

QBE HONGKONG & SHANGHAI INSURANCE LIMITED
REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2025

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

**REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2025**

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QBE HONGKONG & SHANGHAI INSURANCE LIMITED

REPORT OF THE DIRECTORS

The directors present their annual report together with the audited financial statements for the year ended 31 December 2025.

Principal activities

QBE Hongkong & Shanghai Insurance Limited (the “Company”) is incorporated and domiciled in Hong Kong. The principal activity of the Company is the writing of general insurance in Hong Kong and in Macau through a branch. The Company distributes its products via a number of intermediaries, some of which the Company maintains exclusive distribution rights.

Business review

	2025 HK\$M	2024 HK\$M
Insurance revenue	1,300	1,292
Net insurance revenue	1,142	1,153
Insurance service expenses	(996)	(1,006)
Reinsurance (expenses)/recoveries	(21)	19
Other expenses	(15)	(18)
Insurance Operating Result	110	148
Net insurance finance expenses	(49)	(36)
Insurance Profit	61	112
Net investment income	126	137
Other income	3	8
Profit before tax	190	257
Income tax	(4)	(3)
Profit for the year	186	254

Key Performance Indicators (“KPIs”)

HK\$M, %	2025	2024
Net insurance revenue	1,142	1,153
Net claims ratio	41%	36%
Net commission ratio	26%	26%
Net expenses ratio	25%	27%
Net combined operating ratio	93%	88%

During the year, net claims ratio increased mainly due to 2 claim events namely Wang Fuk Court Fire and Typhoon Ragasa.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Donations

During the year, the Company made charitable donations amounting to HK\$761k (2024: HK\$404k).

Reserves

Movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 14 and Note 13 to the financial statements.

Results and appropriations

The results of the Company for the year are set out in the statement of profit or loss and other comprehensive income on page 13.

An interim dividend of HK\$0.29 per ordinary share totalling HK\$78,000,000 (2024: Nil) was declared on 22 October 2025 and paid on 10 February 2026.

Shares issued in the year

No shares were issued by the Company during the year. Details of the shares issued are set out in Note 13 to the financial statements.

Debentures issued in the year

No debentures were issued by the Company during the year (2024: Nil).

External environment

Hong Kong's economy was buoyant last year. External trade remained strong, private consumption rebounded, and fixed investment accelerated. The overall economy grew by 3.5 per cent in the year, marking the third consecutive year of expansion.

Technological transformation and the rapid development of artificial intelligence have spurred a fresh wave of investment enthusiasm and driven product demand. Asia, especially China, serves as an important engine propelling global economic growth. Furthermore, the resumption of interest rate cuts by the US since September last year has bolstered performance of the investment and capital markets. The International Monetary Fund projects global economic growth of 3.3 per cent for 2025, which is broadly in line with that of 2024.

Environmental policies and performance

In 2019, QBE Insurance Group Limited (the "Group") established an Environmental, Social and Governance ("ESG") Risk team responsible for the delivery of the Group Climate Change Action Plan ("Plan"). The Company intends, where possible, to leverage the ESG Risk team to facilitate the delivery of any identified local initiatives that contribute to the Plan. In 2025, the Group's Hong Kong operations including the Company reduced paper consumption by 35.2%, compared with 2024.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Stakeholder engagement

The Company has a number of key stakeholders including its employees, customers, partners, regulators and the community at large. Partners include agents, brokers and strategic distribution partners such as banks and a life insurer.

Principal risks and uncertainties

Risk acceptance and risk management is addressed through adherence to the Company's framework of policies, procedures and internal controls. All policies are subject to board approval and ongoing review by management of the Company together with risk management.

The principal risks faced by the Company include:

- Insurance risk - uncertainty around timing, frequency and severity of insured events and claims settlement, this includes underwriting and claims concentration risks, inadequate reinsurance and inadequate reserving;
- Market risk - the risk of variation in the value of investments due to market movements;
- Credit risk - default on premium payment by policyholders or reinsurers; and
- Liquidity risk - the risk that the Company will encounter difficulty in meeting obligations associated with insurance liabilities.

The Company's underwriting and reinsurance strategies are approved by the Board and communicated clearly within the organisation through policy statements and guidelines. In addition, there is regular monitoring to ensure compliance with these standards.

Market risks are monitored by the Risk and Capital Committee, which report to the Board of Directors.

The Company regularly monitors credit risk by the management and reports to the Board of Directors.

The Company is committed to ensuring compliance with applicable laws, regulations and ethical standards in the markets we operate and the QBE Code of Business Ethics and Conduct.

Directors and controllers

The directors of the Company who were in office during the year or up to the date of this report:

Ms. Lei Yu
Mr. Robert Kosova
Mr. Michael William Gourlay*
Ms. Teow Yam Saw*
Mr. Kok Wai Kuan, Chairman*

* Independent Non-Executive Director

There being no provision in the Company's Articles of Association for retirement by rotation, all directors continue in office unless otherwise stated above.

The controllers during the year were:

QBE Asia Pacific Holdings Limited	(parent company with 99.99% voting rights)
QBE Insurance Holdings Pty Limited	(intermediate holding company)
QBE Insurance Group Limited	(ultimate holding company)
Ms. Lei Yu	(chief executive)

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

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

Apart from those disclosed in Note 26 on related party transactions, there are no other transactions, arrangements or contracts of significance in relation to the Company's business to which, its fellow subsidiaries or its immediate, intermediate or ultimate holding company was a party, and in which a director or controller of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2024: Nil).

Directors' and controllers' interests in shares, underlying shares and debentures of the Company or any specified undertaking of the Company

Under the share-based compensation plans (the "Plan") operated by the Company's ultimate holding company, options may be granted to directors and employees of the Group or its subsidiary companies to subscribe for, or acquire share appreciation rights on, shares in the Group. These have also been disclosed in Note 26 on related party transactions.

During the year, Ms. Lei Yu, the director, was entitled to hold options granted under the Plan.

Except for the above, at no time during the year was the Company, its fellow subsidiaries or its immediate, intermediate or ultimate holding company a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' and controllers' interests in property, payments, loans advanced or obligations assumed

No properties were transferred, payments made, loans advanced to or obligations assumed by or for a director or a controller of the Company, his nominees or associates (within the meaning of Section 9 of the Insurance Ordinance (Cap. 41) (the "IO") during the year.

Management contracts

There is a Cost Sharing Agreement in place between the Company, the Branch and its fellow subsidiaries including QBE Mortgage Insurance (Asia) Limited, QBE Group Services Pty Limited - Hong Kong Branch (collectively as the "QBE parties") whereby each of the QBE parties which has an allocated cost from another one of the QBE parties shall accept the charge for such allocated cost in the manner provided by the Cost Sharing Agreement. The allocated cost shall include direct costs of the relevant business activities and an allocable share of administrative or overhead costs the allocation keys of which are described in the applicable Transfer Pricing Policy in the Cost Sharing Agreement.

There is a Management Services Agreement in place whereby a fellow subsidiary, QBE Group Services Pty Limited - Hong Kong Branch, provides management services to the Company in return for a fee.

There is a Management Services Agreement in place whereby a fellow subsidiary, QBE Asia Services Sendirian Berhad, provides claims administration and finance operations services to the Company in return for a fee.

There is a Group Shared Services Centre Framework Agreement in place whereby a fellow subsidiary, QBE Group Shared Services Limited, provides policy administration services and financial reporting services to the Company in return for a fee.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Permitted indemnity provisions

At no time during the financial year and up to the date of this Report of the Directors, was there or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company.

Statutory insurance

The Company has, during the year, carried on the following classes of business, other than reinsurance business, relating to liabilities or risks in respect of which persons are required by any ordinance to be insured:

- (a) Employees' compensation
- (b) Third party liability for motor vehicles
- (c) Third party liability for local vessels
- (d) Third party liability for building owners' corporation

Material Reinsurance arrangements

During the year, the Company had the following material reinsurance arrangements entered into with QBE Capital (Global) Limited (QBE Capital) and other reputable reinsurance companies.

(1) Asia ("AP") ER23 Underlying Program - Period: 1.1.2025 - 31.12.2025

The Cat limit up to US\$10m excess of HK\$31,229,600

Upper Risk limit is USD5m for Short Tail classes.

Reinstatement: 2 prepaid

Reinsurer: QBE Capital (written and signed line: 100%)

(2) Asia Division Catastrophe XOL Program - Period: 1.1.2025 - 31.12.2025

4 layers with a shared retention up to US\$10,000,000 for Layer 1.

Layer 1:	US\$40,000,000 excess of US\$10,000,000
Layer 2:	US\$25,000,000 excess of US\$50,000,000
Layer 3:	US\$225,000,000 excess of US\$75,000,000
Layer 4:	US\$200,000,000 excess of US\$300,000,000

*Reinstatement: 1 reinstatement for each year (various reinstatement provisions apply)

Reinsurer: QBE Capital (written and signed line: 100%)

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Reinsurance arrangements (Continued)

(3) Asia and EO Per Risk Whole of Account XOL Program - Period: 1.1.2025- 31.12.2025

This program protects Property, CAR and Engineering, Marine, General Accident, Public and Products liability, Workers Compensation, Motor Third Party Bodily Injury, Motor Third Party Property Damage, Householder's liability, Professional Liability, Cyber Liability, Directors and Officers, Personal Accident and Travel.

It covers exposures per risk claims greater than US\$50,000,000 and up to US\$300,000,000 with 1 prepaid reinstatement.

Reinsurer: QBE Capital (written and signed line: 100%)

(4) Asia Short Tail Property, Engineering and Marine Risk XL Program - Period: 1.1.2025 - 31.12.2025

This program protects the Asia Property, Engineering and Marine Portfolio:

Layer 1: US\$45,000,000 excess of US\$5,000,000

*Reinstatement: US\$135,000,000 in all recoveries – prepaid

Reinsurer: QBE Capital (written and signed line: 100%)

(5) AP Long Tail XL Program Period 1.1.2025 – 31.12.2025

The program protects Causality lines, Professional lines and Personal Accident and Travel portfolio:

Layer: US\$47,500,000 excess of US\$2,500,000

*Aggregate Limit: Maximum recoverable – US\$95,000,000

Reinsurer: QBE Capital (written and signed line: 100%)

(6) Marine P & I Period: 1.1.2025 - 31.12.2025

Since 1st January 2025, QBE Asia Marine P&I business has been fronted to EO division (via a Quota share treaty program).

This inwards exposure to EO is protected under the British Marine excess of loss program.

(7) Cyber Quota Share and Stop Loss Program Period: 1.1.2025 – 31.12.2025

The program protects Cyber Liability which commenced on 1 Jan 2025.

Group Cyber Stop Loss program coupled with a 27.5% Group quota share program. Two layers of excess of loss features:

(1) 45% Stop Loss excess of 80% Stop Loss (40% placed)

(2) 75% Stop Loss excess of 125% Stop Loss (37% placed)

This program covers all stand-alone/ affirmative and add on cyber exposures.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Auditor

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

On behalf of the Board

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the bottom.

Kok Wai Kuan
Chairman of the Board

Hong Kong, 23 APR 2026

Independent Auditor's Report

To the Members of QBE Hongkong & Shanghai Insurance Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of QBE Hongkong & Shanghai Insurance Limited (the "Company"), which are set out on pages 12 to 87, comprise:

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

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2025, and of its financial performance and its cash flows for the year then ended in accordance with HKFRS Accounting Standards as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") as issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Report of the Directors, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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:

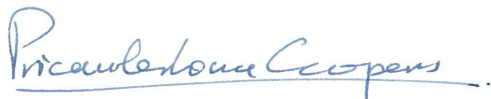
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting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

auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Company as a basis for forming an opinion on the 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditor's report is Derrick, Simon Cheung (practising certificate number: P08367).

A handwritten signature in blue ink that reads "PricewaterhouseCoopers". The signature is stylized and fluid, with the company name written in a cursive-like script.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 23 April 2026

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

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

	Note	31 December 2025 HK\$'000	31 December 2024 HK\$'000
Assets			
Property and equipment	6	54,676	65,227
Intangible assets	7	51,866	26,461
Deferred tax assets	8	44,074	44,074
Reinsurance contract assets	9	203,519	263,907
Financial assets			
- Debt securities at fair value through profit or loss	10	1,747,116	827,525
- Term deposits	10	1,566,819	2,413,492
Other receivables	11	335,535	56,981
Cash and cash equivalents	12	344,054	243,425
Total assets		4,347,659	3,941,092
Equity			
Share capital	13	867,984	867,984
Reserves	13	491,007	383,437
Total equity		1,358,991	1,251,421
Liabilities			
Insurance contract liabilities	9	2,538,478	2,571,532
Lease liabilities	14	54,344	62,955
Current tax liabilities	8	4,781	85
Other payables	15	391,065	55,099
Total liabilities		2,988,668	2,689,671
Total equity and liabilities		4,347,659	3,941,092

The financial statements on pages 12 to 87 were authorised for issue by the Board of Directors on **23 APR 2026** and were signed on its behalf.

 Lei Yu Director	 Kok Wai Kuan Director
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The notes on pages 16 to 87 are an integral part of the financial statements.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2025**

	Note	2025 HK\$'000	2024 HK\$'000
Insurance revenue	9	1,299,982	1,292,373
Insurance service expenses	16	(995,587)	(1,005,622)
Reinsurance expenses	9	(157,993)	(139,582)
Reinsurance (expenses) / recoveries	9	(20,745)	19,156
Insurance service result		125,657	166,325
Other expenses	16	(15,283)	(18,148)
Insurance operating result		110,374	148,177
Insurance finance expenses	17	(53,390)	(36,793)
Reinsurance finance income	17	4,406	916
Insurance profit		61,390	112,300
Other income	18	7,040	12,285
Investment income	19	104,837	142,933
Net fair value gain on financial assets at fair value through profit or loss	20	23,848	8,500
Expenses for asset management services rendered		(2,803)	(4,012)
Finance costs	21	(256)	(10,849)
Amortisation of distribution rights		(4,391)	(4,457)
Profit before tax		189,665	256,700
Income tax	22	(4,095)	(2,731)
Profit for the year		185,570	253,969
Total comprehensive income after tax attributable to the ordinary equity holders of the company		185,570	253,969

The notes on pages 16 to 87 are an integral part of the financial statements.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

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

	Share Capital	Reserves	Total
	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2024	867,984	770,040	1,638,024
Profit for the year	-	253,969	253,969
Reserve movement related to the Operating Group	-	(640,572)	(640,572)
Balance at 31 December 2024	<u>867,984</u>	<u>383,437</u>	<u>1,251,421</u>
Balance at 1 January 2025	867,984	383,437	1,251,421
Profit for the year	-	185,570	185,570
Dividends declared in respect of the current year (Note 27)	-	(78,000)	(78,000)
Balance at 31 December 2025	<u>867,984</u>	<u>491,007</u>	<u>1,358,991</u>

The notes on pages 16 to 87 are an integral part of the financial statements.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2025**

		2025 HK\$'000	2024 HK\$'000
	Note		
Cash flows from operating activities			
Cash generated from operations	23	125,298	26,282
Cash inflow / (outflow) from restricted deposits		1,403	(4,281)
Interest received		102,310	135,573
Income tax expenses		(87)	(596)
Net cash inflow from operating activities		<u>228,924</u>	<u>156,978</u>
Cash flows from investing activities			
Payments for property and equipment	6	(870)	(1,505)
Payments for intangible assets	7	(44,183)	(9,995)
Payments for debt securities at fair value through profit or loss	10	(1,932,506)	(60,560)
Proceeds from maturity and sale of debt securities at fair value through profit or loss	10	1,019,420	186,754
Net proceed from term deposits		846,673	(70,076)
Net cash (outflow) / inflow from investing activities		<u>(111,466)</u>	<u>44,618</u>
Cash flows from financing activities			
Interest paid on lease liabilities	14	(2,300)	(1,043)
Principal elements of lease payments	14	(9,820)	(10,243)
Net cash payment for the Business Transfer		-	(106,057)
Dividend to immediate holding company		-	(78,000)
Cash provided to the Operating Group for its residual activities		-	(24,648)
Net cash outflow from financing activities		<u>(12,120)</u>	<u>(219,991)</u>
Net increase / (decrease) in cash and cash equivalents		<u>105,338</u>	<u>(18,395)</u>
Cash and cash equivalents at the beginning of year	12	152,361	170,756
Cash and cash equivalents at the end of year	12	<u>257,699</u>	<u>152,361</u>

The notes on pages 16 to 87 are an integral part of the financial statements.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 General information

QBE Hongkong & Shanghai Insurance Limited (the "Company") underwrites non-life insurance risks, such as those associated with property, general liability, motor vehicles and accident. These products are mainly offered in Hong Kong. The Company is a limited liability company incorporated and domiciled in Hong Kong. The address of its registered office is 33rd Floor, Oxford House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

In 2024, the Company entered into agreements with a fellow subsidiary, QBE General Insurance (Hong Kong) Limited ("QGI"), to transfer all existing insurance business operated in Hong Kong and Macau by QGI and its Macau branch (together, the "Operating Group") to the Company (referred to as the "Business Transfer" thereafter). The principal activity of the Operating Group was underwriting general insurance in Hong Kong and Macau up to 30 September 2024. The Company acquired the Operating Group at a consideration of approximately HK\$106,057,000.

The Business Transfer was approved by the Hong Kong Insurance Authority and Autoridade Monetaria de Macau ("AMCM"), effective from 1 October 2024 and the operations were continued uninterrupted under the Company and the Company's Macau Branch (the "Branch") that was newly established in 2024. The Branch operates in Macau since 1 October 2024 to carry out non-life insurance business in the territory.

The accounting adjustments relating to the Business Transfer in 2024 are set out in Note 24 to the financial statements for comparatives only.

For detailed discussion about the Company's performance and financial position refer to the Report of the Directors on pages 1 to 7.

These financial statements are presented in Hong Kong Dollars (HK\$) unless otherwise stated.

2 Summary of material accounting policy information

This note provides the material accounting policy information adopted in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements are prepared in accordance with all applicable HKFRS Accounting Standard (the "HKFRS") as defined by Hong Kong Accounting Standard 1 and requirements of Hong Kong Companies Ordinance (Cap.622).

The financial statements have been prepared on a historical cost basis except for:

- Financial assets measured at fair value through profit or loss; and
- Insurance contract liabilities and reinsurance contracts assets measured primarily based on actuarial methods as explained in Note 3.

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

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.1 Basis of preparation (Continued)

(a) New and amended standards effective in 2025

Standards affected	New standards or amendments to existing standards	Applicable for financial year beginning on / after
HKAS 21 and HKFRS 1	Lack of Exchangeability (amendments)	1 January 2025

The preceding new amendments to standards have been adopted for the first time for the financial year ended 31 December 2025 and have no material impact on the financial statements of the Company.

(b) New standards, amendments and interpretations that are not yet effective and have not been early adopted

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for the 31 December 2025 reporting period and have not been early adopted by the Company. The management is still assessing the impact of these new standards, amendments and interpretations on the entity in the current or future reporting periods and on foreseeable future transactions.

Standards affected	New standards or amendments to existing standards	Applicable for financial year beginning on / after
HKFRS 9 and HKFRS 7	Classification and Measurement of Financial Instruments (amendments)	1 January 2026
HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKAS 7	Annual improvement to HKFRS Accounting Standards – Volume 11	1 January 2026
HKFRS 9 and HKFRS 7	Classification and Measurement of Financial Instruments (amendments)	1 January 2026
HKFRS 18	Presentation and Disclosure in Financial Statements	1 January 2027

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.1 Basis of preparation (Continued)

(c) Merger accounting for business combination under common control

Following the Business Transfer in 2024 mentioned in Note 1, since the Company and the Operating Group are controlled by QBE Insurance Group Limited, the ultimate holding company of both entities, before and after the Business Transfer, and the assets and liabilities transferred are measured at the carrying value, the Business Transfer is regarded as "Business Combination Under Common Control". As such, Management applied the principles of merger accounting as set out in Accounting Guideline 5 (Revised) "Merger Accounting for Common Control Combinations" ("AG5") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Accordingly, the financial information of the Operating Group was included in the financial statements from the beginning of the earliest period presented as if 100% of the Operating Group had always been part of the Company up to the date of the Business Transfer and then a subsequent transfer of the certain net assets back to the Operating Group for its residual activities. As a result, in the financial statement for 2024, the Company has restated certain 2024 comparative amounts of the financial statements by including the operating results of the Operating Group, as if the Business Transfer had been completed on the earliest date of periods being presented, i.e. 1 January 2024.

The reconciliation of the effect arising from the Business Transfer on the statement of financial position as at 31 December 2024 and statement of profit or loss and comprehensive income for the year ended 31 December 2024 in connection with the Business Transfer is disclosed in Note 24 for comparatives only.

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Hong Kong Dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income within finance costs.

2.3 Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income within insurance service expenses during the financial period in which they are incurred. Depreciation of leasehold improvements is calculated to write off their cost on a straight-line basis over the period of the lease or their expected useful lives to the Company, whichever is shorter. The principal annual rate used for this purpose is 20%.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.3 Property and equipment (Continued)

Depreciation of property and equipment other than leasehold improvement is calculated using straight-line method to allocate their cost or revalued amounts to their residual values, over their estimated useful lives as follows:

Office equipment	10% - 30%
Furniture and fixtures	20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7 for the accounting policy on impairment).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of profit or loss and other comprehensive income within insurance service expenses.

2.4 Intangible assets

Intangible assets include internally developed computer software development costs and other intangible assets. Intangible assets are stated at cost less amortisation and impairment losses.

Computer software development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

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

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditure that does not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs are recognised as assets and are amortised on a straight-line basis to the statement of profit or loss and other comprehensive income within insurance service expenses.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.4 Intangible asset (Continued)

Other intangible assets include exclusive distribution arrangements entered with an insurance company and financial institution. Exclusive distribution rights are stated at historical cost less amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the distribution rights.

Exclusive distribution rights are recognised as intangible assets and are amortised on a straight-line basis or based on the pattern of accumulated gross written premiums expected to be generated under the related distribution agreements, to the statement of profit or loss and other comprehensive income within amortisation of distribution rights and insurance service expenses.

Amortisation commences when the asset is available for use and ceases when it is derecognised. The useful life of the intangible assets are as follows:

Computer software development costs	3 - 5 years
Exclusive distribution rights	7 - 10 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7 for the accounting policy on impairment).

2.5 Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income within Income tax expenses, except to the extent that it relates to items recognised directly in equity, in which case the tax is also recognised in equity.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and current tax liabilities are offset where the entity has a legally enforceable right to offset and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.5 Current and deferred income tax (Continued)

(c) International tax reform – Pillar Two model rules

The Company together with QBE Group's entities in Hong Kong ("QBE HK entities") are within the scope of the OECD Pillar Two model rules, and it applies the HKAS 12 exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. QBE HK entities will incur top-up taxes due to the Hong Kong Pillar Two legislation that enacted on 6 June 2025. Under the legislation, QBE HK entities are jointly liable to pay a top-up tax for the difference between its Global effective tax rate and the 15% minimum rate.

QBE HK entities assessment indicates for Hong Kong Jurisdiction that the effective tax rate based on accounting profit is below 15% minimum rate for the annual financial year ended 31 December 2025. Considering the impact of specific adjustments in the Pillar Two legislation, QBE HK entities in total recognised top up tax expense and the Company recognised top-up tax expense of HK\$4,093,000. This is included in income tax in the statement of profit or loss and other comprehensive income.

2.6 Financial assets

(a) Classification

The Company classifies its financial assets into the two categories:

- Those to be measured subsequently at fair value through profit or loss; and
- Those to be measured at amortised costs.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date being the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risk and rewards of ownership.

(i) Debt instruments

Debt instruments are those instruments that meet the definition of financial liabilities from the issuer's perspective, such as treasury bills, government and corporate bonds.

The classification and subsequent measurement of debt instruments depends on:

- The Company's business model for managing the asset; and
- The cash flow characteristics of the asset (represented by Solely Payments of Principal and Interest ("SPPI")).

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.6 Financial assets (Continued)

(b) Recognition and derecognition (Continued)

(i) Debt instruments (Continued)

Based on these factors, the Company classifies its debt instruments into one of the following two measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at Fair Value through Profit or Loss ("FVTPL"), are measured at amortised costs. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described further below. Interest revenue from these financial assets is included in interest revenue from financial assets not measured at FVTPL using the effective interest rate method.

FVTPL: Assets that do not meet the criteria for amortised cost or Fair Value through Other Comprehensive Income ("FVOCI") are measured at FVTPL. Also, some assets are voluntarily measured at FVTPL, because this significantly reduces an accounting mismatch. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised and presented in the statement of profit or loss and other comprehensive income within net gains on FVTPL investments in the period in which it arises.

(ii) Business model

The business model reflects how the Company manages assets in order to generate cash flows. That is, it reflects whether the Company's objective is solely to collect the contractual cash flows from assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of the other business model and measured at FVTPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Company's business model for the investments underlying direct participating contracts is to hold to collect and sell contractual cash flows. The proceeds from the contractual cash flows of the financial assets are used to settle insurance contract liabilities as they become due. To ensure that the contractual cash flows from the financial assets are sufficient to settle those liabilities, the Company undertakes significant buying and selling activity on a regular basis to rebalance its portfolio of assets and to meet cash flow needs as they arise. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the other business model and measured at FVTPL.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.6 Financial assets (Continued)

(b) Recognition and derecognition (Continued)

(iii) Solely payments of principal and interest

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent SPPI (the SPPI test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement). Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period.

The Company may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

(c) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at FVTPL are expenses in statement of profit or loss and other comprehensive income.

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

(i) Debt securities at fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in statement of profit or loss and other comprehensive income and presented net within net fair value gain on financial assets at fair value through profit or loss in the period in which it arises. The Company's debt securities at fair value through profit or loss are classified in this category. Though the debt securities in the Company are held for collection of contractual cash flows, where those cash flows represent SPPI, FVTPL is adopted for this class of assets.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.6 Financial assets (Continued)

(c) Measurement (Continued)

(ii) Financial assets carried at amortised costs

The Company classifies term deposits, other receivables, and cash and cash equivalents as financial assets measured at amortised costs. Assets that are held for collection of contractual cash flows, where those cash flows represent SPPI, are measured at amortised cost. Interest income from these financial assets is included in investment income under the statement of profit or loss and other comprehensive income using effective interest rate method. Any gain or loss arising on derecognition is recognised directly in statement of profit or loss and other comprehensive income together with foreign exchange gain and losses.

2.7 Impairment of assets

(a) Financial assets carried at amortised cost

The Company recognises loss allowances for expected credit losses ("ECL") on financial assets measured at amortised cost. While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The Company assesses on forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on changes in credit quality since initial recognition.

All of the company's instruments at amortised cost are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months' expected losses. Management considers the instruments to be low credit risk where they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

(b) Impairment of non-financial assets

Property and equipment and intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (individual asset). Impairment loss of distribution rights is recognised within impairment loss on distribution rights in the statement of profit and loss and other comprehensive income.

2.8 Offsetting financial instruments

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

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.9 Cash and cash equivalents

For the purpose of presentation in the cash flow statement, cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change of value.

2.10 Share capital

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

2.11 Insurance contracts

The Company issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event. The Company derives all gross premiums from general insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover). The Company also issues reinsurance contracts in the normal course of business to compensate other entities for claims arising from one or more insurance contracts issued by those entities.

The Company does not issue any contracts with direct participating features.

(a) Separating components from insurance and reinsurance contracts

The Company assesses its general insurance and reinsurance products' features and contractual terms to determine whether they contain distinct components which must be accounted for applicable accounting standards. The separation is based on facts and circumstances which more appropriately reflects the economic substance. After separating any distinct components, the Company applies HKFRS 17 to all remaining components of the (host) insurance contract. Currently, the Company's products do not include any distinct components that require separation.

Some reinsurance contracts issued contain profit commission arrangements. Under these arrangements, there is a minimum guaranteed amount that the policyholder will always receive – either in the form of profit commission, or as claims, or another contractual payment irrespective of the insured event happening. The minimum guaranteed amounts have been assessed to be highly interrelated with the insurance component of the reinsurance contracts and are, therefore, non-distinct investment components which are not accounted for separately.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.11 Insurance contracts (Continued)

(b) Level of aggregation

HKFRS 17 requires a company to determine the level of aggregation for applying its requirements. The level of aggregation for the Company is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Currently, the Company has defined portfolios of insurance and reinsurance contracts issued based on its product lines, namely fire, house holders, other accident, accident & health, motor vehicle, workers compensation, engineering, marine, liability, professional indemnity and trade credit contracts due to the fact that these products are subject to similar risks and managed together. Portfolios are further divided based on expected profitability at inception into three groups:

- A group of contracts that are onerous at initial recognition (if any)
- A group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently (if any)
- A group of the remaining contracts in the portfolio (if any)

This means that, for determining the level of aggregation, the Company identifies a contract as the smallest 'unit', i.e., the lowest common denominator. However, the Company makes an evaluation of whether a series of contracts need to be treated together as one unit based on reasonable and supportable information, or whether a single contract contains components that need to be separated and treated as if they were stand-alone contracts. As such, what is treated as a contract for accounting purposes may differ from what is considered as a contract for other purposes (i.e., legal or management). HKFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart. The Company has elected to group together those contracts that would fall into different groups only because law or regulation specifically constrains its practical ability to set a different price or level of benefits for policyholders with different characteristics.

The profitability of portfolios of contracts is assessed by actuarial valuation models that take into consideration existing and new business. The Company assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts that are not onerous, the Company assesses, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances. The Company considers facts and circumstances to identify whether a group of contracts are onerous based on:

- Management information for business planning and performance management
- Pricing information
- Results of similar contracts it has recognised
- Relevant external factors, e.g. a change in market experience or regulations

The Company divides portfolios of reinsurance contracts held applying the same principles set out above, except that the references to onerous contracts refer to contracts on which there is a net gain on initial recognition. For some groups of reinsurance contracts held, a group can comprise a single contract.

Reinsurance contracts held would generally not be disaggregated unless facts and circumstances demonstrate that:

- They are managed on a disaggregated basis, and
- The economic substance is an aggregation of multiple different underlying individual contracts.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.11 Insurance contracts (Continued)

(c) Recognition

The Company recognises groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts
- The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous

The Company recognises a group of reinsurance contracts held it has entered into from the earlier of the following:

- The beginning of the coverage period of the group of reinsurance contracts held. However, the Company delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held; and
- The date the Company recognises an onerous group of underlying insurance contracts if the Company entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

The Company adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

(d) Contract boundary

The Company includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. 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 Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

- The Company has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- Both of the following criteria are satisfied:
 - The Company has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio
 - 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

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

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

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.11 Insurance contracts (Continued)

(e) Measurement - Premium Allocation Approach ("PAA")

	HKFRS 17 Accounting policies choices	Adopted approach
PAA	Subject to specified criteria, the PAA can be adopted as a simplified approach to the HKFRS 17 general model.	Coverage period for majority of the insurance contracts issued is one year or less and automatically qualifies for PAA. Some engineering, workers compensation and accident & health insurance include contracts with coverage period greater than one year. However, there is no material difference in the measurement of the liability for remaining coverage between PAA and the general model, therefore, these qualify for PAA. For reinsurance contracts held, there is no material difference in the measurement of the assets for remaining coverage between PAA and the general model, therefore, these qualify for PAA.
Insurance acquisition cash flows for insurance contracts issued	Where the coverage period of all contracts within a group is not longer than one year, insurance acquisition cash flows can either be expensed as incurred, or allocated, using a systematic and rational method, to groups of insurance contracts (including future groups containing insurance contracts that are expected to arise from renewals) and then amortised over the coverage period of the related group. For groups containing contracts longer than one year, insurance acquisition cash flows must be allocated to related groups of insurance contracts and amortised over the coverage period of the related group.	For all business, insurance acquisition cash flows are allocated to related groups of insurance contracts and amortised over the coverage period of the related group.
Liability for Remaining Coverage ("LFRC"), adjusted for financial risk and time value of money	Where there is no significant financing component in relation to the LFRC, or where the time between providing each part of the services and the related premium due date is no more than a year, an entity is not required to make an adjustment for accretion of interest on the LFRC.	The LFRC is not discounted where the time between providing each part of the services and the related premium due date is no more than a year.
Liability for Incurred Claims, ("LFIC") adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claim is incurred, it is not required to adjust these amounts for the time value of money.	For all business, the LFIC is adjusted for the time value of money.
Insurance finance income and expenses	There is an option to disaggregate part of the movement in LFIC resulting from changes in discount rates and present this in OCI.	For all business, the change in LFIC as a result of changes in discount rates will be captured within statement of profit or loss and other comprehensive income.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.11 Insurance contracts (Continued)

(e) Measurement - Premium Allocation Approach ("PAA") (Continued)

(i) Reinsurance contracts held – initial measurement

The Company measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue.

Where the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses.

The Company calculates the loss-recovery component by multiplying the loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held. The Company uses a systematic and rational method to determine the portion of losses recognised on the group to insurance contracts covered by the group of reinsurance contracts held where some contracts in the underlying group are not covered by the group of reinsurance contracts held.

The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

(ii) Insurance contracts – subsequent measurement

The Company measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period
- Minus insurance acquisition cash flows
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an insurance services expense in the reporting period for the group
- Plus any adjustment to the financing component, where applicable
- Minus the amount recognised as insurance revenue for the services provided in the period
- Minus any investment component paid or transferred to the liability for incurred claims

No investment component has been recognised during the year (2024: Nil).

The Company estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Company, and include an explicit adjustment for non-financial risk (the risk adjustment). The Company does not adjust the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims that are expected to be paid within one year of being incurred.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.11 Insurance contracts (Continued)

(e) Measurement - Premium Allocation Approach (Continued)

(ii) Insurance contracts – subsequent measurement (Continued)

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Company recognises a loss in statement of profit or loss and other comprehensive income for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognised. For additional disclosures on the loss component, please refer to Note 2.11(f)(iii).

(iii) Reinsurance contracts held – subsequent measurement

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

Where the Company has established a loss-recovery component, the Company subsequently reduces the loss recovery component to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

(iv) Insurance acquisition cash flows

Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs.

The Company uses a systematic and rational method to allocate:

- 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.
- Insurance acquisition cash flows directly attributable to a portfolio of insurance contracts that are not directly attributable to a group of contracts, to groups in the portfolio.

At the end of each reporting period, the Company revises amounts of insurance acquisition cash flows allocated to groups of insurance contracts not yet recognised, to reflect changes in assumptions related to the method of allocation used.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.11 Insurance contracts (Continued)

(e) Measurement - Premium Allocation Approach (Continued)

(iv) Insurance acquisition cash flows (Continued)

The Company recognises in statement of profit or loss and other comprehensive income a reversal of some or all of an impairment loss previously recognised and increases the carrying amount of the asset, to the extent that the impairment conditions no longer exist or have improved.

(v) Insurance contracts – modification and derecognition

The Company derecognises insurance contracts when:

- The rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled or expired); or
- The contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Company derecognises the initial contract and recognises the modified contract as a new contract.

When a modification is not treated as a derecognition, the Company recognises amounts paid or received for the modification with the contract as an adjustment to the relevant liability for remaining coverage.

(f) Presentation

The Company has presented separately, in the statement of financial position, the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

The Company disaggregates the total amount recognised in the statement of profit or loss and other comprehensive income into an insurance service result, comprising insurance revenue, insurance service expenses, reinsurance expenses and reinsurance recoveries. Insurance finance income or expenses and reinsurance finance income or expenses are separately disclosed.

The Company does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

The Company separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.11 Insurance contracts (Continued)

(f) Presentation (Continued)

(i) Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts (excluding any investment component) allocated to the period. The Company allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then the allocation is made on the basis of the expected timing of incurred insurance service expenses.

The Company changes the basis of allocation between the two methods above as necessary, if facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate. For the periods presented, all revenue has been recognised on the basis of the passage of time at the reporting date.

(ii) Insurance service expenses

Insurance service expenses include incurred claims and benefits including IBNR at the reporting date, other incurred directly attributable insurance service expenses, amortisation of insurance acquisition cash flows and changes that relate to past service (i.e. changes in future cash flows relating to the liability for incurred claims).

(iii) Loss components

The Company assumes that no contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. Where this is not the case, and if at any time during the coverage period, the facts and circumstances mentioned in Note 2.11(b) indicate that a group of insurance contracts is onerous, the Company establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group as determined in Note 2.11(e)(ii). Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero.

(iv) Loss-recovery components

As described in Note 2.11(e)(iii) above, where the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the expected recovery of the losses.

A loss-recovery component is subsequently reduced to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.11 Insurance contracts (Continued)

(f) Presentation (Continued)

(v) Insurance finance income and 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 all business, the Company does not disaggregate finance income and expenses because the related financial assets are managed on a fair value basis and measured at FVTPL.

(vi) Reinsurance expenses and recoveries

The Company presents separately on the face of the statement of profit or loss and other comprehensive income, the amounts expected to be recovered from reinsurers (i.e. Reinsurance recoveries), and an allocation of the reinsurance premiums paid (i.e. Reinsurance expenses). The Company treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held, and excludes investment components and commissions from an allocation of reinsurance premiums presented on the face of the statement of profit or loss and other comprehensive income.

2.12 Leases

The Company leases office spaces. Rental contracts are typically made for fixed periods.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Right-of-use assets are presented as a component of property and equipment, whilst lease liabilities are presented separately.

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

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 held by the Company, the Company's incremental borrowing rate is used, being the rate that the Company 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.

To determine the incremental borrowing rate, the Company uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing, and makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between the principal liability and finance cost. The finance cost is charged to the statement of profit or loss and other comprehensive income, within finance costs, over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received and restoration costs. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.13 Financial liabilities

Financial liabilities are initially recognised at fair value, net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in statement of profit or loss and other comprehensive income within finance costs over the period of the borrowings using the effective interest method.

2.14 Revenue recognition

(a) Insurance revenue (See Note 2.11(f)(i))

(b) Interest income

Interest income for all interest-bearing financial instruments, including term deposits, are recognised within investment income in the statement of profit or loss and other comprehensive income using the effective interest rate method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

2.15 Employee benefits

(a) Pension obligations

The Company has joined a mandatory provident fund scheme (the "MPF Scheme") established under the Hong Kong Mandatory Provident Fund Ordinance. The MPF Scheme is a defined contribution plan. Contributions to the MPF Scheme are charged to the statement of profit or loss and other comprehensive income within insurance service expenses as incurred in accordance with the rules of the scheme. The assets of the MPF Scheme are held separately in an independently administered fund.

The Company operates a defined contribution plan, the assets of which are generally held in separate trustee - administered funds. The pension plan is generally funded by payments from employees and by the Company. The Company has no further payment obligations once the contributions have been paid at the range from 5% to 15%.

The Company's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(b) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.15 Employee benefits (Continued)

(c) Bonus plans

The Company recognised a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.16 Dividend distribution

Dividend declared to the Company's shareholders on or before the end of the reporting period but not distributed at the end of the reporting period is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

2.17 Merger accounting for common control combination

The financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. Merger accounting only applicable to 2024 comparatives.

The assets, liabilities and equity of the combining entities or businesses are combined using the carrying amounts from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The statement of profit or loss and comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealized gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policy information (Continued)

2.18 Impact of enactment of Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022

In June 2022, the Hong Kong Government enacted the Employment and Retirement Schemes legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance"). The Amendment Ordinance will come into effect from 1 May 2025 (the "Transition Date").

The Amendment Ordinance results in:

- Change in the offsetting arrangement, such that accrued benefits attributable to the employer's mandatory contributions under mandatory provident fund scheme ("MPF Benefits") would no longer be eligible to offset against the long service payment ("LSP") for the portion of the LSP accrued from the Transition Date; and
- Change of the calculation basis of last monthly wages for the portion of the LSP accrued before the Transition Date.

The benefit payment under LSP remains capped at HK\$390,000 per each employee. If an employee's total benefit payment exceeds HK\$390,000, the amount in excess of the cap is deducted from the portion accrued from the Transition Date. In view of the latest legislation changes, the Company assessed the LSP provision together with its voluntary contribution on an annual basis.

3 Critical accounting estimates and judgments

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Company's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in other notes together with information about the basis of calculation for each affected line item in the financial statements. In addition, this note also explains where there have been actual adjustments this year as a result of an error and of changes to previous estimates.

The areas involving significant estimates or judgements are:

- Insurance and reinsurance contracts (See Note 3.1)
- Risk adjustment for non-financial risk (See Note 3.2)
- Discount rates (See Note 3.3)
- Recognition of deferred tax assets (See Note 3.4)
- Intangible asset (See Note 3.5)

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgments (Continued)

3.1 Insurance and reinsurance contracts

Insurance contracts are onerous when the liability for remaining coverage is insufficient to pay future claims and other insurance service expenses attributable to the contracts.

Contracts that are measured using the PAA are assumed not to be onerous unless facts and circumstances indicate otherwise. In identifying facts and circumstances that may be indicators of onerous contracts, the Company has considered management information for Company planning and performance management, in combination with other indicators where relevant. If there are facts and circumstances that may indicate the existence of possible onerous contracts, the onerous contract losses are measured based on the extent to which the fulfilment cash flows (sum of present value of future cash flows and a risk adjustment) attributable to the group of contracts exceed the liability for remaining coverage for that group.

(a) Liability for remaining coverage

(i) Onerous contracts

Onerous contract losses are measured on a gross basis (excluding the effect of reinsurance contracts held) and are immediately recognised in statement of profit or loss and other comprehensive income. A loss component of the liability for remaining coverage is established (or increased) to depict the onerous contract losses recognised. Where the onerous contracts are covered by reinsurance contracts held, reinsurance income is recognised in statement of profit or loss and other comprehensive income and a corresponding loss-recovery component of the reinsurance asset for remaining coverage is established to depict expected recoveries attributable to the onerous contract losses.

The consideration of facts and circumstances as well as the measurement of any onerous contract losses are determined separately for each underwriting year within a portfolio of contracts that are of similar risks and managed together. Where a subset of contracts within a portfolio would be identified as a separate group from other contracts within the portfolio only because of the existence of specific legal or regulatory constraints to the Company's practical ability to set a different price or level of benefits for policyholders with different characteristics, such contracts are included in the same group for the purposes of identifying and measuring onerous contracts.

The carrying values of the loss component and corresponding reinsurance loss-recovery components as at 31 December 2025 and 31 December 2024 are disclosed in Note 9.1 and 9.2.

(ii) Eligibility assessment

The eligibility assessment required by HKFRS 17 for insurance contracts with coverage periods in excess of one year and for which the Company applies the PAA.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgments (Continued)

3.1 Insurance and reinsurance contracts (Continued)

(b) Liability for incurred claims

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. Provision is made for the estimated cost of claims incurred but not settled at each reporting date, including the cost of IBNR claims to the Company. The estimated cost of claims includes direct expenses to be incurred in settling those claims.

The estimation of IBNR is generally subjected to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Liability and other long tail classes of business, where claims settlement may not happen for many years after the event giving rise to the claim, will typically display greater variability between initial estimates and final settlement due to delays in reporting claims, uncertainty in respect of court awards and future inflation. Claims in respect of property and other short tail classes are typically reported and settled sooner after the claim event, giving rise to less uncertainty.

The estimation techniques and assumptions used in determining the outstanding claims provision and the associated reinsurance contract assets are described below.

(i) Insurance claims risk assumptions

The Company's process for establishing outstanding claims provision involves extensive consultation with the actuaries, claims managers, underwriters and other senior management.

The Company uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the Chain-ladder and the Bornhuetter-Ferguson methods. Chain-ladder methods may be applied to premiums, paid claims or incurred claims (for example, paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year. Chain-ladder techniques are most appropriate for those accident years and classes of business that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business. The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business). The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same class of business.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgments (Continued)

3.1 Insurance and reinsurance contracts (Continued)

(b) Liability for incurred claims (Continued)

(i) Insurance claims risk assumptions (Continued)

The determination of the amounts that the Company will ultimately pay for claims arising under insurance contracts involves a number of key assumptions. Some of the uncertainties impacting these assumptions are as follows:

- Changes in patterns of claims incidence, reporting and payment;
- Volatility in the estimation of future costs for long tail insurance classes due to the longer period of time that elapses before a definitive determination of the ultimate claims cost can be made;
- Changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- Social and economic trends, for example price and wage inflation and interest rates.

For further details of these key assumptions used and the impact of the changes to these assumptions, see Note 4.

(ii) Central estimates

Central estimates for each class of business are determined by reference to a variety of estimation techniques, generally based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected claims estimates are based on a judgmental consideration of the results of each method and qualitative information, for example, the line of business, the maturity of the portfolio and the anticipated tail of the class. Projections are based on both historical experience and the use of external benchmarks where relevant. Central estimates are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from reinsurers based on the gross outstanding claims provision.

3.2 Risk adjustment for non-financial risk

The risk adjustment is firstly determined by the QBE Group (refer to the Management in holding company) Board and represents the compensation QBE Group requires for bearing the uncertainty in the net discounted estimate of future cash flows within the insurance contract liabilities. The determination of the appropriate level of risk adjustment takes into account:

- The level of economic capital that QBE Group allocates to support the net discounted cash flows and the weighted average cost of servicing;
- The run-off profile and term to settlement of the net discounted cash flows;
- Mix of business, in particular the mix of short-tail and long-tail business;
- The benefit of diversification between classes of business and geographic locations; and
- The level of uncertainty in the cash flow estimates due to estimation error, data quality, variability of key inflation assumptions, and possible economic and legislative changes.

The uncertainty by class of business is measured using techniques that determine a range of possible outcomes of ultimate payments and assign a likelihood to outcomes at different levels. These techniques generally use standard statistical distributions, and the measure of variability is referred to as the coefficient of variation.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgments (Continued)

3.2 Risk adjustment for non-financial risk (Continued)

The allocation of risk adjustment to the Company is based on the standard deviation relative to the mean central estimate where the mean represents the expected future cash flows for both the liability for remaining coverage and incurred claims. The standard deviation is used as a measure of uncertainty to allocate the total risk adjustment to classes of business across the Company.

The risk adjustment recognised in the liability for incurred claims (net of reinsurance contract held) corresponds to a confidence level of 75.6% (2024: 76.9%).

3.3 Discount rates

A bottom-up approach is applied to determine the discount rates used to discount the expected future cash flows, which uses risk-free rates plus an illiquidity premium to reflect the liquidity characteristics of the contracts. The illiquidity premium within discount rates is derived based on the long-term weighted average credit spread of a reference portfolio of assets with a similar currency mix and weighted average duration as the related insurance contract liabilities over the longer term with reference to Moody's Analytics study. The effect of credit risk and other factors that are not relevant to the illiquidity characteristics of insurance contracts is eliminated to estimate the portion of the spread that reflects the illiquidity premium.

The following yield curves were used to discount the estimates of future cash flows:

	2025	2024
1 year	2.6%	4.0%
5 years	2.9%	3.8%
10 years	3.4%	4.1%

3.4 Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. The amounts recognised in the financial statements in respect of each matter are derived from the Company's best estimation and judgment as described above. Recognition therefore involves judgment regarding the future financial performance of the Company in which the deferred tax asset has been recognised. For further detail of the estimate, see Note 8.

The deferred tax assets include an amount of HK\$40,908,000 (2024: HK\$41,811,000) which relates to carried-forward tax losses of the Company. The Company has incurred losses over the past years as a consequence of writing various unprofitable large construction employee compensation contracts. The Company has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the Company. The losses can be carried forward indefinitely and have no expiry date.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgments (Continued)

3.5 Intangible assets

The Company periodically develops its own computer software that is used in the operations of the insurance business. As at 31 December 2025, the carrying amount of this software was HK\$19,465,000 (2024: HK\$19,405,000). The Company estimates the useful life of the software to be three to five years based on the expected technical obsolescence of such assets. However, the actual useful life may be shorter or longer than five years, depending on technical innovations and competitor actions. If it were only three years, the carrying amount would be HK\$19,458,000 as at 31 December 2025. If the useful life were estimated to be eight years, the carrying amount would be HK\$47,400,000.

The Company entered into exclusive distribution agreements ("EDA") with an insurance company and financial institution for the distribution of the general insurance projects in 2016 and 2025. The carrying amount of the EDA was HK\$32,401,000 (2024: HK\$7,056,000). The Company estimates the useful life of the EDA to be seven to ten years and amortised based on the straight-line basis or follow the contract period's projected premium from an insurance company and financial institution. The remaining amortisation period of the EDA is 0.5 years to 6.5 years.

For the purpose of impairment testing of the exclusive distribution rights intangible assets, each respective rights are determined to be an individual asset. The asset is tested for impairment by comparing the carrying amount of the individual asset, to the recoverable amount of that individual asset. The recoverable amount is the higher of the asset's fair value less costs of disposal and value in use. The value in use calculation requires the Company to estimate the future cash flows arising from the individual asset and a suitable discount rate in order to calculate the present value. The management considered there is no impairment indicators existed for intangible assets as at 31 December 2025. No impairment loss was recognised for 2025 (2024: nil).

4 Insurance contracts - risk management policies and procedures

The Company's risk management objectives are to:

- Avoid unwelcome surprises by reducing uncertainty and volatility;
- Achieve competitive advantage by better understanding the risk environment in which a Company operates; and
- Optimise risk and more effectively allocate capital and resources by assessing the balance of risk and reward.

A fundamental part of the Company's overall risk strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts. These risks include insurance risks, financial risks and other risks, such as regulatory and capital risks.

4.1 Insurance risk

The Company has established protocols to manage its insurance risks across the underwriting, claims and actuarial disciplines. One of the cornerstones of the Company's risk management philosophy is the recruitment and retention of high-quality people who are entrusted with appropriate levels of responsibility within the parameters of disciplined risk management practices. The Company operates a system of delegated authorities across a number of areas including underwriting, reinsurance, claims management and investments. These are delegated based on expertise and proven performance, and compliance is closely monitored.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Insurance contracts - risk management policies and procedures (Continued)

4.1 Insurance risk (Continued)

(a) Underwriting risks

Selection and pricing risks

Selection and pricing risks is the risk that the total cash outflow exceed the cash inflow over the lifetime of a contract because of the aggressive pricing strategy.

Underwriting authority is delegated to experienced underwriters for the forthcoming year following an annual review of each underwriter's performance and capabilities. Delegated authorities reflect the level of risk which the Company is prepared to take, and are measured by reference to some combination of:

- Gross written premium;
- Premium per contract;
- Sum insured per contract;
- Aggregate exposures;
- Probable maximum loss;
- Levels and quality of reinsurance protection;
- Geographic exposures; and/or
- Classes of business or types of product that may be written.

Limits in respect of each of the above are set at a Company level and are included within business plans for individual classes of business. They are adjusted for each business class to reflect a risk factor in respect of each business class depending on previous underwriting result, the political environment and other potential drivers of volatility.

Insurance and reinsurance policies are written in accordance with the Company's risk tolerance and underwriting protocols. Non-standard policies may only be written if expressly included in delegated authorities.

Pricing of risks is controlled by use of in-house pricing models relevant to the specific markets in which the Company operates. Experienced underwriters and actuaries maintain detailed analysis of historical pricing and claims analysis by portfolio and this is combined with a detailed knowledge of the current developments in their respective markets.

The nature of the Company's exposure to the selection and pricing risk and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Insurance contracts - risk management policies and procedures (Continued)

4.1 Insurance risk (Continued)

(a) Underwriting risks (Continued)

Concentration risk

The Company mainly offers insurance contracts to the Hong Kong market and the directors believe that over 90% (2024: over 90%) of insurance risk with reference to the carrying amount of the insurance liabilities arising from insurance contracts is in Hong Kong. The Company's exposure to concentrations of insurance risk is mitigated by setting a location accumulation limit. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of businesses. A combination of core and specialty products under the control of proven employees skilled in such products allows the Company to lead underwrite in the markets in which it operates. The Company has potential exposure to catastrophe losses that may impact more than one class of business. This exposure is monitored by reference to the Company's maximum event retention ("MER") which is the estimated net loss from major natural catastrophes that are probable to occur once in every 200 years for simulation purposes. Realistic disaster scenarios ("RDSs"), industry standard probable maximum losses and various models (for example RMS and Catrader) are used to assess potential losses to major catastrophe events for determining the MER.

The following table provides an analysis of insurance risk by insurance revenue of business classes as representing the best available measure of risk exposure.

Insurance revenue	2025 HK\$'000	2024 HK\$'000
Motor Vehicle		
General liability	222,742	239,329
Others	552,302	525,489
	524,938	527,555
	<u>1,299,982</u>	<u>1,292,373</u>

The nature of the Company's exposure to the concentration risk and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

Reinsurance risk

Reinsurance risk is the risk that the recovery amount from reinsurer cannot be received, and the ineffective reinsurance strategy make the Company cannot benefit or minimise its risk from the arrangement.

The Company's strategy in respect of the selection, approval and monitoring of reinsurance arrangements is addressed by the following protocols:

- Placement of appropriate treaty or facultative reinsurance is governed by the Company's reinsurance management strategy and the Company's security committee guidelines.
- Reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historic losses and potential future losses based on RDSs.

Details of credit risk in respect of reinsurance contract assets are set out in Note 5.2.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Insurance contracts - risk management policies and procedures (Continued)

4.1 Insurance risk (Continued)

(a) Underwriting risks (Continued)

The nature of the Company's exposure to the reinsurance risk and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

(b) Claims management and claims provisioning risks

Claims management and claims provisioning risk is the risk that the Company is not aware of the claims incurred and settle the claims payment to the insured or related third parties in a timely manner.

The Company's approach to claims provisioning, and the related sensitivities, are provided in the foregoing passage. The Company seeks to ensure the adequacy of its claims provisions by reference to the following controls:

- Experienced claims managers work with underwriters on coverage issues and operate within the levels of authority delegated to them in respect of the settlement of claims.
- Processes exist to ensure that all claims notifications are captured and updated on a timely basis and with a realistic assessment of the ultimate claims cost.
- Initial IBNR estimates are set by experienced internal actuaries in conjunction with the local product managers and underwriters for each class of business in each business unit.
- The aggregate outstanding claims provision for the Company is assessed in a series of claims provisioning meetings.

Despite the rigour involved in the establishment and review of claims provisions, these provisions are subjected to significant uncertainty for the reasons below.

Claims on casualty contracts are payable on a claims-occurrence basis. The Company 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, liability claims are settled over a long period of time, and a larger element of the claims provision relates to 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 compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer's liability covers) or members of the public (for public liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Insurance contracts - risk management policies and procedures (Continued)

4.1 Insurance risk (Continued)

(b) Claims management and claims provisioning risks (Continued)

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company 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 arising for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period. The amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Casualty contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period.

In calculating the estimated cost of unpaid claims (both reported and not), the Company's estimation techniques are a combination of loss-ratio-estimates (where the loss ratio is defined as ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience using predetermined formula where greater weight is given to actual claims experience as time passes.

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 Company, 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. For casualty contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty in estimating these liabilities.

In estimating the liability for the cost of reported claims, the Company 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 Company 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 9 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 Company's estimation technique for claims payments.

(i) Assumptions

The principal assumption underlying the ultimate liabilities estimates is the Company's past claims development experience including patterns of claims incidence, reporting and payment. This includes assumptions in respect of inflation rate and net ultimate loss, taking into account all relevant factors including average claims cost, claims handling costs, claims inflation factors and claim numbers for each accident year. Judgment is applied to assess the extent to which external factors such as judicial decision and government legislation affect the estimates.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Insurance contracts - risk management policies and procedures (Continued)

4.1 Insurance risk (Continued)

(b) Claims management and claims provisioning risks (Continued)

(ii) Sensitivities

The impact of changes in key variables used in the calculation of the net insurance contract liabilities is summarised in the table below, and is shown gross and net of reinsurance held. Each change has been calculated in isolation from the other changes and shows the after-tax impact on profit or loss assuming that there is no change to any of the other variables. In practice, this is considered unlikely to occur as, for example, an increase in interest rates is normally associated with an increase in the rate of inflation. Over the medium to longer term, the impact of a change in discount rates is expected to be, at least partly, offset by the impact of a change in the rate of inflation.

The sensitivities below assume that all changes directly impact profit after tax. In practice, if the present value of future cash flows was to increase, it is possible that part of the increase may result in an offsetting change in the level of risk adjustment required rather than in a change to profit or loss after tax, depending on the nature of the change in the cash flow estimate and risk outlook.

Variable	Movement in variable	Impact on profit / (loss) before tax gross of reinsurance HK\$ million	Impact on profit / (loss) before tax net of reinsurance HK\$ million	Impact on equity gross of reinsurance HK\$ million	Impact on equity net of reinsurance HK\$ million
2025					
Present value of future cash flows	+5%	(111.4)	(99.0)	(93.0)	(82.7)
	-5%	111.4	99.0	93.0	82.7
Inflation rate	+1%	(31.9)	(28.7)	(26.6)	(24.0)
	-1%	31.5	28.2	26.3	23.5
Discount rate	+1%	29.5	26.4	24.6	22.0
	-1%	(30.5)	(27.3)	(25.5)	(22.8)
Risk adjustment	+5%	(9.2)	(8.3)	(7.7)	(6.9)
	-5%	9.2	8.3	7.7	6.9
Weighted average term to settlement	+10%	8.3	7.4	6.9	6.2
	-10%	(8.3)	(7.4)	(6.9)	(6.2)
2024					
Present value of future cash flows	+5%	(112.6)	(99.1)	(94.0)	(82.7)
	-5%	112.6	99.1	94.0	82.7
Inflation rate	+1%	(32.0)	(28.5)	(26.7)	(23.8)
	-1%	31.5	28.1	26.3	23.5
Discount rate	+1%	29.0	25.8	24.2	21.5
	-1%	(30.0)	(26.7)	(25.1)	(22.3)
Risk adjustment	+5%	(9.8)	(8.8)	(8.2)	(7.3)
	-5%	9.8	8.8	8.2	7.3
Weighted average term to settlement	+10%	11.5	10.2	9.6	8.5
	-10%	(11.4)	(10.2)	(9.5)	(8.5)

Determined at the Company level net of taxation at the prima facie rate of 16.5% (2024: 16.5%).

The impact of reasonably possible changes in interest rates on interest-bearing financial assets owned by the Company at the balance date is shown in Note 5.1(b).

NOTES TO THE FINANCIAL STATEMENTS

5 Financial risk management

The Company is exposed to financial risk through its financial assets, reinsurance contracts assets and insurance contracts liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risks are market risk (including currency risk and interest rate risk), credit risk and liquidity risk. These risks arise from open positions in interest rates and currency, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments are interest rate risk and credit risk.

The key objectives of the Company's asset and liability management strategy are to ensure sufficient liquidity is maintained at all times to meet the Company's obligations, including its settlement of insurance provisions, and, within these parameters, to optimise investment returns for shareholders.

5.1 Market risk

(a) Currency risk

The Company is exposed to foreign currency risk in respect of its net foreign currency exposures. The volatility arising from changes in foreign exchange rates are generally managed by matching liabilities with assets of the same currency thus ensuring that any exposures to overseas currencies are minimised. The insurance and other liabilities of the Company primarily in Hong Kong Dollars are matched by assets in Hong Kong Dollars and US Dollars, the former being pegged to the latter thus reducing currency risk. The nature of the Company's exposure to the currency risk and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

There is no significant impact on profit after tax and equity of a movement in foreign currency exchange rates against the Hong Kong Dollar on our major currency exposures using the residual operational foreign currency exposures at Company level at the reporting date of 31 December 2025 and 2024 respectively.

The Company assumes that the Linked Exchange Rate System maintained by the Hong Kong Monetary Authority remains in place and the Convertibility Zone between 7.75 and 7.85 (2024: 7.75 and 7.85) is effective.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. Financial risk management (Continued)

5.1 Market risk (Continued)

(a) Currency risk (Continued)

The tables below summarise the Company's exposure to foreign currency exchange rate risk at 31 December 2025. The Company's financial assets, insurance and reinsurance assets and liabilities are included in the table below, categorised by currency at their carrying amount.

As at 31 December 2025	Currency HK\$ HK\$'000	Currency US\$ HK\$'000	Currency MOP HK\$'000	Total HK\$'000
Reinsurance contract assets (Note 9)	192,693	-	10,826	203,519
Financial assets (Note 10)				
- Debt securities at fair value through profit or loss	1,615,989	131,127	-	1,747,116
- Term deposits	100,454	1,466,365	-	1,566,819
Other receivables (Note 11)	291,293	43,560	682	335,535
Cash and cash equivalents (Note 12)	180,302	38,264	125,488	344,054
	<u>2,380,731</u>	<u>1,679,316</u>	<u>136,996</u>	<u>4,197,043</u>
Insurance contract liabilities (Note 9.1)	2,487,362	-	51,116	2,538,478
Lease liabilities (Note 14)	53,268	-	1,076	54,344
Other payables (Note 15)	386,059	-	5,006	391,065
	<u>2,926,689</u>	<u>-</u>	<u>57,198</u>	<u>2,983,887</u>
As at 31 December 2024	Currency HK\$ HK\$'000	Currency US\$ HK\$'000	Currency MOP HK\$'000	Total HK\$'000
Reinsurance contract assets (Note 9)	240,794	-	23,113	263,907
Financial assets (Note 10)				
- Debt securities at fair value through profit or loss	827,525	-	-	827,525
- Term deposits	883,361	1,530,131	-	2,413,492
Other receivables (Note 11)	17,712	38,457	812	56,981
Cash and cash equivalents (Note 12)	104,646	20,678	118,101	243,425
	<u>2,074,038</u>	<u>1,589,266</u>	<u>142,026</u>	<u>3,805,330</u>
Insurance contract liabilities (Note 9.1)	2,522,558	-	48,974	2,571,532
Lease liabilities (Note 14)	62,768	-	187	62,955
Other payables (Note 15)	50,061	-	5,038	55,099
	<u>2,635,387</u>	<u>-</u>	<u>54,199</u>	<u>2,689,586</u>

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.1 Market risk (Continued)

(b) Interest rate risk

The Company is exposed to interest rate risk through its holdings in interest-bearing assets. Financial instruments with a floating interest rate expose the Company to cash flow interest rate risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk.

The Company's investment strategy, which is approved by the Board, is to invest in high quality, liquid fixed interest securities and cash with a focus on duration to ensure that the exposure to interest rate risk is minimised. The Company's exposure to interest rate risk is managed through adjustments to existing investment portfolios.

The estimates of future cash flows in the net insurance contract liabilities are discounted to present value by reference to risk-free interest rates adjusted to reflect an illiquidity premium. The Company is therefore exposed to potential underwriting result volatility as a result of interest rate movements. In practice, over the longer term, an increase or decrease in interest rates is normally offset by a corresponding increase or decrease in inflation. Information relating to this sensitivity is provided in Note 4.1(b)(ii).

The nature of the Company's exposure to the interest rate risk and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

The Company's exposure to cash flow and fair value interest rate risks and the effective weighted average interest rate at the end of the reporting date for each significant class of interest-bearing financial assets are provided below:

	Floating interest rate	1 year or less	1 - 2 years	Over 2 years	Non- interest bearing	Total
As at 31 December 2025	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<u>Net interest-bearing financial assets</u>						
Debt securities at fair value through profit or loss (Note 10)	-	465,155	815,087	466,874	-	1,747,116
Term deposits (Note 10)	-	1,566,819	-	-	-	1,566,819
Cash and cash equivalents (Note 12)	344,054	-	-	-	-	344,054
Weighted average interest rate	0.00%	3.70%	2.44%	2.64%	0.00%	2.94%

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.1 Market risk (Continued)

(b) Interest rate risk (Continued)

	Floating interest rate	1 year or less	1 - 2 years	Over 2 years	Non- interest bearing	Total
As at 31 December 2024	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<u>Net interest-bearing financial assets</u>						
Debt securities at fair value through profit or loss (Note 10)	-	-	371,428	456,097	-	827,525
Term deposits (Note 10)	-	2,413,492	-	-	-	2,413,492
Cash and cash equivalents (Note 12)	243,425	-	-	-	-	243,425
Weighted average interest rate	0.00%	4.48%	3.52%	3.38%	-	3.92%

The Company's sensitivity to movements in interest rates in relation to the value of fixed interest securities is shown in the table below.

Financial impact on the sensitivity analysis of investment					
	Movement in variable % point(s)	Profit / (loss) 2025 HK\$'000	Value of securities 2025 HK\$'000	Profit / (loss) 2024 HK\$'000	Value of securities 2024 HK\$'000
Interest rate movement of fixed interest securities	0.5	(12,081)	(12,081)	(8,112)	(8,112)
	(0.5)	12,081	12,081	8,112	8,112

(1) No impact of effective tax rate is accounted for as there is no tax against capital appreciation or depreciation.

(2) Method used in preparing the sensitivity analysis:

After tax financial impact = value of fixed interest securities x (Modified duration x yield).

Where modified duration is expressed in number of years and yield is expressed in percentage (i.e. 1% = 0.01).

(3) Assumption made in preparing the sensitivity analysis:

Modified duration which is an extension of Macaulay duration and is a useful measure of the sensitivity of a bond's price (the present value of its cash flows) to interest rate movements. Modified duration follows the concept that interest rates and bond prices move in opposite directions.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.2 Credit risk

Credit risk is the risk that one party to a financial instrument, insurance contracts issued in an asset position or reinsurance contracts held will cause a financial loss for the other party by failing to discharge an obligation.

Net exposure limits are set for each counterparty or group of counterparties in relation to investments, cash deposits and forward foreign exchange exposures. The policy also sets out minimum credit ratings for investments that may be held. Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with each counterparty.

To manage credit risk, the Company transacts with counterparties under strict guidelines covering the limits and terms and does not expect such counterparties of strong credit rating to fail to meet its obligations.

Term deposits is subject to the expected credit loss model and are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected credit losses. Management consider "low credit risk" for counter parties to be an investment grade credit rating with at least one major rating agency.

Credit risk in respect of insurance contracts issued in an asset position or reinsurance contracts held is actively monitored. Strict controls are maintained over counterparty exposures. Business is transacted with counterparties that have a strong credit rating and concentration of risk is avoided by adherence to counterparty limits that are set each year by management and which are reviewed by management on a regular basis. The allowance for impairment is formally assessed by management at least four times a year.

The nature of the Company's exposure to credit risk and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

As at 31 December 2025	AA HK\$'000	A HK\$'000	BBB HK\$'000	Unrated HK\$'000	Total HK\$'000
Debt securities at fair value through profit or loss (Note 10)	1,747,116	-	-	-	1,747,116
Term deposits (Note 10)	790,514	776,305	-	-	1,566,819
Other receivables (Note 11)	22,996	310,561	-	1,978	335,535
Cash and cash equivalents (Note 12)	178,887	165,167	-	-	344,054
Reinsurance contract assets (Note 9)	16,392	17,473	200	18,603	52,668
Total	2,755,905	1,269,506	200	20,581	4,046,192

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.2 Credit risk (Continued)

As at 31 December 2024	AA HK\$'000	A HK\$'000	BBB HK\$'000	Unrated HK\$'000	Total HK\$'000
Debt securities at fair value through profit or loss (Note 10)	827,525	-	-	-	827,525
Term deposits (Note 10)	1,685,489	728,003	-	-	2,413,492
Other receivables (Note 11)	48,747	1,931	-	6,303	56,981
Cash and cash equivalents (Note 12)	73,488	169,937	-	-	243,425
Reinsurance contract assets (Note 9)	26,299	37,130	297	8,467	72,193
Total	2,661,548	937,001	297	14,770	3,613,616

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposure.

5.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with insurance contract liabilities that are settled by delivering cash or another financial asset. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

The Company limits the risk of liquidity shortfalls resulting from a mismatch in the timing of claims payments and receipt of claims recoveries by negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large claims.

In addition to treasury cash held for working capital requirements, and in accordance with the Company's liquidity policy, a minimum percentage of total investments and cash is held in liquid, short term money market securities to ensure that there are sufficient liquid funds available to meet insurance and investment obligations. The Company has a strong liquidity position. These have a mean duration of less than twelve months.

The nature of the Company's exposure to liquidity risk and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.3 Liquidity risk (Continued)

(a) Maturity profiles

(i) Maturity analysis for insurance contract liabilities (present value of future cash flows basis)

The following table summarises the maturity profile of portfolios of insurance contracts issued that are liabilities and portfolios of reinsurance contracts held that are liabilities of the Company based on the estimates of the present value of the future cash flows expected to be paid out in the periods presented.

Reporting date	1 year or less HK\$'000	1 to 3 years HK\$'000	3 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
As at 31 December 2025	1,092,408	778,683	212,861	39,783	2,123,735
As at 31 December 2024	1,081,881	828,738	208,567	32,344	2,151,530

There were no amounts payable on demand at the balance date (2024: nil).

(ii) Maturity analysis for financial assets (contractual undiscounted cash flow basis)

The following table summarises the maturity profile of financial assets of the Company based on remaining undiscounted contractual cash flows, including interest receivable:

As at 31 December 2025	1 year or less HK\$'000	1 to 3 years HK\$'000	3 to 5 years HK\$'000	Over 5 years HK\$'000	No stated maturity HK\$'000	Total HK\$'000
Debt securities at fair value through profit or loss (Note 10)	465,155	815,087	466,874	-	-	1,747,116
Term deposits (Note 10)	1,566,819	-	-	-	-	1,566,819
Other Receivables (Note 11)	330,056	75	3,457	-	1,947	335,535
Cash and cash equivalents (Note 12)	-	-	-	-	344,054	344,054
Total	2,362,030	815,162	470,331	-	346,001	3,993,524

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.3 Liquidity risk (Continued)

(a) Maturity profiles (Continued)

(ii) Maturity analysis for financial assets (contractual undiscounted cash flow basis) (Continued)

As at 31 December 2024	1 year or less HK\$'000	1 to 3 years HK\$'000	3 to 5 years HK\$'000	Over 5 years HK\$'000	No stated maturity HK\$'000	Total HK\$'000
Debt securities at fair value through profit or loss (Note 10)	-	371,428	456,097	-	-	827,525
Term deposits (Note 10)	2,413,492	-	-	-	-	2,413,492
Other Receivables (Note 11)	51,331	-	4,050	-	1,600	56,981
Cash and cash equivalents (Note 12)	-	-	-	-	243,425	243,425
Total	2,464,823	371,428	460,147	-	245,025	3,541,423

(iii) Maturity analysis for financial liabilities (contractual undiscounted cash flow basis)

The following tables indicate the contractual timing of cash flow arising from financial liabilities based on the remaining undiscounted contractual obligations.

As at 31 December 2025	1 year or less HK\$'000	1 to 3 years HK\$'000	3 to 5 years HK\$'000	Over 5 years HK\$'000	No stated maturity HK\$'000	Total HK\$'000
Lease liabilities (Note 14)	12,120	24,001	23,341	-	-	59,462
Other payables (Note 15)	362,498	-	-	-	28,567	391,065
Total	374,618	24,001	23,341	-	28,567	450,527

As at 31 December 2024	1 year or less HK\$'000	1 to 3 years HK\$'000	3 to 5 years HK\$'000	Over 5 years HK\$'000	No stated maturity HK\$'000	Total HK\$'000
Lease liabilities (Note 14)	9,855	20,048	21,617	11,435	-	62,955
Other payables (Note 15)	24,169	-	-	-	30,930	55,099
Total	34,024	20,048	21,617	11,435	30,930	118,054

The Company has no significant concentration of liquidity risk for the year ended 31 December 2025 and 2024 respectively.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.4 Capital management

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Company does not have a defined share buy-back plan. There were no changes in the Company's approach to capital management during the year. The Company is subject to externally imposed capital requirements under Risk-based Capital Regime effective from 1 July 2024.

Pursuant to Chapter 41 of Hong Kong Insurance Ordinance ("IO"), the Company must ensure at all times that its capital base is not less than each of:

- the Prescribed Capital Amount ("PCA") of the insurer as determined in accordance with Part 5 of the Insurance (Valuation and Capital) Rules (Cap. 41R);
- the Minimum Capital Amount ("MCA") of the insurer, being 50% of the PCA; and
- HK\$20 million

For the year ended 31 December 2025 and 2024, the Company complied with the capital requirements as set out by the relevant authorities in Hong Kong.

As at 31 December 2025, the Company maintained capital base not less than HK\$ 20 million and PCA and MCA ratio not less than 200%, which comply with the IO's requirement described above.

5.5 Fair value hierarchy

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The Company is not exposed to price risk because as at 31 December 2025, the Company had no investment in equities (2024: Nil).

The fair value of financial instruments traded in active markets is based on quoted market prices at each reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

All debt securities held by the Company meet the qualification of and are included in level 1.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Financial risk management (Continued)

5.5 Fair value hierarchy (Continued)

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

2025				
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
- Hong Kong government bonds	1,410,590	-	-	1,410,590
- Corporate bonds	131,127	-	-	131,127
- Hong Kong Treasury bills	205,399	-	-	205,399
	<u>1,747,116</u>	<u>-</u>	<u>-</u>	<u>1,747,116</u>
2024				
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
- Hong Kong government bonds	827,525	-	-	827,525
	<u>827,525</u>	<u>-</u>	<u>-</u>	<u>827,525</u>

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6 Property and equipment

	Right-of-use assets: Building HK\$'000	Leasehold improvements HK\$'000	Office equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost						
At 1 January 2024	102,818	19,750	16,865	3,919	884	144,236
Additions	41,044	1,147	358	-	-	42,549
Disposals	(525)	-	(2,474)	(697)	-	(3,696)
At 31 December 2024	<u>143,337</u>	<u>20,897</u>	<u>14,749</u>	<u>3,222</u>	<u>884</u>	<u>183,089</u>
At 1 January 2025	143,337	20,897	14,749	3,222	884	183,089
Additions	1,318	106	764	-	-	2,188
Disposals	-	-	(8,995)	-	-	(8,995)
At 31 December 2025	<u>144,655</u>	<u>21,003</u>	<u>6,518</u>	<u>3,222</u>	<u>884</u>	<u>176,282</u>
Accumulated depreciation						
At 1 January 2024	(71,034)	(17,218)	(14,617)	(3,856)	(177)	(106,902)
Disposal	525	-	2,210	697	-	3,432
Depreciation charge	(12,173)	(1,015)	(1,008)	(19)	(177)	(14,392)
At 31 December 2024	<u>(82,682)</u>	<u>(18,233)</u>	<u>(13,415)</u>	<u>(3,178)</u>	<u>(354)</u>	<u>(117,862)</u>
At 1 January 2025	(82,682)	(18,233)	(13,415)	(3,178)	(354)	(117,862)
Disposal	-	-	8,995	-	-	8,995
Depreciation charge	(10,513)	(1,128)	(904)	(17)	(177)	(12,739)
At 31 December 2025	<u>(93,195)</u>	<u>(19,361)</u>	<u>(5,324)</u>	<u>(3,195)</u>	<u>(531)</u>	<u>(121,606)</u>
Net book value						
At 31 December 2024	<u>60,655</u>	<u>2,664</u>	<u>1,334</u>	<u>44</u>	<u>530</u>	<u>65,227</u>
At 31 December 2025	<u>51,460</u>	<u>1,642</u>	<u>1,194</u>	<u>27</u>	<u>353</u>	<u>54,676</u>

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7 Intangible assets

	Computer software HK\$	Other intangible assets HK\$	Total HK\$
Cost			
At 1 January 2024	263,344	64,703	328,047
Additions	9,995	-	9,995
At 31 December 2024	273,339	64,703	338,042
Additions	14,183	30,000	44,183
Disposals	(1,437)	-	(1,437)
At 31 December 2025	286,085	94,703	380,788
Accumulated amortisation			
At 1 January 2024	(218,720)	(30,095)	(248,815)
Amortisation charge	(11,508)	(4,457)	(15,965)
At 31 December 2024	(230,228)	(34,552)	(264,780)
Amortisation charge	(12,764)	(4,655)	(17,419)
Disposals	78	-	78
At 31 December 2025	(242,914)	(39,207)	(282,121)
Accumulated impairment loss			
At 1 January 2024	(23,706)	(23,095)	(46,801)
Impairment loss	-	-	-
At 31 December 2024	(23,706)	(23,095)	(46,801)
Impairment loss	-	-	-
At 31 December 2025	(23,706)	(23,095)	(46,801)
Net book value			
At 31 December 2024	19,405	7,056	26,461
At 31 December 2025	19,465	32,401	51,866

The Company holds intangible assets for its long-term use and the annual amortisation charge of HK\$ 10,633,000 (2024: HK\$10,779,000) approximates the amount that is expected to be recovered through consumption within 12 months after the end of reporting period. Amortisation charges on computer software are included in insurance service expenses and amortisation charges on exclusive distribution rights under other intangible assets are included in amortisation of distribution rights and insurance service expense in the statement of profit or loss and other comprehensive income.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8 Taxation

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and against current tax liabilities and where the deferred income taxes relate to the same taxation authority. The deferred tax assets of HK\$44,074,000 are expected to be recovered after 12 months (2024: HK\$44,074,000). Deferred income tax assets are recognised for tax loss carry forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The losses can be carried forward indefinitely and have no expiry date.

In accordance with the accounting policy set out in Note 2.5, the Company standalone has not recognised deferred tax assets of HK\$68,516,000 (2024: HK\$82,358,000) in respect of tax losses of HK\$415,248,000 (2024: HK\$499,139,000) as it is not probable that future taxable profits will be available against which the unused tax losses can be utilised. The tax losses do not expire under current tax legislation in Hong Kong.

The Company standalone has concluded that the recognised deferred tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets. The losses can be carried forward indefinitely and have no expiry date.

The movement in the deferred tax assets account is as follows:

	2025 HK\$'000	2024 HK\$'000
At 1st January	44,074	44,074
Credited to statement of profit or loss and other comprehensive income	-	-
At 31st December	44,074	44,074

The movement in deferred tax assets during the year is as follows:

Deferred tax assets	Accelerated tax depreciation HK\$'000	Share-based compensation HK\$'000	Provision HK\$'000	Tax loss HK\$'000	Total HK\$'000
At 1 January 2024	(1,806)	590	2,777	42,513	44,074
Credited / (charged) to statement of profit or loss and other comprehensive income	(131)	178	655	(702)	-
At 31 December 2024	(1,937)	768	3,432	41,811	44,074
At 1 January 2025	(1,937)	768	3,432	41,811	44,074
Credited / (charged) to statement of profit or loss and other comprehensive income	211	408	284	(903)	-
At 31 December 2025	(1,726)	1,176	3,716	40,908	44,074

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NOTES TO THE FINANCIAL STATEMENTS

8 Taxation (Continued)

The movement in deferred tax liabilities during the year is as follows:

	Accelerated tax depreciation HK\$'000
Deferred tax liabilities	
At 1 January 2024	(172)
Charged to statement of profit or loss and other comprehensive income	172
At 31 December 2024	-
At 1 January 2025	-
Charged to statement of profit or loss and other comprehensive income	-
At 31 December 2025	-

Current tax liabilities

	2025 HK\$'000	2024 HK\$'000
Provision for Hong Kong Pillar Two income tax for the current year	4,781	-
Current tax liabilities for Hong Kong	4,781	-
Provision for overseas tax for the year	-	85
Current tax liabilities for overseas	-	85

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 Insurance and reinsurance contract assets and liabilities

The breakdown of groups of insurance and reinsurance contracts issued, and reinsurance contracts held, that are in an asset position and those in a liability position is set out in the table below:

	2025			2024		
	Assets HK\$'000	Liabilities HK\$'000	Net HK\$'000	Assets HK\$'000	Liabilities HK\$'000	Net HK\$'000
Motor Vehicle	-	473,179	473,179	-	571,977	571,977
General Liability	-	1,283,495	1,283,495	-	1,347,851	1,347,851
Others	-	781,804	781,804	-	651,704	651,704
Total insurance contracts issued	-	2,538,478	2,538,478	-	2,571,532	2,571,532
Reinsurance contracts held	203,519	-	203,519	263,907	-	263,907
Total reinsurance contract held	203,519	-	203,519	263,907	-	263,907

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 Insurance and reinsurance contract assets and liabilities (Continued)

9.1 Insurance contract liabilities

(a) Roll-forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims

The table below analyses the movement in the net insurance contract liabilities, showing separately the liabilities remaining coverage and liabilities for incurred claim by line of business with material net liabilities:

Motor Vehicle

	2025				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Exclude loss component HK\$'000	Loss component HK\$'000	Estimates of the present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Total HK\$'000
Net insurance contract liabilities at 1 January 2025	88,079	179	435,496	48,223	571,977
Insurance revenue	(222,742)	-	-	-	(222,742)
Insurance services expenses	75,952	(60)	127,349	(11,269)	191,972
Incurred claims and other expenses	-	-	151,784	10,338	162,122
Insurance acquisition cash flows (i)	75,952	-	-	-	75,952
Change that related to past service	-	-	(24,435)	(21,607)	(46,042)
Losses on onerous contracts and reversals of those losses	-	(60)	-	-	(60)
Insurance service result	(146,790)	(60)	127,349	(11,269)	(30,770)
Insurance finance expense (ii)	-	-	12,614	1,302	13,916
Total changes in the statement of profit or loss and other comprehensive income	(146,790)	(60)	139,963	(9,967)	(16,854)
Cash flows					
Premium received (iii)	171,176	-	-	-	171,176
Claims and expenses paid	-	-	(178,652)	-	(178,652)
Acquisition costs paid	(74,468)	-	-	-	(74,468)
Total cash flows	96,708	-	(178,652)	-	(81,944)
Net insurance contract liabilities at 31 December 2025	37,997	119	396,807	38,256	473,179

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 Insurance and reinsurance contract assets and liabilities (Continued)

9.1 Insurance contract liabilities (Continued)

(a) Roll-forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims (Continued)

Motor Vehicle

	2024				
	Liabilities for remaining coverage	Liabilities for incurred claims			
	Exclude loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net insurance contract liabilities at 1 January 2024	39,383	1,221	486,815	55,906	583,325
Insurance revenue	(239,329)	-	-	-	(239,329)
Insurance services expenses	79,289	(1,042)	151,463	(8,873)	220,837
Incurred claims and other expenses	-	(1,042)	166,211	13,044	178,213
Insurance acquisition cash flows (i)	79,289	-	-	-	79,289
Change that related to past services	-	-	(14,748)	(21,917)	(36,665)
Losses on onerous contracts and reversals of those losses	-	-	-	-	-
Insurance service result	(160,040)	(1,042)	151,463	(8,873)	(18,492)
Insurance finance expense (ii)	-	-	9,963	1,190	11,153
Total changes in the statement of profit or loss and other comprehensive income	(160,040)	(1,042)	161,426	(7,683)	(7,339)
Cash flows					
Premium received (iii)	285,124	-	-	-	285,124
Claims and expenses paid	-	-	(212,745)	-	(212,745)
Acquisition costs paid	(76,388)	-	-	-	(76,388)
Total cash flows	208,736	-	(212,745)	-	(4,009)
Net insurance contract liabilities at 31 December 2024	88,079	179	435,496	48,223	571,977

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 Insurance and reinsurance contract assets and liabilities (Continued)

9.1 Insurance contract liabilities (Continued)

(a) Roll-forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims (Continued)

General Liability

	2025				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Exclude loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net insurance contract liabilities at 1 January 2025	159,322	-	1,090,932	97,597	1,347,851
Insurance revenue	(552,302)	-	-	-	(552,302)
Insurance services expenses	165,313	4,041	260,587	(4,738)	425,203
Incurred claims and other expenses	-	-	342,749	21,529	364,278
Insurance acquisition cash flows (i)	165,313	-	-	-	165,313
Change that related to past services	-	-	(82,162)	(26,267)	(108,429)
Losses on onerous contracts and reversals of those losses	-	4,041	-	-	4,041
Insurance service result	(386,989)	4,041	260,587	(4,738)	(127,099)
Insurance finance expense (ii)	-	-	25,950	2,284	28,234
Total changes in the statement of profit or loss and other comprehensive income	(386,989)	4,041	286,537	(2,454)	(98,865)
Cash flows					
Premium received (iii)	467,005	-	-	-	467,005
Claims and expenses paid	-	-	(266,689)	-	(266,689)
Acquisition costs paid	(165,807)	-	-	-	(165,807)
Total cash flows	301,198	-	(266,689)	-	34,509
Net insurance contract liabilities at 31 December 2025	73,531	4,041	1,110,780	95,143	1,283,495

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 Insurance and reinsurance contract assets and liabilities (Continued)

9.1 Insurance contract liabilities (Continued)

(a) Roll-forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims (Continued)

General Liability

	2024				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Exclude loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net insurance contract liabilities at 1 January 2024	78,314	1,305	1,013,091	102,339	1,195,049
Insurance revenue	(525,489)	-	-	-	(525,489)
Insurance services expenses	151,518	(1,305)	250,746	(6,149)	394,810
Incurred claims and other expenses	-	(1,305)	334,432	21,275	354,402
Insurance acquisition cash flows (i)	151,518	-	-	-	151,518
Change that related to past services	-	-	(83,686)	(27,424)	(111,110)
Losses on onerous contracts and reversals of those losses	-	-	-	-	-
Insurance service result	(373,971)	(1,305)	250,746	(6,149)	(130,679)
Insurance finance expense (ii)	-	-	15,317	1,407	16,724
Total changes in the statement of profit or loss and other comprehensive income	(373,971)	(1,305)	266,063	(4,742)	(113,955)
Cash flows					
Premium received (iii)	612,931	-	-	-	612,931
Claims and expenses paid	-	-	(188,222)	-	(188,222)
Acquisition costs paid	(157,952)	-	-	-	(157,952)
Total cash flows	454,979	-	(188,222)	-	266,757
Net insurance contract liabilities at 31 December 2024	159,322	-	1,090,932	97,597	1,347,851

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 Insurance and reinsurance contract assets and liabilities (Continued)

9.1 Insurance contract liabilities (Continued)

(a) Roll-forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims (Continued)

Others

	2025				
	Liabilities for remaining coverage		Liabilities for incurred claims		
			Estimates of the present		
	Exclude loss component HK\$'000	Loss component HK\$'000	value of future cash flows HK\$'000	Risk adjustment HK\$'000	Total HK\$'000
Net insurance contract liabilities at 1 January 2025	(23,252)	468	625,102	49,386	651,704
Insurance revenue	(524,938)	-	-	-	(524,938)
Insurance services expenses	152,419	(18)	225,280	731	378,412
Incurred claims and other expenses	-	-	339,107	17,789	356,896
Insurance acquisition cash flows (i)	152,419	-	-	-	152,419
Change that related to past services	-	-	(113,827)	(17,058)	(130,885)
Losses on onerous contracts and reversals of those losses	-	(18)	-	-	(18)
Insurance service result	(372,519)	(18)	225,280	731	(146,526)
Insurance finance expense (ii)	-	-	10,327	913	11,240
Total changes in the statement of profit or loss and other comprehensive income	(372,519)	(18)	235,607	1,644	(135,286)
Cash flows					
Premium received (iii)	665,431	-	-	-	665,431
Claims and expenses paid	-	-	(244,561)	-	(244,561)
Acquisition costs paid	(155,484)	-	-	-	(155,484)
Total cash flows	509,947	-	(244,561)	-	265,386
Net insurance contract liabilities at 31 December 2025	114,176	450	616,148	51,030	781,804

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NOTES TO THE FINANCIAL STATEMENTS

9 Insurance and reinsurance contract assets and liabilities (Continued)

9.1 Insurance contract liabilities (Continued)

(a) Roll-forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims (Continued)

Others

	2024				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Exclude loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net insurance contract liabilities at 1 January 2024	112,497	12,921	659,176	51,283	835,877
Insurance revenue	(527,555)	-	-	-	(527,555)
Insurance services expenses	184,594	(12,453)	220,485	(2,651)	389,975
Incurred claims and other expenses	-	(12,453)	323,638	17,249	328,434
Insurance acquisition cash flows (i)	184,594	-	-	-	184,594
Change that related to past services	-	-	(103,153)	(19,900)	(123,053)
Losses on onerous contracts and reversals of those losses	-	-	-	-	-
Insurance service result	(342,961)	(12,453)	220,485	(2,651)	(137,580)
Insurance finance expense (ii)	-	-	8,162	754	8,916
Total changes in the statement of profit or loss and other comprehensive income	(342,961)	(12,453)	228,647	(1,897)	(128,664)
Cash flows					
Premium received (iii)	373,550	-	-	-	373,550
Claims and expenses paid	-	-	(262,721)	-	(262,721)
Acquisition costs paid	(166,338)	-	-	-	(166,338)
Total cash flows	207,212	-	(262,721)	-	(55,509)
Net insurance contract liabilities at 31 December 2024	(23,252)	468	625,102	49,386	651,704

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 Insurance and reinsurance contract assets and liabilities (Continued)

9.1 Insurance contract liabilities (Continued)

(a) Roll-forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims (Continued)

- (i) Insurance acquisition cash flows were allocated on a straight-line basis during the coverage period of the respective group of contracts. Please refer to Note 2.11(e)(iv).
- (ii) The Company has made an accounting policy choice for the product line to not disaggregate insurance finance expense between profit or loss and other comprehensive income. Please refer to Note 2.11(f)(v) for details.
- (iii) Any refunds of premiums have been included in this line.

	2025 HK\$'000	2024 HK\$'000
Insurance contract liabilities		
Current portion	1,373,552	1,369,029
Non-current portion	1,164,926	1,202,503
Total	2,538,478	2,571,532

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 Insurance and reinsurance contract assets and liabilities (Continued)

9.2 Reinsurance contract assets

(a) Roll-forward of net asset or liability for reinsurance contracts held showing the assets for remaining coverage and the amounts recoverable on incurred claims

	2025				
	Assets for remaining coverage		Amount recoverable on		
			incurred claims		
	Exclude loss	Loss-recovery	Estimates of	Risk	Total
	component	component	the present	adjustment	
	HK\$'000	HK\$'000	value of future	HK\$'000	HK\$'000
			cash flows		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net reinsurance contract assets at 1 January 2025	61,724	-	182,174	20,009	263,907
Reinsurance expenses	(157,993)	-	-	-	(157,993)
Reinsurance recoveries	-	-	(17,820)	(2,925)	(20,745)
Recovery of Incurred claims and other expenses	-	-	27,417	2,456	29,873
Changes that relate to past services	-	-	(45,237)	(5,381)	(50,618)
Insurance service result	(157,993)	-	(17,820)	(2,925)	(178,738)
Reinsurance finance income (ii)	-	-	4,049	357	4,406
Total changes in the statement of profit or loss and other comprehensive income	(157,993)	-	(13,771)	(2,568)	(174,332)
Cash flows					
Premium paid	127,308	-	-	-	127,308
Amounts received	-	-	(13,364)	-	(13,364)
Total cash flows	127,308	-	(13,364)	-	113,944
Net reinsurance contract assets at 31 December 2025	31,039	-	155,039	17,441	203,519

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NOTES TO THE FINANCIAL STATEMENTS

9 Insurance and reinsurance contract assets and liabilities (Continued)

9.2 Reinsurance contract assets (Continued)

(a) Roll-forward of net asset or liability for reinsurance contracts held showing the assets for remaining coverage and the amounts recoverable on incurred claims (Continued)

	2024				
	Assets for remaining coverage	Amount recoverable on incurred claims			
	Exclude loss component HK\$'000	Loss-recovery component HK\$'000	Estimates of the present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Total HK\$'000
Net reinsurance contract assets at 1 January 2024	(9,600)	2,649	178,888	19,464	191,401
Reinsurance expense	(139,582)	-	-	-	(139,582)
Reinsurance recoveries	-	(2,649)	21,384	421	19,156
Recovery of Incurred claims and other expenses	-	(1,706)	56,938	4,866	60,098
Changes that relate to past service	-	-	(35,554)	(4,445)	(39,999)
Recovery of losses on onerous underlying contracts and reversals of those recoveries (i)	-	(943)	-	-	(943)
Insurance service result	(139,582)	(2,649)	21,384	421	(120,426)
Reinsurance finance income (ii)	3	-	789	124	916
Total changes in the statement of profit or loss and other comprehensive income	(139,579)	(2,649)	22,173	545	(119,510)
Cash flows					
Premium paid	210,903	-	-	-	210,903
Amounts received	-	-	(18,887)	-	(18,887)
Total cash flows	210,903	-	(18,887)	-	192,016
Net reinsurance contract assets at 31 December 2024	61,724	-	182,174	20,009	263,907

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 Insurance and reinsurance contract assets and liabilities (Continued)

9.2 Reinsurance contract assets (Continued)

(a) Roll-forward of net asset or liability for reinsurance contracts held showing the assets for remaining coverage and the amounts recoverable on incurred claims (Continued)

- (i) A loss-recovery component was set up upon the initial recognition of an onerous group of underlying insurance contracts. Please see extracts from accounting policy for details on Note 2.11(e)(i).
- (ii) The Company applies a consistent accounting policy to reinsurance contracts held and recognises net reinsurance finance income / (expenses) in profit or loss only. Please refer to Note 2.11(f)(iv) for details.

	2025 HK\$'000	2024 HK\$'000
Reinsurance contract assets		
Current portion	96,589	165,880
Non-current portion	106,930	98,027
Total	203,519	263,907

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NOTES TO THE FINANCIAL STATEMENTS

9 Insurance contract and reinsurance contract assets and liabilities (Continued)

9.3 Claims development tables

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

As required by HKFRS 17, in setting claims provisions, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed which is reflected in the risk adjustment. In general, the uncertainty associated with the ultimate cost of settling claims is the greatest when the claim is at an early stage of development. As claims develop, the ultimate cost of claims becomes more certain.

The Company has not disclosed previously unpublished information about claims development that occurred earlier than five years before the end of the annual reporting period in which it first applies HKFRS 17.

Accident year claims development table - gross as at 2025:

	2021	2022	2023	2024	2025	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Estimate of ultimate claims costs:						
- year 1	650,917	647,372	685,088	596,451	606,425	
- year 2	714,448	862,873	682,102	577,788		
- year 3	689,301	627,721	652,436			
- year 4	665,857	575,065				
- year 5	631,818					
Current estimate of cumulative claims	631,818	575,065	652,436	577,788	606,425	3,043,532
Cumulative payments to date	430,475	323,841	346,071	201,277	87,115	1,388,779
	201,343	251,224	306,365	376,511	519,310	1,654,753
Reserve in respect of prior years						286,642
Gross undiscounted liabilities for incurred claims						1,941,395
Effect of discounting						(71,721)
Risk adjustment						184,429
Other incurred insurance expenses						254,061
Total gross liabilities for incurred claims						2,308,164

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 Insurance contract and reinsurance contract assets and liabilities (Continued)

9.3 Claims development tables (Continued)

Accident year claims development table - net as at 2025:

	2021	2022	2023	2024	2025	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Estimate of ultimate claims costs:						
- year 1	616,126	606,414	621,566	536,488	578,378	
- year 2	672,504	625,481	632,300	542,851		
- year 3	651,235	597,721	606,295			
- year 4	626,417	550,953				
- year 5	597,035					
Net estimates of the undiscounted amount of the claims	597,035	550,953	606,295	542,851	578,378	2,875,512
Cumulative payments to date	424,164	321,941	337,523	200,402	86,663	1,370,693
	172,871	229,012	268,772	342,449	491,715	1,504,819
Reserve in respect of prior years						244,607
Net undiscounted liabilities for incurred claims						1,749,426
Effect of discounting						(65,120)
Risk adjustment						166,988
Other incurred insurance expenses						284,390
Total net liabilities for incurred claims						2,135,684

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

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10 Financial assets

The financial assets are summarised below by measurement category in the table below:

	2025 HK\$'000	2024 HK\$'000
Debt securities at fair value through profit or loss (i)	1,747,116	827,525
Term deposits	1,566,819	2,413,492
Total	3,313,935	3,241,017
Current portion	2,031,974	2,413,492
Non-current portion	1,281,961	827,525
Total	3,313,935	3,241,017
(i) Debt securities at fair value through profit or loss:		
	2025 HK\$'000	2024 HK\$'000
Listed securities		
- Government bonds	1,410,590	827,525
- Corporate bonds	131,127	-
- Treasury bills	205,399	-
Total	1,747,116	827,525
At 1 January	827,525	934,184
Additions	1,932,506	60,560
Disposals (sale and maturity)	(1,019,420)	(186,754)
Fair value gain	6,505	19,535
At 31 December	1,747,116	827,525

11 Other receivables

	2025 HK\$'000	2024 HK\$'000
Interest receivables	51,274	48,747
Other debtors	5,502	6,303
Receivable from disposal of investments	278,828	-
Amounts due (to) / from fellow subsidiaries (i)	(69)	1,931
Total	335,535	56,981
Current portion	330,056	51,331
Non-current portion	5,479	5,650
Total	335,535	56,981

(i) The amounts due (to) / from fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12 Cash and cash equivalents

	2025 HK\$'000	2024 HK\$'000
Cash at bank and in hand	231,574	127,639
Deposits held on behalf of clients (restricted cash) (Note iii)	26,125	24,722
	257,699	152,361
Bank Deposits for the purpose of guaranteeing technical reserves of Macau Branch (Note ii)	86,355	91,064
Total	<u>344,054</u>	<u>243,425</u>

(i) Classification as cash equivalents

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition. See Note 2.9 for the Company's accounting policies on cash and cash equivalents.

(ii) Technical reserves

Article 61(1) of Macau Insurance Ordinance requires that the technical reserves shall be guaranteed by equivalent and congruent assets located in Macau.

The Company's management of its Macau Branch shall comply with the Autoridade Monetaria De Macau's ("AMCM") technical reserve guarantee requirements by:

- submitting audited branch financial statements on an annual basis to the AMCM following year end; and
- shortly thereafter, adjusting the amount of assets pledged in favour of the AMCM to equal the Branch's technical reserves, as reported in the audited financial statements.

As at 31 December 2025, the Branch's cash and bank balances include a deposit of HK\$86,355,000 (2024: HK\$ 91,064,000) which have been pledged in favour of the AMCM to guarantee the technical reserve as required under the Macau Insurance Ordinance. The Branch's technical reserve (insurance contract liabilities) at 31 December 2025 amounted to HK\$72,183,000 to (2024: HK\$ 67,155,000).

(iii) Restricted cash

The cash and cash equivalents disclosed above and in the cash flow, statement includes HK\$26,125,000 (2024: HK\$24,722,000) which are held at bank as clients' funds for claims settlements. These deposits are subject to restrictions and are therefore not available for general use by the Company.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13 Share capital and reserves

	2025 Number of Shares	2025 HK\$'000	2024 Number of shares	2024 HK\$'000
Share capital				
Ordinary shares, issued and fully paid:				
At beginning of year and at end of year	272,514,947	867,984	272,514,947	867,984

The ordinary shares entitle the holders to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Reserves	Other Reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2024	450,000	320,040	770,040
Profit for the year	-	253,969	253,969
Reserve movement related to the transfer of net asset back to the Operating Group	(640,572)	-	(640,572)
At 31 December 2024	(190,572)	574,009	383,437
At January 2025	(190,572)	574,009	383,437
Profit for the year	-	185,570	185,570
Dividends declared in respect of the current year	-	(78,000)	(78,000)
At 31 December 2025	(190,572)	681,579	491,007

The retained earnings of the Operating Group up to the effective date of Business Transfer of approximately HK\$190,572,000 is included as the retained earnings of the Company under merger accounting as at 31 December 2024.

Other Reserve of approximately HK\$190,572,000 at 31 December 2024 and 31 December 2025 arises from merger accounting and represents the difference between the share capital of the Operating Group and the value of net assets transferred back to the Operating Group on 1 October 2024 for its residual activities.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14 Lease liabilities

The statement of financial position shows the following amount relating to leases:

	2025 HK\$'000	2024 HK\$'000
Lease liabilities		
Current	10,262	9,855
Non-current	44,082	53,100
Total	54,344	62,955

Additional right-of-use assets acquired during the year are disclosed in Note 6.

The statement of profit or loss and other comprehensive income shows the following amounts relating to leases:

	2025 HK\$'000	2024 HK\$'000
Interest expenses (included in finance cost)	2,300	1,043
Depreciation charges of the right-of-use assets – building (Note 6)	10,513	12,173

The Company enters into rental contracts that are typically made for fixed periods with no extension options. The Company holds no leases for low value assets during the year.

The total cash outflow for leases in 2025 was HK\$12,120,000 (2024: HK\$11,286,000).

15 Other payables

The other payables are summarised in the table below:

	2025 HK\$'000	2024 HK\$'000
Due to an immediate holding company (i)	78,000	-
Due to fellow subsidiaries (ii)	4,268	24,169
Other liabilities	28,567	30,930
Payable for acquisition of investments	280,230	-
Total	391,065	55,099

Other payables of HK\$391,065,000 (2024: HK\$55,099,000) are all current.

- (i) Due to an immediate holding company
All the amounts due to an immediate holding company relate to dividend payable. The amounts due to an immediate holding company are unsecured and have no fixed terms of repayment.
- (ii) Due to fellow subsidiaries
All the amounts due to fellow subsidiaries relate to general business. The amounts due to fellow subsidiaries are unsecured and have no fixed terms of repayment.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16 Insurance service expenses and other expenses

	2025 HK\$'000	2024 HK\$'000
Incurred claims, excluding claims settlement expenses for staff costs and legal and professional fee	706,422	667,723
Changes to liabilities for incurred claims	(285,356)	(270,829)
Commission incurred	287,359	286,497
Losses on onerous contracts and reversals of those losses	3,963	-
Advertising and marketing	8,847	9,684
Auditor's remuneration (i)	6,557	7,946
Depreciation and amortisation (Note 6,7)	30,158	30,358
Directors' emoluments (Note 25)	8,254	7,730
Legal and professional fees	7,636	9,115
Management fees	104,637	112,212
Staff costs, excluding directors' emoluments (ii)	134,714	146,665
Others	1,359	6,551
	<u>1,014,550</u>	<u>1,013,652</u>
Amounts attributed to insurance acquisition cash flows	(397,364)	(405,282)
Amortisation of insurance acquisition cash flows	393,684	415,400
	<u>1,010,870</u>	<u>1,023,770</u>
Total	1,010,870	1,023,770
Insurance service and other expenses represented by:		
	2025 HK\$'000	2024 HK\$'000
Insurance service expenses	995,587	1,005,622
Other expenses	15,283	18,148
	<u>1,010,870</u>	<u>1,023,770</u>
	<u>1,010,870</u>	<u>1,023,770</u>
(i) Auditor's remuneration		
	2025 HK\$'000	2024 HK\$'000
Statutory audit	4,185	5,615
Non-statutory audit	2,372	2,331
	<u>6,557</u>	<u>7,946</u>
Total	6,557	7,946

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16 Insurance service expenses and other expenses (Continued)

(ii) Employee benefits expenses

	2025 HK\$'000	2024 HK\$'000
Included in Insurance service expenses		
Wages and salaries	135,794	139,542
Change in annual leave provision	57	105
Pension costs - defined contribution plan	7,309	7,125
Other subsidies (*)	(192)	(107)
	<u>142,968</u>	<u>146,665</u>
Total	<u><u>142,968</u></u>	<u><u>146,665</u></u>

(*) Included benefits received from the Hong Kong Government under summer internship programme of HK\$192,000 (2024: HK\$ 107,000). The Company did not benefit directly from any other forms of government assistance.

17 Insurance and reinsurance finance income/ (expenses)

	2025 HK\$'000	2024 HK\$'000
Insurance finance expenses from insurance contracts issued		
Interest accreted	(24,350)	(35,439)
Effect of changes in interest rates and other financial assumptions	(29,040)	(1,354)
Insurance finance expenses	<u>(53,390)</u>	<u>(36,793)</u>
	<u><u>(53,390)</u></u>	<u><u>(36,793)</u></u>
	2025 HK\$'000	2024 HK\$'000
Reinsurance finance income from reinsurance contracts held		
Interest accreted	1,076	1,803
Effect of changes in interest rates and other financial assumptions	3,330	(887)
Reinsurance finance income	<u>4,406</u>	<u>916</u>
	<u><u>4,406</u></u>	<u><u>916</u></u>

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Other income

	2025 HK\$'000	2024 HK\$'000
Rental recoveries	2,601	1,690
Recoveries on services rendered	4,439	10,595
Total	<u>7,040</u>	<u>12,285</u>

19 Investment income

	2025 HK\$'000	2024 HK\$'000
Interest income derived from saving accounts and term deposits	82,841	128,112
Investment income derived from debt securities at fair value through profit or loss	21,996	14,821
Total	<u>104,837</u>	<u>142,933</u>

20 Net fair value gain on financial assets at fair value through profit or loss

	2025 HK\$'000	2024 HK\$'000
Realised gain / (loss)	17,343	(11,035)
Unrealised gain	6,505	19,535
Total	<u>23,848</u>	<u>8,500</u>

21 Finance costs

	2025 HK\$'000	2024 HK\$'000
Interest paid on lease liabilities	2,300	1,043
(Gain) / loss on foreign currency translation	(2,635)	8,615
Bank charges	591	1,191
	<u>256</u>	<u>10,849</u>

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22 Income tax

This note provides an analysis of the Company's income tax expenses, and shows what amounts are recognised directly in equity and how the income tax is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Company's tax position.

(a) Income tax expenses

	2025 HK\$'000	2024 HK\$'000
Deferred income tax		
Increase / (Decrease) in deferred tax assets (Note 8)	211	(833)
(Decrease) / Increase in deferred tax liabilities (Note 8)	(211)	833
Total deferred tax benefit	-	-
Total tax expense:		
HK Profit tax	-	2,646
Overseas tax	2	85
Pillar Two income tax	4,093	-
	4,095	2,731

(b) Numerical reconciliation of income tax expenses to prima facie tax payable

The provision for Hong Kong Profits Tax is calculated at 16.5% (2024: 16.5%) of the estimated assessable profits for the year.

	2025 HK\$'000	2024 HK\$'000
Profit before tax	189,665	256,700
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	31,295	42,356
Difference on tax rate applied for overseas operations	328	74
Tax effect of non-taxable income	(23,212)	(20,402)
Tax effect of non-deductible expenses	4,560	3,590
Tax effect of one-off regulatory change impact	-	34,057
Tax effect of unutilised tax losses recognised	(13,102)	(54,615)
Over / (Under) provision for prior year	3	(2,329)
Pillar Two income tax	4,093	-
Others	130	-
Income tax	4,095	2,731

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23 Cash generated from operations

	2025 HK\$'000	2024 HK\$'000
Profit before tax	189,665	256,700
Adjustments for:		
Depreciation and amortisation	30,158	30,357
Loss on disposal of intangible assets	1,359	-
Loss on disposal of property and equipment	-	264
Investment income	(104,837)	(142,933)
Interest expenses	2,300	1,043
Unrealised gain on debt securities at fair value through profit loss	(6,505)	(19,535)
Increase in right-of-use assets and lease liabilities	(108)	(95)
Decrease / (Increase) in bank deposits for the purpose of guaranteeing technical reserves of Macau branch	4,709	(19,417)
Decrease / (Increase) in reinsurance contract assets	60,388	(72,506)
(Increase) / Decrease in other receivables	(276,028)	7,818
(Increase) / Decrease in restricted cash - deposits held on behalf of clients	(1,403)	4,281
Decrease in Insurance contract liabilities	(33,054)	(39,039)
Increase in other payables	258,654	19,344
Cash inflow from operation	125,298	26,282

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24 Accounting adjustments under common control combination

The following is a reconciliation of the effect arising from the common control combination on the statement of financial position in connection with the Business Transfer in 2024.

As at 31 December 2024:

	The Company	The Operating Group	Elimination Adjustments	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets				
Property and equipment	65,227	-	-	65,227
Intangible assets	26,461	-	-	26,461
Deferred tax assets	44,074	-	-	44,074
Reinsurance contract assets	263,907	-	-	263,907
Financial assets				
- Debt securities at fair value through profit or loss	827,525	-	-	827,525
- Term deposits	2,413,492	-	-	2,413,492
Other receivables	56,981	-	-	56,981
Cash and cash equivalents	243,425	-	-	243,425
Total assets	3,941,092	-	-	3,941,092
Equity				
Share capital	867,984	-	-	867,984
Reserves	383,437	-	-	383,437
Total equity	1,251,421	-	-	1,251,421
Liabilities				
Insurance contract liabilities	2,571,532	-	-	2,571,532
Lease liabilities	62,955	-	-	62,955
Current tax liabilities	85	-	-	85
Deferred tax liabilities	-	-	-	-
Other payables	55,099	-	-	55,099
Total liabilities	2,689,671	-	-	2,689,671
Total equity and liabilities	3,941,092	-	-	3,941,092

No other significant adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the common control combination to achieve consistency of accounting policies.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24 Accounting adjustments under common control combination (Continued)

The following is a reconciliation of the effect arising from the common control combination on the Statement of the Profit or Loss and Other Comprehensive Income in connection with the Business Transfer in 2024.

For the year ended 31 December 2024

	The Company HK\$'000	The Operating Group HK\$'000	Elimination Adjustment HK\$'000	Total HK\$'000
Insurance contract revenue	1,215,064	112,826	(35,517)	1,292,373
Reinsurance contract expense	(142,761)	(32,338)	35,517	(139,582)
Net insurance contract revenue	1,072,303	80,488	-	1,152,791
Insurance service expense	(954,579)	(51,989)	946	(1,005,622)
Reinsurance contract income	20,463	(1,307)	-	19,156
Insurance service result	138,187	27,192	946	166,325
Other expense	(17,308)	(840)	-	(18,148)
Insurance operating result	120,879	26,352	946	148,177
Insurance finance expense	(32,667)	(4,126)	-	(36,793)
Reinsurance finance income	1,166	(250)	-	916
Insurance profit	89,378	21,976	946	112,300
Other income	10,466	2,765	(946)	12,285
Investment income	121,702	21,231	-	142,933
Net fair value gain on financial assets at fair value through profit or loss	2,364	6,136	-	8,500
Expenses for assets management services rendered	(3,324)	(688)	-	(4,012)
Finance costs	(10,260)	(589)	-	(10,849)
Amortisation of distribution rights	(4,457)	-	-	(4,457)
Profit before tax	205,869	50,831	-	256,700
Income tax expense	(85)	(2,646)	-	(2,731)
Profit for year	205,784	48,185	-	253,969
	=====	=====	=====	=====

No other significant adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the common control combination to achieve consistency of accounting policies.

QBE HONGKONG & SHANGHAI INSURANCE LIMITED**NOTES TO THE FINANCIAL STATEMENTS****25 Directors' benefits and interests**

Directors' benefits and interests disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and the Companies (Disclosure of Information about Benefits of Directors) Regulation and the directors' emoluments disclosed pursuant to Paragraph 26(P) of Part 5 of the Third Schedule to the Ordinance are as follows:

(a) Directors' emoluments

	2025 HK\$'000	2024 HK\$'000
Aggregate emoluments paid to or receivable by directors in respect of:		
- their services as directors of the Company	1,052	507
- their other services in connection with the management of the affairs of the Company	7,202	3,801
	<u>8,254</u>	<u>4,308</u>
 The aggregate emoluments of the four highest paid directors	 <u>8,254</u>	 <u>4,308</u>

(b) Directors' material interests in transactions, arrangements or contracts

Apart from those disclosed in Note 26 on related party transactions, there are no other transactions, arrangements or contracts of significance in relation to the Company's business to which, its fellow subsidiaries or its immediate, intermediate or ultimate holding company was a party, and in which a director or controller of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2024: Nil).

QBE HONGKONG & SHANGHAI INSURANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26 Related party transactions

The Company is controlled by QBE Asia Pacific Holdings Limited (incorporated in Hong Kong), which owns a significant portion of the Company's shares. The ultimate parent of the Company is QBE Insurance Group Limited, a Company incorporated in the Australian Capital Territory, Australia.

The following is a summary of significant related party transactions which were carried out in the normal course of the Company's business:

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 25 is as follows:

	2025 HK\$'000	2024 HK\$'000
Short-term employee benefits	8,254	7,730

Key management personnel have been identified as the Company's Chief Executive and directors.

(b) Shares granted by the Group to key management personnel

	2025 Number of shares	2024 Number of shares
Transactions funded by the Company in respect of shares in the Group granted by the Group to Directors	13,194	10,505

	2025 AUD	2024 AUD
Price of instrument as of settlement date	21.47	16.84

(c) Transactions with key management personnel

Apart from the transactions disclosed in Note 25, 26(a) and (b) above, no material transaction was conducted with the key management personnel of the Company and parties related to them during the year ended 31 December 2025 (2024: Nil).

QBE HONGKONG & SHANGHAI INSURANCE LIMITED**NOTES TO THE FINANCIAL STATEMENTS****26 Related party transactions (Continued)****(d) Transactions with other related parties**

The following are transactions which occurred with related parties during the year.

	2025 HK\$'000	2024 HK\$'000
Transactions with fellow subsidiaries		
- Reinsurance premiums ceded	133,603	112,828
- Reinsurance commission income	1,178	1,445
- Reinsurance claims recoveries	11,080	4,489
- Reinsurance claims incurred	11,939	23,576
- Insurance premiums written	15,082	1,553
- Management income	1,640	1,337
- Investment management fees	2,874	3,888
- Services fee for business support	9,704	8,238
- Commission paid	492	246
- Rental recovery	2,601	-
- Management fees	104,637	-
Transactions with an immediate holding company		
- Management fees	-	112,212
- Interim dividend	78,000	-

Year-end balances arising from non-insurance related transactions with fellow subsidiaries and an immediate holding company is referred to in Notes 11 and 15.

27 Dividends

An interim dividend of HK\$0.29 per ordinary share totalling HK\$78,000,000 (2024: Nil) was declared on 22 October 2025 and paid on 10 February 2026.

28 Approval of financial statements

The financial statements were approved by the Board of Directors on 23 April 2026.