,530	-	-	-	-	9,245,530
Other payables	56,578,072	-	-	-	-	56,578,072
Total insurance, financial and lease liabilities	1,442,515,091	820,262,549	421,527,215	602,000,959	-	3,286,305,814
Net insurance, financial and lease assets	1,281,552,186	574,089,550	127,586,377	193,888,566	25,760,667	2,202,877,346

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

d Liquidity risk (continued)

	At 31 December 2024	Repayable on demand or within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years	No fixed maturity	Total
	HKD	HKD	HKD	HKD	HKD	HKD	HKD
Club debentures	-	-	-	-	-	25,959,000	25,959,000
Reinsurance contract assets							
- AIC excluding risk adjustment for non-financial risk	889,608,368	382,709,912	230,737,565	345,153,195	-	-	1,848,209,040
Intercompany balance receivables	14,122,216	-	-	-	-	-	14,122,216
Other receivables	10,967,829	13,222,165	-	-	-	-	24,189,994
Cash and bank balances	1,837,237,744	1,115,770,780	777,768,220	-	-	-	3,730,776,744
Total insurance and financial assets	2,751,936,157	1,511,702,857	1,008,505,785	345,153,195	25,959,000	-	5,643,256,994
Lease liabilities	13,918,855	-	-	-	-	-	13,918,855
Insurance contract liabilities							
- LIC excluding risk adjustment for non-financial risk	1,319,434,660	690,750,973	416,749,978	630,235,465	-	-	3,057,171,076
Intercompany balance payables	14,978,096	-	-	-	-	-	14,978,096
Other payables	61,030,257	-	-	-	-	-	61,030,257
Total insurance, financial and lease liabilities	1,409,361,868	690,750,973	416,749,978	630,235,465	-	-	3,147,098,284
Net insurance, financial and lease assets/(liabilities)	1,342,574,289	820,951,884	591,755,807	(285,082,270)	25,959,000	-	2,496,158,710

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

e Operational risk

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people, and systems, or from external events. The Group controls its operational risks through the identification, assessment, management and monitoring of risk exposures. This includes:

- Embedding a risk culture through the Group's operations via training and management communication;
- Ensuring robust internal processes and systems are maintained; and
- Oversight of key operational risks in significant operations by management and risk committee.

f Capital risk management

The Group's objectives when managing capital are:

- to comply with the insurance capital and solvency requirements with the Insurance Ordinance in Hong Kong and the Macau Insurance Ordinance;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide return for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing insurance contracts with the level of risks.

The Risk-based Capital regime (the "RBC") became effective on 1 July 2024, following the commencement of the Insurance (Amendment) Ordinance 2023 and relevant subsidiary legislation and guidelines.

The Company is required to maintain the capital base not less than prescribed capital amount ("PCA") as determined in accordance with the Insurance (Valuation and Capital) Rules (Cap. 41R), minimum capital amount being 50% of the PCA and HKD20,000,000 pursuant to the requirements of the Insurance Ordinance in Hong Kong.

During the years, the Company complied with the relevant capital requirements as set out by the Insurance Ordinance in Hong Kong. In addition, the Company has maintained a level of additional capital as considered appropriate and with reference to the Group's objectives.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

g Fair value measurement

The Group classifies and measures certain of its financial instruments at fair value. The fair value of a financial instrument is the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of observable valuation inputs. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, liquidity and general market conditions.

Fair value hierarchy

Financial assets recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy for disclosure purposes consisting of three levels based on the characteristics of inputs available in the marketplace that are used to measure the fair values as noted below:

Level 1

Financial assets included in this category are measured at fair value with reference to publicly available quoted prices in active markets that the Group has the ability to access for identical assets. A financial instrument is regarded as being quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing service or regulatory agency and the prices quoted represent actual and regularly occurring market transactions conducted at an arm's length basis.

Level 2

Financial assets included in this category are measured at fair value based on inputs other than quoted prices included in level 1 above, that are observable for the asset either directly or indirectly. Level 2 inputs include quoted market prices for similar assets in active markets, quoted prices for identical assets in markets that are considered less than active and other inputs other than quoted prices that are observable for the asset, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3

Financial assets included in this category are measured at fair value based on prices provided by brokers derived from valuation techniques or models that use significant inputs that are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Risk and capital management (continued)

g Fair value measurement (continued)

	Level 1 HKD	Level 2 HKD	Total HKD
<u>As at 31 December 2025</u>			
Financial assets at FVOCI:			
- Listed debt investments	647,137,036	-	647,137,036
- Club debentures	-	25,760,667	25,760,667
	<u>647,137,036</u>	<u>25,760,667</u>	<u>672,897,703</u>

As at 31 December 2024

Financial assets at FVOCI:

- Club debentures	-	25,959,000	25,959,000
	<u>-</u>	<u>25,959,000</u>	<u>25,959,000</u>

The fair value of club debentures not traded in active markets is measured at the quoted price provided by the dealer market. The Group adopted the quoted prices as their fair value at the reporting date and these equity instruments are included in Level 2 of the fair value hierarchy.

All other financial assets and financial liabilities are measured at AC.

Transfer of Level 1 and Level 2 assets and liabilities

The Group's policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. The Group had no transfers from Level 2 to Level 1 during the years.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Property, plant and equipment

	Leasehold Improvement HKD	Furniture, fittings and equipment HKD	Total HKD
<u>As at 31 December 2025</u>			
Cost			
At 1 January 2025	32,264,214	9,816,193	42,080,407
Addition	8,481,672	829,418	9,311,090
Disposal	(7,915,449)	(2,057,739)	(9,973,188)
Exchange difference	(87)	(70)	(157)
At 31 December 2025	<u>32,830,350</u>	<u>8,587,802</u>	<u>41,418,152</u>
Accumulated Depreciation			
At 1 January 2025	28,593,281	9,816,193	38,409,474
Charge for the year (Note 18)	4,142,137	55,295	4,197,432
Disposal	(7,915,449)	(2,057,739)	(9,973,188)
Exchange difference	(87)	(70)	(157)
At 31 December 2025	<u>24,819,882</u>	<u>7,813,679</u>	<u>32,633,561</u>
Net book value			
At 31 December 2025	<u>8,010,468</u>	<u>774,123</u>	<u>8,784,591</u>
<u>As at 31 December 2024</u>			
Cost			
At 1 January 2024	32,264,166	9,816,154	42,080,320
Exchange difference	48	39	87
At 31 December 2024	<u>32,264,214</u>	<u>9,816,193</u>	<u>42,080,407</u>
Accumulated Depreciation			
At 1 January 2024	23,086,834	9,083,858	32,170,692
Charge for the year (Note 18)	5,506,399	732,296	6,238,695
Exchange difference	48	39	87
At 31 December 2024	<u>28,593,281</u>	<u>9,816,193</u>	<u>38,409,474</u>
Net book value			
At 31 December 2024	<u>3,670,933</u>	<u>-</u>	<u>3,670,933</u>

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Lease

- a The consolidated statement of financial position shows the following amounts relating to leases:

	2025 HKD	2024 HKD
Right-of-use assets		
- Offices	78,301,944	14,316,120
Lease liabilities		
Current	11,902,495	13,918,855
Non-current	66,469,461	-
Total	78,371,956	13,918,855
	2025 HKD	2024 HKD
Additions in right-of-use assets during the year		
- Offices	83,811,343	-
Total	83,811,343	-

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Lease (continued)

- b The consolidated statement of comprehensive income shows the following amounts relating to leases:

	2025 HKD	2024 HKD
Depreciation charge of right-of-use assets		
- Offices	15,558,522	23,206,103
- Motor vehicle and equipment	-	724,758
	<u>15,558,522</u>	<u>23,930,861</u>
Interest expenses (included in other expenses)	1,299,494	735,954
	<u>1,299,494</u>	<u>735,954</u>
Net expenses recognized in the consolidated statement of comprehensive income	<u>16,858,016</u>	<u>24,666,815</u>

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

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date less any lease incentives received any initial direct costs, and restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. Payments associated with short-term leases of office are recognized on a straight-line basis as an expense in the consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Intangible assets – computer software

	2025 HKD	2024 HKD
Cost		
At 1 January	37,679,445	35,361,310
Addition	-	2,318,135
	<u>37,679,445</u>	<u>37,679,445</u>
At 31 December	<u>37,679,445</u>	<u>37,679,445</u>
Accumulated amortization		
At 1 January	27,736,042	24,359,986
Charge for the year (Note 18)	3,192,368	3,376,056
	<u>30,928,410</u>	<u>27,736,042</u>
At 31 December	<u>30,928,410</u>	<u>27,736,042</u>
Net book value	<u>6,751,035</u>	<u>9,943,403</u>

8 Deferred tax liabilities

Deferred income tax for the Company has been provided at a flat rate of 8.25% for qualifying insurance business profit based on concessionary tax rate applicable to specified insurer and 16.50% for non-qualifying insurance business profit.

- a Deferred income tax liabilities for the year have been recognized for in the accounts as follows:

	2025 HKD	2024 HKD
At 1 January	(98,831)	(1,293,464)
(Charged)/Credited to the profit or loss (Note 8b)	(4,064,382)	3,920,682
Credited/(Charged) to the other comprehensive income (Note 8b)	1,708,287	(2,726,049)
At 31 December	<u>(2,454,926)</u>	<u>(98,831)</u>

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Deferred tax liabilities (continued)

b The deferred taxation recognized for in the consolidated statement of comprehensive income:

	Accelerated tax allowances HKD	Post- retirement obligation HKD	Provision for bad debt HKD	Share based payment HKD	Provision for reinstatement cost HKD	Effect of taxation treatment of insurance contracts HKD	Total HKD
At 1 January 2025 (Charged)/Credited to the profit or loss Credited to other comprehensive income	1,554,536 (646,321) -	11,239,270 (4,728,963) 1,708,287	- - -	187,300 (108,326) -	- 1,463,831 -	(13,079,937) (44,603) -	(98,831) (4,064,382) 1,708,287
At 31 December 2025	908,215	8,218,594	-	78,974	1,463,831	(13,124,540)	(2,454,926)
At 1 January 2024 Credited/(Charged) to the profit or loss Charged to other comprehensive income	503,996 1,050,540 -	10,950,508 3,014,811 (2,726,049)	622,967 (622,967) -	241,403 (54,103) -	- - -	(13,612,338) 532,401 -	(1,293,464) 3,920,682 (2,726,049)
At 31 December 2024	1,554,536	11,239,270	-	187,300	-	(13,079,937)	(98,831)

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Club debentures

Financial assets at FVOCI:

	2025 HKD	2024 HKD
At 1 January	25,959,000	28,917,000
Fair value losses recognized in fair value reserve	(198,333)	(2,958,000)
At 31 December	<u>25,760,667</u>	<u>25,959,000</u>

The Group designated its investment in club debentures as FVOCI as they are long-term investments. The Group has exercised the fair value option for equity securities and fair value movements will be taken through other comprehensive income with no subsequent recycling through income on disposal.

10 Debt investments

	2025 HKD	2024 HKD
Financial assets at FVOCI:		
- Listed debt securities in Hong Kong	647,137,036	-
	<u>647,137,036</u>	<u>-</u>

The balances comprised treasury bills and bonds issued by the Hong Kong Government considered to be of low credit risk. As a result, no provision for credit loss was made at the reporting dates in respect of these assets.

11 Prepayments and other receivables

	2025 HKD	2024 HKD
Prepayments	677,847	812,471
Other receivables	17,593,584	24,189,994
	<u>18,271,431</u>	<u>25,002,465</u>
Current portion	634,429	11,630,301
Non-current portion	17,637,002	13,372,164
	<u>18,271,431</u>	<u>25,002,465</u>

The fair value of other receivables does not differ materially from their amortized cost.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Cash and bank balances

	2025 HKD	2024 HKD
Term deposits		
With original maturity:		
- Greater than 3 months but not greater than 1 year	202,727,117	138,169,319
- Over 1 year	2,184,055,498	3,067,223,963
	<u>2,386,782,615</u>	<u>3,205,393,282</u>
Cash and cash equivalents		
- Time deposits with original maturity not greater than 3 months	1,166,697	101,149,813
- Cash at bank	320,662,999	275,529,953
	<u>321,829,696</u>	<u>376,679,766</u>
Accrued interest	<u>136,576,138</u>	<u>148,703,696</u>
	<u>2,845,188,449</u>	<u>3,730,776,744</u>

The Macau branch holds HKD 143,019,017 (2024: HKD 128,459,819) deposits with bank to maintain the minimum deposits requirement to MOP 140,000,000 (2024: MOP 125,000,000) to guarantee technical reserves. These deposits are solely to guarantee the technical reserves and not for any other purposes. These deposits cannot be withdrawn in whole or in part at their maturity, at the time of subsequent renewal, upon expiry or at any other time whatsoever, without express authorization of Autoridade Monetaria de Macau.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Share capital

Ordinary shares, issued and fully paid:

	Number of Share	Share capital HKD
At 1 January 2025	14,749,365	1,246,318,848
At 31 December 2025	14,749,365	1,246,318,848
At 1 January 2024	14,749,365	1,246,318,848
At 31 December 2024	14,749,365	1,246,318,848

14 Insurance contract liabilities and reinsurance contract assets

An analysis of amounts presented in the consolidated statement of financial position for insurance contracts measured under the PAA, together with the presentation of amounts falling due to be settled within and after one year are set out in the following table.

	Amounts to be settled within one year HKD	Amounts to be settled after more than one year HKD	Total HKD
<u>As at 31 December 2025</u>			
Insurance contract liabilities	1,611,358,652	2,262,773,225	3,874,131,877
Reinsurance contract assets	947,068,150	1,304,866,260	2,251,934,410
<u>As at 31 December 2024</u>			
Insurance contract liabilities	1,412,767,941	2,297,657,089	3,710,425,030
Reinsurance contract assets	822,493,463	1,327,014,230	2,149,507,693

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Insurance contract liabilities and reinsurance contract assets (continued)

a Reconciliation of the LRC and LIC

	LRC		LIC		Total
	Excluding loss component HKD	Loss component HKD	Present value of future cash flows HKD	Risk adjustment for non-financial risk HKD	HKD
<u>For the year ended 31 December 2025</u>					
Opening insurance contract liabilities at 31 December 2024	284,290,337	11,070,585	3,057,171,076	357,893,032	3,710,425,030
Insurance revenue	(1,708,613,201)	-	-	-	(1,708,613,201)
Insurance service expenses					
- Incurred claims and other directly attributable expenses	-	-	999,827,120	100,700,533	1,100,527,653
- Changes that related to past service – adjustment to the LIC	-	-	(144,114,939)	(71,249,923)	(215,364,862)
- Losses on onerous contracts and reversal of those losses	-	43,250,398	-	-	43,250,398
- Insurance acquisition cash flows amortization	329,513,082	-	-	-	329,513,082
Insurance service result	(1,379,100,119)	43,250,398	855,712,181	29,450,610	(450,686,930)
Net insurance finance expenses from insurance contracts issued	5,190,629	-	151,326,459	-	156,517,088
Total amounts recognized in total comprehensive income	(1,373,909,490)	43,250,398	1,007,038,640	29,450,610	(294,169,842)
Cash flows					
- Premiums received	1,711,792,379	-	-	-	1,711,792,379
- Claims and other directly attributable expenses paid	-	-	(922,099,460)	-	(922,099,460)
- Insurance acquisition costs paid	(331,816,230)	-	-	-	(331,816,230)
Total cash flows	1,379,976,149	-	(922,099,460)	-	457,876,689
Net balance at 31 December 2025	290,356,996	54,320,983	3,142,110,256	387,343,642	3,874,131,877

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Insurance contract liabilities and reinsurance contract assets (continued)

a Reconciliation of the LRC and LIC (continued)

	LRC		LIC		Total
	Excluding loss component HKD	Loss component HKD	Present value of future cash flows HKD	Risk adjustment for non-financial risk HKD	HKD
<u>For the year ended 31 December 2024</u>					
Opening insurance contract liabilities at 31 December 2023	323,599,313	23,520,645	3,236,571,259	345,139,527	3,928,830,744
Insurance revenue	(1,819,140,453)	-	-	-	(1,819,140,453)
Insurance service expenses					
- Incurred claims and other directly attributable expenses	-	-	935,498,655	88,301,952	1,023,800,607
- Changes that related to past service – adjustment to the LIC	-	-	(265,981,692)	(75,548,447)	(341,530,139)
- Losses on onerous contracts and reversal of those losses	-	(12,450,060)	-	-	(12,450,060)
- Insurance acquisition cash flows amortization	339,184,597	-	-	-	339,184,597
Insurance service result	(1,479,955,856)	(12,450,060)	669,516,963	12,753,505	(810,135,448)
Net insurance finance expenses from insurance contracts issued	8,024,495	-	98,554,066	-	106,578,561
Total amounts recognized in total comprehensive income	(1,471,931,361)	(12,450,060)	768,071,029	12,753,505	(703,556,887)
Cash flows					
- Premiums received	1,768,009,946	-	-	-	1,768,009,946
- Claims and other directly attributable expenses paid	-	-	(947,471,212)	-	(947,471,212)
- Insurance acquisition costs paid	(335,387,561)	-	-	-	(335,387,561)
Total cash flows	1,432,622,385	-	(947,471,212)	-	485,151,173
Net balance at 31 December 2024	284,290,337	11,070,585	3,057,171,076	357,893,032	3,710,425,030

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Insurance contract liabilities and reinsurance contract assets (continued)

b Reconciliation of the ARC and AIC

	ARC		AIC		Total
	Excluding loss-recovery component HKD	Loss-recovery component HKD	Present value of future cash flows HKD	Risk adjustment for non-financial risk HKD	HKD
<u>For the year ended 31 December 2025</u>					
Opening reinsurance contract assets at 31 December 2024	94,437,768	6,090,256	1,848,209,040	200,770,629	2,149,507,693
Net expenses from reinsurance contracts held					
- Net expenses from reinsurance contracts held (excluding the effect of changes in the risk of reinsurers' non-performance)	(721,710,243)	25,598,024	453,708,532	20,679,977	(221,723,710)
- Effect of changes in the risk of reinsurers' non-performance	-	-	93,317	-	93,317
Net expenses from reinsurance contracts held	(721,710,243)	25,598,024	453,801,849	20,679,977	(221,630,393)
Insurance finance income from reinsurance contracts held	-	-	87,849,245	-	87,849,245
Total amounts recognized in total comprehensive income	(721,710,243)	25,598,024	541,651,094	20,679,977	(133,781,148)
Cash flows					
- Premiums paid net of ceding commissions	691,653,800	-	-	-	691,653,800
- Reinsurance recovered	-	-	(455,445,935)	-	(455,445,935)
Total cash flows	691,653,800	-	(455,445,935)	-	236,207,865
Net balance at 31 December 2025	64,381,325	31,688,280	1,934,414,199	221,450,606	2,251,934,410

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Insurance contract liabilities and reinsurance contract assets (continued)

b Reconciliation of the ARC and AIC (continued)

	ARC		AIC		Total
	Excluding loss-recovery component HKD	Loss-recovery component HKD	Present value of future cash flows HKD	Risk adjustment for non-financial risk HKD	HKD
<u>For the year ended 31 December 2024</u>					
Opening reinsurance contract assets at 31 December 2023	(783,699,109)	12,978,326	2,176,349,827	195,714,979	1,601,344,023
Net expenses from reinsurance contracts held					
- Net expenses from reinsurance contracts held (excluding the effect of changes in the risk of reinsurers' non-performance)	(743,257,091)	(6,888,070)	262,891,303	5,055,650	(482,198,208)
- Effect of changes in the risk of reinsurers' non-performance	-	-	(161,327)	-	(161,327)
Net expenses from reinsurance contracts held	(743,257,091)	(6,888,070)	262,729,976	5,055,650	(482,359,535)
Insurance finance income from reinsurance contracts held	-	-	60,669,670	-	60,669,670
Total amounts recognized in total comprehensive income	(743,257,091)	(6,888,070)	323,399,646	5,055,650	(421,689,865)
Cash flows					
- Premiums paid net of ceding commissions	1,621,393,968	-	-	-	1,621,393,968
- Reinsurance recovered	-	-	(651,540,433)	-	(651,540,433)
Total cash flows	1,621,393,968	-	(651,540,433)	-	969,853,535
Net balance at 31 December 2024	94,437,768	6,090,256	1,848,209,040	200,770,629	2,149,507,693

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Insurance contract liabilities and reinsurance contract assets (continued)

c Sensitivity analysis and claims development tables

(i) Sensitivity analysis to underwriting risk variables

The following tables present information on the sensitivity of insurance contracts assets and liabilities and profit or loss and equity for reasonable changes in estimates and assumptions for underwriting risk variables. As possible changes in underwriting variables only impact the LIC and loss component portion of the LRC for contracts measured under the PAA, the tables do not include the remaining portion of the LRC for these groups of insurance contracts. The analysis is presented for the indicated change in a variable with all other variables remaining constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. No changes were made by the Group in the methods and assumptions used in preparing the above analysis.

	Balances as at 31 December 2025 HKD	2025		
		Impact on insurance contract liabilities HKD	Impact on profit before tax HKD	Impact on equity HKD
All lines				
Insurance contract liabilities	(3,583,774,881)			
Reinsurance contract assets	2,187,553,085			
Net insurance contract liabilities	(1,396,221,796)			
Unpaid claims and expenses – 5% increase				
Insurance contract liabilities		(184,183,466)	(184,183,466)	(184,183,466)
Reinsurance contract assets		112,148,520	112,148,520	112,148,520
Net insurance contract liabilities		(72,034,946)	(72,034,946)	(72,034,946)
Unpaid claims and expenses – 5% decrease				
Insurance contract liabilities		184,102,656	184,102,656	184,102,656
Reinsurance contract assets		(112,102,427)	(112,102,427)	(112,102,427)
Net insurance contract liabilities		72,000,229	72,000,229	72,000,229

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Insurance contract liabilities and reinsurance contract assets (continued)

c Sensitivity analysis and claims development tables (continued)

(i) Sensitivity analysis to underwriting risk variables (continued)

		2024		
	Balances as at 31 December 2024 HKD	Impact on insurance contract liabilities HKD	Impact on profit before tax HKD	Impact on equity HKD
All lines				
Insurance contract liabilities	(3,426,134,693)			
Reinsurance contract assets	2,055,069,925			
Net insurance contract liabilities	(1,371,064,768)			
Unpaid claims and expenses – 5% increase				
Insurance contract liabilities		(173,533,845)	(173,533,845)	(173,533,845)
Reinsurance contract assets		103,979,529	103,979,529	103,979,529
Net insurance contract liabilities		(69,554,316)	(69,554,316)	(69,554,316)
Unpaid claims and expenses – 5% decrease				
Insurance contract liabilities		173,533,845	173,533,845	173,533,845
Reinsurance contract assets		(103,979,529)	(103,979,529)	(103,979,529)
Net insurance contract liabilities		69,554,316	69,554,316	69,554,316

(ii) Claims development tables

The tables below illustrate how estimates of cumulative claims for the Group have been developed over time on a gross and net of reinsurance basis. Each table shows how the Group's estimates of total claims for each accident year have been developed over time and reconciles the cumulative claims to the amount included in the consolidated statement of financial position. Balances have been translated at the exchange rates prevailing at the reporting date.

The tables present the following:

- Undiscounted estimates of cash outflows for incurred claims and other directly attributable expenses by accident year for each accident year from 2018, with comparisons to previous estimates of these undiscounted cash outflows;
- The actual cash payments made for incurred claims and other directly attributable expenses by accident year from 2018;
- Gross claims liabilities for accidents years prior to 2018;
- The effect of discounting and the risk adjustment for non-financial risk.

The Group provides information on the gross and net claims development for the current reporting period and seven years prior to it.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Insurance contract liabilities and reinsurance contract assets (continued)

c Sensitivity analysis and claims development tables (continued)

(ii) Claims development tables (continued)

All lines – gross

Accident year	2018	2019	2020	2021	2022	2023	2024	2025	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Estimate of undiscounted ultimate claims costs – gross of reinsurance:									
- at end of reporting year	1,426,598	1,211,436	1,245,890	1,289,023	1,620,450	1,189,402	1,004,010	1,046,310	10,033,119
- one year later	1,621,315	1,161,089	1,162,183	1,286,732	1,408,915	1,055,663	956,502	-	8,652,399
- two years later	1,637,222	1,170,894	1,116,090	1,216,619	1,326,454	1,017,334	-	-	7,484,613
- three years later	1,661,940	1,164,850	1,049,289	1,179,493	1,292,373	-	-	-	6,347,945
- four years later	1,634,455	1,104,227	970,729	1,192,430	-	-	-	-	4,901,841
- five years later	1,417,629	1,106,092	884,642	-	-	-	-	-	3,408,363
- six years later	1,374,682	1,065,350	-	-	-	-	-	-	2,440,032
- seven years later	1,368,060	-	-	-	-	-	-	-	1,368,060
Cumulative gross payments to date	(1,273,011)	(954,555)	(821,639)	(864,573)	(871,893)	(494,378)	(317,879)	(182,059)	(5,779,987)
Gross claims liabilities – accident years 2018 – 2025	95,049	110,795	63,003	327,857	420,480	522,956	638,623	864,251	3,043,014
Gross claims liabilities – earlier accident years									303,045
Effect of discounting									(203,949)
Effect of the risk adjustment for non-financial risk									387,344
Gross liabilities for incurred claims for insurance contracts issued									3,529,454

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Insurance contract liabilities and reinsurance contract assets (continued)

c Sensitivity analysis and claims development tables (continued)

(ii) Claims development tables (continued)

All lines – net

Accident year	2018	2019	2020	2021	2022	2023	2024	2025	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Estimate of undiscounted ultimate claims costs – net of reinsurance:									
- at end of reporting year	547,091	509,450	545,367	559,162	630,970	518,483	446,426	426,803	4,183,752
- one year later	479,795	504,818	512,198	548,445	603,670	460,007	427,789	-	3,536,722
- two years later	469,075	494,687	485,967	539,172	596,512	444,435	-	-	3,029,848
- three years later	464,386	489,882	457,778	526,691	578,217	-	-	-	2,516,954
- four years later	474,744	481,129	419,700	530,407	-	-	-	-	1,905,980
- five years later	455,795	481,313	379,114	-	-	-	-	-	1,316,222
- six years later	452,870	464,631	-	-	-	-	-	-	917,501
- seven years later	454,369	-	-	-	-	-	-	-	454,369
Cumulative net payments to date	(455,045)	(425,371)	(354,877)	(389,897)	(395,995)	(221,017)	(163,135)	(112,071)	(2,517,408)
Net claims liabilities – accident years 2018 – 2025	(676)	39,260	24,237	140,510	182,222	223,418	264,654	314,732	1,188,357
Net claims liabilities – earlier accident years									109,974
Effect of discounting									(90,635)
Effect of the risk adjustment for non-financial risk									165,893
Net liabilities for incurred claims for insurance contracts issued									1,373,589

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Other payables

	2025 HKD	2024 HKD
Other payables	7,608,429	9,418,589
Accruals	48,969,643	51,611,668
	<u>56,578,072</u>	<u>61,030,257</u>
Current portion	<u>56,578,072</u>	<u>61,030,257</u>

16 Net insurance and investment result

	2025 HKD	2024 HKD
Investment return		
Interest revenue using the effective interest method		
- Cash and bank balances	104,233,736	112,048,809
- Debt investments	12,307,731	-
Expenses on funds withheld	-	(4,862,037)
Net investment income	<u>116,541,467</u>	<u>107,186,772</u>
Net insurance finance expenses from insurance contracts issued		
- Interest accreted	(5,190,629)	(8,024,495)
- Effect of changes in interest rates and other financial assumptions	(151,326,459)	(98,554,066)
	<u>(156,517,088)</u>	<u>(106,578,561)</u>
Insurance finance income from reinsurance contracts held		
- Effect of changes in interest rates and other financial assumptions	87,849,245	60,669,670
	<u>87,849,245</u>	<u>60,669,670</u>
Net insurance and investment result	<u>47,873,624</u>	<u>61,277,881</u>

Expenses on funds withheld are determined with reference to HIBOR or SOFR based on the balance of funds withheld at every quarter end.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 Other income

	2025 HKD	2024 HKD
Other commission	9,207,602	12,783,212
Management fee income	2,038,609	2,145,420
Unclaimed balances written back	23,047	62,049
Miscellaneous income	2,058,756	2,096,046
	<u>13,328,014</u>	<u>17,086,727</u>

18 Expenses by nature

	2025 HKD	2024 HKD
Claims and loss adjustment expenses	826,489,228	547,028,565
Commissions	235,024,062	236,391,522
Auditor's remuneration	4,696,834	4,782,283
Data processing fees	37,464,302	23,071,818
Depreciation and amortization (Notes 5 and 7)	7,389,800	9,614,751
Depreciation on right-of-use asset (Note 6)	15,558,522	23,930,861
Directors' emoluments (Note 20)	6,942,807	6,651,639
Employee benefit expenses (Note 19)	147,288,029	154,820,323
Head office charges	61,391,128	70,311,307
Other premises expenses	8,983,390	8,968,390
Professional fees and expenses	923,808	14,188,804
Service fees	24,703,829	24,627,923
Other expenses	24,066,879	32,052,099
	<u>1,400,922,618</u>	<u>1,156,440,285</u>
Amounts attributed to insurance acquisition cash flows incurred during the year	(330,654,499)	(333,029,322)
Amortization of insurance acquisition cash flows	329,513,082	339,184,597
	<u>1,399,781,201</u>	<u>1,162,595,560</u>
Represented by:		
Insurance service expenses	1,257,926,271	1,009,005,005
Other operating expenses	141,854,930	153,590,555
	<u>1,399,781,201</u>	<u>1,162,595,560</u>

AIG INSURANCE HONG KONG LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****19 Employee benefit expenses**

	2025 HKD	2024 HKD
Wages and salaries	124,280,507	131,855,192
Share-based payment expenses	969,745	1,610,258
Retirement benefits	9,285,855	9,202,497
Post-retirement benefits (Note 23)	4,745,892	4,928,784
Other personnel costs	8,006,030	7,223,592
Total employee benefit expenses	<u>147,288,029</u>	<u>154,820,323</u>

20 Benefits and interests of directors

Directors' remuneration disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622), which requires compliance with section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2025 HKD	2024 HKD
Directors' fee	780,000	733,335
Salaries	4,061,825	3,995,575
Retirement benefits	507,728	499,447
Other benefits	1,593,254	1,423,282
	<u>6,942,807</u>	<u>6,651,639</u>

21 Income tax expenses

Hong Kong profits tax has been provided at a flat rate of 8.25% for qualifying insurance business profit based on concessionary tax rate applicable to specified insurer and 16.50% for non-qualifying insurance business profit.

Macau profits tax has been provided at a statutory rate at 12.00% on the taxable income above MOP600,000. Effective tax rate is 11.41% on the estimated assessable profit for the year of 2025 (2024: 12.02%).

	2025 HKD	2024 HKD
Current tax		
- Hong Kong profits tax	2,835,010	32,714,661
- Macau profits tax	4,453,304	3,182,666
	<u>7,288,314</u>	<u>35,897,327</u>
Deferred tax (Note 8)	4,064,382	(3,920,682)
Foreign tax paid	1,473	-
Pillar Two – Qualifying domestic top-up tax	8,371,074	-
Income tax expenses	<u>19,725,243</u>	<u>31,976,645</u>

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 Income tax expenses (continued)

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the entities as follows:

	2025 HKD	2024 HKD
Profit before tax	147,762,920	250,200,329
Tax calculated at a domestic tax rate applicable to profits in the respective regions	15,160,915	38,137,180
Tax effect of:		
Income not subject to tax	(11,100,611)	(16,737,114)
Expenses not deductible for tax purposes	267,761	751,946
Under provision of current tax expenses in the prior years	2,621,539	378,013
Foreign tax paid	1,473	-
Pillar Two – Qualifying domestic top-up tax	8,371,074	-
Others	4,403,092	9,446,620
Income tax expenses	19,725,243	31,976,645

The Group is a member of a multinational Group that is within the scope of the Organization for Economic Co-operation and Development Inclusive Framework on Base Erosion and Profit Shifting Pillar Two Rules. The rules are aimed at ensuring that multinational groups are subject to a minimum taxation of 15% in each of the jurisdictions in which they operate. The Group is a tax resident in Hong Kong which has enacted Pillar Two. The rules are effective in Hong Kong from periods beginning on or after 1 January 2025.

Income tax expenses recognized in the profit or loss in 2025 include HKD 8,371,074 (2024: not applicable) related to Pillar Two Income taxes.

The Group has applied the exemption to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Net cash flow generated from operating activities

	2025 HKD	2024 HKD
Profit before tax	147,762,920	250,200,329
Adjustment for		
- Depreciation and amortization	22,948,322	33,545,612
- Interest expenses on lease	1,299,494	735,954
- Interest income	(116,541,467)	(112,048,809)
- Expenses on funds withheld	-	4,862,037
- Share-based payment expenses	(377,553)	(702,543)
- Post-retirement benefit	4,277,950	3,944,990
- Net exchange differences	9,984	(10,553)
	<u>59,379,650</u>	<u>180,527,017</u>
Changes in working capital		
- Decrease in prepayments and other receivables	6,731,034	919,610
- Increase in intercompany balance receivables	(4,967,009)	(653,088)
- Increase in reinsurance contract assets	(102,426,717)	(548,163,670)
- Increase/(Decrease) in insurance contract liabilities	163,706,847	(218,405,714)
- Decrease in intercompany balance payables	(5,732,566)	(9,277,566)
- Decrease in other payables	(4,452,185)	(4,019,178)
	<u>112,239,054</u>	<u>(599,072,589)</u>
Cash flow generated from/(used in) operations	(48,470,320)	(6,550,488)
Income tax paid		
Net cash flow generated from/(used in) operating activities	<u><u>63,768,734</u></u>	<u><u>(605,623,077)</u></u>

23 Post-retirement obligation

The Group provides post-retirement medical care and life insurance benefits to the retirees. Active employees are eligible for retirement at age 65 or after age 55 and the completion of 15 years of service. The post-retirement benefit plan was closed to new entrants with effect from 1 April 2010.

The liability recognized in the consolidated statement of financial position in respect of post-retirement obligations is the present value of the post-retirement benefit obligation at the end of the reporting period. The post-retirement benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the post-retirement benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related post-retirement benefit liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. They will not be reclassified subsequently to profit or loss.

Separately segregated plan assets are not held for the post-retirement obligation and therefore the obligation is deemed "unfunded" in accordance with HKAS 19.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 Post-retirement obligation (continued)

	2025 HKD	2024 HKD
<u>Components of net periodic benefit cost</u>		
Current service costs	1,824,346	1,723,086
Interest on obligation	2,921,546	3,205,698
Total included in employee benefit expenses	4,745,892	4,928,784
<u>Change in present value of the unfunded benefit obligation are as follows:</u>		
Benefit obligation as at 1 January	71,835,924	86,172,857
Current service costs	1,824,346	1,723,086
Interest cost	2,921,546	3,205,698
Direct benefit payments	(467,942)	(983,794)
Actuarial gains from changes in demographic assumptions	(21,238,223)	-
Actuarial losses/(gains) from changes in financial assumptions	29,709,422	(6,639,217)
Actuarial losses/(gains) from experience adjustments	705,641	(11,642,706)
Closing benefit obligation as at 31 December	85,290,714	71,835,924
<u>Accumulated contributions in excess of net periodic benefit cost</u>		
Amount as at beginning of year	(89,765,706)	(85,820,716)
Net periodic benefit cost for the year	(4,745,892)	(4,928,784)
Benefits paid directly by the Group for the year	467,942	983,794
Amount as at end of year	(94,043,656)	(89,765,706)
<u>Reconciliation of actuarial gains/(losses)</u>		
Amount as at beginning of year	17,929,782	(352,141)
Liability experience	(9,176,840)	18,281,923
Amount as at end of year	8,752,942	17,929,782

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 Post-retirement obligation (continued)

The weighted-average assumptions used to determine the post-retirement benefits for the Group for the year ended 31 December 2025 and 2024 are as follows:

	2025	2024
Discount rate	3.70%	4.10%
Rate of compensation increase	3.50%	3.50%
Assumed health care trend rate		
- Immediate and ultimate trend rate	10.00%	8.00%
Year that the rate reaches ultimate trend rate	2026	2025

Mortality rates used in assumptions:

Age	Male	Female
20	0.0283%	0.0152%
30	0.0523%	0.0278%
40	0.0983%	0.0422%
50	0.2673%	0.1360%
60	0.5815%	0.3043%
70	1.4318%	0.6707%
80	3.9260%	2.1710%
90	11.8051%	8.0987%
100	100.0000%	100.0000%

	2025 HKD	2024 HKD
Sensitivity to trend rate and discount rate assumptions:		
1% increase in trend rate		
- Effect on gross service cost	634,446	516,193
- Effect on benefit obligation	18,322,483	14,618,585
1% decrease in trend rate		
- Effect on gross service cost	(472,963)	(386,168)
- Effect on benefit obligation	(14,075,222)	(11,277,759)
1% increase in discount rate		
- Effect on gross service cost	(527,113)	(420,456)
- Effect on benefit obligation	(17,098,268)	(13,190,084)
1% decrease in discount rate		
- Effect on gross service cost	729,140	584,548
- Effect on benefit obligation	22,990,870	17,422,796

The sensitivity to rate of compensation and mortality rates are immaterial.

Maturity profile:

The annual post-retirement benefit payout is estimated to be HKD0.5 million approximately per year within the next 1-5 years and the remaining will be paid over 5 years.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Related-party transactions

The Company is controlled by AIG Asia Pacific Insurance Pte. Ltd, which owns 100% of the Company's shares. The directors regard American International Group, Inc., a company incorporated in the United States of America, as being the ultimate parent company.

- a During the year, the Group conducted the following transactions in the normal course of business with group companies:

	2025 HKD	2024 HKD
Assets management fee paid to a fellow subsidiary	1,625,859	(73,245)
Claims paid to fellow subsidiaries	-	4,637,229
Claims recovered on reinsurance ceded to fellow subsidiaries	469,283,131	446,665,206
Commission received on reinsurance ceded to fellow subsidiaries	296,438,361	341,087,757
Data processing, IT infrastructure and system support charges paid to fellow subsidiaries	17,089,886	16,423,639
Management fee income from a fellow subsidiary	2,038,609	2,145,420
Premium paid on reinsurance ceded to fellow subsidiaries	1,017,399,580	1,050,495,869
Expenses on funds withheld paid to a fellow subsidiary	-	4,862,037
Service claims fee income from fellow subsidiaries	181,168	83,006
Service claim fees income from an intermediate holding company	5,838	1,958
Service fees to fellow subsidiaries	18,858,350	27,446,777
Home office recharges to intermediate holding companies	61,391,128	70,311,307
Home office recharge income from intermediate holding companies	3,252,689	3,621,683

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Related-party transactions (continued)

- a During the year, the Group conducted the following transactions in the normal course of business with group companies: (continued)

Reinsurance arrangements

A summary of the material reinsurance arrangements effected by the Group is as follows:

	<u>Business class</u>	<u>Treaty types</u>	<u>Reinsurers (fellow subsidiaries)</u>
(A)	Construction All Risk ("CAR") and Erection All Risks ("EAR")	Proportional Reinsurance Quota share at 75% cession	American Home Assurance Company New Hampshire Insurance Company National Union Fire Insurance Company of Pittsburgh, Pa.
(B)	Trade Credit, Mergers and Acquisitions ("M&A"), Cyber and Political Risk (except AIG Lender Policies business)	Proportional Reinsurance Quota share at 70% cession	As above
(C)	Political Risk – AIG Lender Policies business	Proportional Reinsurance Quota share at 75% cession	As above
(D)	Personal Lines Travel Insurance	Proportional Reinsurance Quota share at 100% cession (Before 1 August 2025: 90%)	As above
(E)	All classes (except Trade Credit, M&A, Cyber, Political Risk, CAR/EAR, Personal Lines Travel Insurance and Aviation)	Proportional Reinsurance Quota share at 55% cession	As above
(F)	All classes (except Aviation)	Accident Year Stop Loss	As above
(G)	Aviation	Quota share	National Union Fire Insurance Company of Pittsburgh, Pa.

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Related-party transactions (continued)

- a During the year, the Group conducted the following transactions in the normal course of business with group companies: (continued)

As of 1 January 2025, under the Quota Share reinsurance arrangement, all classes (except CAR/EAR, Trade Credit, M&A, Cyber, Political Risk, Personal Lines Travel Insurance and Aviation for the entire period) cede 55% of the first USD400 million of each risk, and 100% of any risk in excess of USD400 million; CAR/EAR business cedes 75% of any risk; Trade Credit, M&A, Cyber and Political Risk (except AIG Lender Policies business) cede 70% of the first USD400 million of each risk, and 100% of any risk in excess of USD400 million; Political Risk – AIG Lender Policies business cedes 75% of the first USD400 million of each risk, and 100% of any risk in excess of USD400 million; and Personal Lines Travel Insurance cedes 90% of any risk, which is updated to 100% effective from 1 August 2025. The treaty limit is USD1 billion effective since 1 December 2019.

With regard to the Accident Year Stop-Loss reinsurance arrangement, the attachment point is 56.5% and the limit is HKD3.5 billion.

- b The Group had the following non-insurance balances with related parties in the normal course of its business due at the year-end:

	2025 HKD	2024 HKD
Intercompany balance receivables	19,089,225	14,122,216
Intercompany balance payables	(9,245,530)	(14,978,096)
Net intercompany balance receivables/(payables)	<u>9,843,695</u>	<u>(855,880)</u>
Current portion	<u>9,843,695</u>	<u>(855,880)</u>

These balances are unsecured, interest free and due upon receipts of invoices.

- c Key management compensation

	2025 HKD	2024 HKD
Directors' emoluments (Note 20)	<u>6,942,807</u>	<u>6,651,639</u>

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Share-based compensation plans

The Group's employees have participated in share-based compensation arrangements of Long Term Incentive Plan ("LTIP").

The LTIP provides for an annual award to certain employees, including our senior executive officers and other highly compensated employees that may be comprised of performance share units ("PSUs") and/or restricted stock units ("RSUs").

The number of PSUs issued on the grant date (the "target") provides the opportunity for the LTIP participant to receive shares of AIG common stock based on AIG achieving specified performance goals at the end of a three-year performance period. These performance goals are pre-established by AIG's Compensation and Management Resources Committee for each annual grant and may differ from year to year. The actual number of PSUs earned can vary from zero to 200 percent of the target for the years 2025, 2024 and 2023 awards, depending on AIG's performance relative to a specified peer group or against pre-established financial goals, as applicable.

RSUs are earned based solely on continued service by the participant.

Vesting for RSUs awarded occurs in three equal installments on the first, second and third anniversary of the grant date. Recipients must be employed at each vesting date to be entitled to share delivery, except upon the occurrence of an accelerated vesting event, such as an involuntary termination without cause, disability, retirement eligibility or death during the vesting period. However, for involuntarily terminated employees hired after 1 April 2022 unvested RSUs are forfeited on the termination date, while PSUs are pro-rated based on the number of completed years in the performance period.

Valuation methodology

The fair value of time-vesting RSUs as well as PSUs that are earned based on certain company-specific metrics was based on the closing price of AIG common stock on the grant date; while the fair value of PSUs that are earned based on AIG's relative total shareholder return ("TSR") was determined on the grant date using a Monte Carlo simulation.

The total recognized compensation cost (net of expected forfeitures) related to unvested PSUs are USD180,918 (equivalent to HKD1,408,145) (2024: USD228,339 (equivalent to HKD1,773,783)).

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Immediate and ultimate holding company

During the year and as at the reporting date, the directors consider that the immediate holding company is AIG Asia Pacific Insurance Pte. Ltd, a company incorporated in Singapore and the ultimate holding company is American International Group, Inc., a company incorporated in the United States of America.

27 Dividends

	2025 HKD	2024 HKD
No interim dividend declared and paid (2024: HKD5.83 per share)	-	86,000,000
Final dividend recommended of HKD18.31 per share (2024: HKD27.12 per share) but not been recognized as a liability at the reporting date	270,000,000	400,000,000

Dividends to shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2025 HKD	2024 HKD
Final dividend in respect of the previous financial year, approved and paid during the year of HKD27.12 per share (2024: nil)	400,000,000	-

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Company's statement of financial position and statement of changes in equity

As at 31 December 2025, the Company's statement of financial position and statement of changes in equity are as follows.

	Note	2025 HKD	2024 HKD
ASSETS			
Property, plant and equipment		8,784,591	3,670,933
Right-of-use assets		78,301,944	14,316,120
Intangible assets		6,751,035	9,943,403
Investment in a subsidiary	28a	1	1
Club debentures		25,760,667	25,959,000
Reinsurance contract assets		2,251,934,410	2,149,507,693
Debt investments		647,137,036	-
Current income tax asset		9,478,655	-
Intercompany balance receivables		19,089,225	14,122,216
Prepayments and other receivables		18,271,431	25,002,465
Cash and bank balances		2,845,188,449	3,730,776,744
Total assets		<u>5,910,697,444</u>	<u>5,973,298,575</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		1,246,318,848	1,246,318,848
Other reserves		21,355,181	14,978,783
Reserve on post-retirement obligation		8,316,015	15,784,568
Retained earnings		524,180,112	796,142,435
Total equity		<u>1,800,170,156</u>	<u>2,073,224,634</u>
LIABILITIES			
Deferred tax liabilities		2,454,926	98,831
Post-retirement obligation		85,290,714	71,835,924
Lease liabilities		78,371,956	13,918,855
Insurance contract liabilities		3,874,131,877	3,710,425,030
Current income tax liabilities		4,454,212	27,786,947
Intercompany balance payables		9,245,531	14,978,097
Other payables		56,578,072	61,030,257
Total liabilities		<u>4,110,527,288</u>	<u>3,900,073,941</u>
Total equity and liabilities		<u>5,910,697,444</u>	<u>5,973,298,575</u>

The statement of financial position of the Company was approved by the Board of Directors on 21 April 2026 and was signed on the Company's behalf.

S.D.

.....
Director
POON Suk Fong Louisa

S.D.

.....
Director
YIP Yok Tak Amy

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Company's statement of financial position and statement of changes in equity (continued)

	Share capital HKD	Other reserves		Post-retirement obligation HKD	Retained earnings HKD	Total HKD
		Share-based payment HKD	Fair value reserve HKD			
Balance at 1 January 2025	1,246,318,848	1,773,783	13,205,000	15,784,568	796,142,435	2,073,224,634
Profit for the year	-	-	-	-	128,037,677	128,037,677
Other comprehensive income						
Change in fair value of debt investments at fair value through other comprehensive income	-	-	6,940,369	-	-	6,940,369
Actuarial losses on post-retirement obligation for the year	-	-	-	(9,176,840)	-	(9,176,840)
Change in fair value of equity investments at fair value through other comprehensive income	-	-	(198,333)	-	-	(198,333)
Deferred tax thereon	-	-	-	1,708,287	-	1,708,287
Other comprehensive income, net of tax	-	-	6,742,036	(7,468,553)	-	(726,517)
Total comprehensive income for the year	-	-	6,742,036	(7,468,553)	128,037,677	127,311,160
Share-based payment transactions Dividend paid	-	(365,638)	-	-	-	(365,638)
Total transactions with owners in their capacity as owners	-	(365,638)	-	-	(400,000,000)	(400,000,000)
Balance at 31 December 2025	1,246,318,848	1,408,145	19,947,036	8,316,015	524,180,112	1,800,170,156

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Company's statement of financial position and statement of changes in equity (continued)

	Share capital HKD	Other reserves		Post-retirement obligation HKD	Retained earnings HKD	Total HKD
		Share-based payment HKD	Fair value reserve HKD			
Balance at 1 January 2024	1,246,318,848	2,487,069	16,163,000	228,694	663,918,751	1,929,116,362
Profit for the year	-	-	-	-	218,223,684	218,223,684
Other comprehensive income						
Actuarial gains on post-retirement obligation for the year	-	-	-	18,281,923	-	18,281,923
Change in fair value of equity investments at fair value through other comprehensive income	-	-	(2,958,000)	-	-	(2,958,000)
Deferred tax thereon	-	-	-	(2,726,049)	-	(2,726,049)
Other comprehensive income, net of tax	-	-	(2,958,000)	15,555,874	-	12,597,874
Total comprehensive income for the year	-	-	(2,958,000)	15,555,874	218,223,684	230,821,558
Share-based payment transactions Dividend paid	-	(713,286)	-	-	-	(713,286)
Total transactions with owners in their capacity as owners	-	(713,286)	-	-	(86,000,000)	(86,713,286)
Balance at 31 December 2024	1,246,318,848	1,773,783	13,205,000	15,784,568	796,142,435	2,073,224,634

AIG INSURANCE HONG KONG LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Company's statement of financial position and statement of changes in equity (continued)

a Investment in a subsidiary

The Company held 100% of the 1 issued ordinary share of HKD1 in American International Underwriters Limited.

American International Underwriters Limited was incorporated in Hong Kong and was dormant as of 31 December 2025.

29 Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors on 21 April 2026.