# Disclosure Statement at 31 December 2025

This disclosure statement is prepared in accordance with the requirements under the Insurance (Valuation and Capital) Rules and the Insurance (Public Disclosure) Rules.

## 1 Company profile

(a) Authorized insurer's name

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| Principal Insurance Company (Hong Kong) Limited |

(b) Nature of the business, and places of business operations

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|---|
| An insurer authorized by the Insurance Authority for the provision, administration and management of retirement schemes under Class G and Class H of Part 2 of Schedule 1 to the Insurance Companies Ordinance (Cap. 41) in Hong Kong. |

(c) Description of corporate structure

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|---|
| Incorporated in Hong Kong as a limited company on 11 July 1996. The ultimate shareholder is Principal Financial Group, Inc. incorporated in USA and listed on NASDAQ. It has 20% shareholdings in Principal Trust Company (Asia) Limited, a limited company incorporated in Hong Kong on 30 May 1997. |

## 2 Corporate governance framework

Principal Insurance Company (Hong Kong) Limited (the "Company") being an authorized insurer under the Insurance Ordinance (Cap. 41) is required to have at least one-third of the Board to be composed of independent non-executive Directors (the "INEDs") to provide an independent perspective to and a broader outlook on the decision-making of the Company. Currently, there are two INEDs on the Board of the Company. The Directors will exercise the powers of the Company as conferred on them by the Hong Kong Companies Ordinance, the Articles of Association of the Company, and any applicable legislation. The Board's principal role is to govern the Company, by ensuring that there is a proper governance framework in place to promote and protect the Company's interests for the benefit of its shareholders, and other stakeholders.

The Board has established the following committees:

Board level

Risk Management Committee – oversees the establishment and operation of the risk management system independently and has access of information provided by the senior management of the Company and key person(s) in the risk management function.

Management level

(a) Executive Risk Management Committee – responsible for establishing and overseeing risk management, which includes setting the Company's risk appetite and strategy which should be in line with the long term interests of the Company and are embedded in the corporate culture of the Company as well as Principal Financial Group

(b) Asset Liability Management Committee – provides oversight on the asset portfolios and asset-liability management process of the Company

(c) AML Committee – to supervise all related business units to implement AML programs to comply with AML laws and regulations

(d) Management Committee – to handle day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives as delegated by the Board.

(e) Bank Accounts Committee – to approve the opening, closure and giving instruction to amend the authorized signatories of the bank accounts, custodian accounts, securities trading accounts and dealing accounts with fund houses and banks in the name of the Company and any agreements with bank to provide electronic banking services, documents, mandates, agreements, contracts or guarantees to be entered into or given by the Company.

## 3 Financial position

(a) Balance sheet determined under the Insurance (Valuation and Capital) Rules

| (Unit: in HKD thousands) | As at 31 December 2025 | | | | | As at 31 December 2024 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Total** | Long term business | Of which belongs to: long term business – participating business | General business | Shareholders' fund (if applicable) | **Total** | Long term business | Of which belongs to: long term business – participating business | General business | Shareholders' fund (if applicable) |
| **Total assets** | **1,326,011** | **1,014,766** | **-** | **-** | **311,245** | **2,211,149** | **1,542,089** | **-** | **-** | **669,060** |
| Cash and deposits | 65,081 | 2,000 | - | - | 63,081 | 206,138 | 49 | - | - | 206,089 |
| Debt securities | 191,794 | - | - | - | 191,794 | 366,511 | 1,951 | - | - | 364,559 |
| Equities (including portfolio investments) | - | - | - | - | - | - | - | - | - | - |
| Derivative financial instruments | - | - | - | - | - | - | - | - | - | - |
| Properties | - | - | - | - | - | - | - | - | - | - |
| Loans and advances | - | - | - | - | - | - | - | - | - | - |
| Reverse repurchase agreement | - | - | - | - | - | - | - | - | - | - |
| Other financial assets | 30,223 | - | - | - | 30,223 | 40,589 | - | - | - | 40,589 |
| Policyholder's account assets in respect of unit linked products or retirement scheme | 1,012,766 | 1,012,766 | - | - | - | 1,540,089 | 1,540,089 | - | - | - |
| Reinsurance assets | - | - | - | - | - | - | - | - | - | - |
| Tax assets | - | - | - | - | - | - | - | - | - | - |
| Other assets | 26,147 | - | - | - | 26,147 | 57,822 | - | - | - | 57,822 |
| **Total liabilities** | **844,722** | **816,817** | **-** | **-** | **27,905** | **1,497,237** | **1,352,249** | **-** | **-** | **144,989** |
| Insurance liabilities | 816,817 | 816,817 | - | - | - | 1,352,249 | 1,352,249 | - | - | - |
| Reinsurance liabilities | - | - | - | - | - | - | - | - | - | - |
| Repurchase agreement | - | - | - | - | - | - | - | - | - | - |
| Derivative financial instruments | - | - | - | - | - | - | - | - | - | - |
| Other financial liabilities | 8,646 | - | - | - | 8,646 | 93,687 | - | - | - | 93,687 |
| Tax liabilities | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | 19,259 | - | - | - | 19,259 | 51,302 | - | - | - | 51,302 |
| **Net assets** | **481,289** | **197,949** | **-** | **-** | **283,340** | **713,911** | **189,840** | **-** | **-** | **524,071** |

(b) Material change or other commentary on balance sheet items (if any)

Change in net assets during financial year ended 31 December 2025 includes, but not limited to:

- Capital return of HK$155 million, after share capital reduction from HK$355 million to HK$200 million in March 2025; and
- Dividend of HK$150 million in December 2025.

## 4 Investments

(a) Assumptions and methods used for valuation of investments

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|---|
| Investments are classified and measured as financial assets at fair value through profit or loss in accordance with HKFRS 9 Financial Instruments. The valuation process utilizes market prices obtained from widely recognized and reputable pricing service providers. |

(b) Material change in assumptions and methods, or other commentary on investments (if any)

| |
|---|
| Not applicable. |

## 5 Insurance liabilities

(a) Total insurance liabilities determined under the Insurance (Valuation and Capital) Rules

**Insurance Liabilities of Long Term Business**

| (Unit: in HKD thousands) | As at 31 December 2025 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Long term business | | | | | Applicable to Hong Kong branches of non-HK insurers: reinsurance business with offshore risk if fund of insurance business with offshore risk is established | Total long term business |
| | Participating business | Linked long term (Class C) | Retirement scheme category I (Class G) | Retirement scheme category II (Class H) | Other long term business | | |
| **Total insurance liabilities (gross of reinsurance)** | **-** | **-** | **554,697** | **260,120** | **2,000** | **-** | **816,817** |
| Of which: long term insurance liabilities | - | - | 554,697 | 260,120 | 2,000 | - | 816,817 |
| Outstanding claims | - | - | - | - | - | - | - |
| Current estimate[1] | - | - | 553,212 | 260,120 | 2,000 | - | 815,332 |
| Margin over current estimate | - | - | 1,485 | - | - | - | 1,485 |
| Prepaid premiums | - | - | - | - | - | - | - |
| Other long term insurance liabilities | - | - | - | - | - | - | - |
| Of which: general insurance liabilities | - | - | - | - | - | - | - |
| **Reinsurance assets** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Reinsurance liabilities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

[1] Excludes outstanding claims, prepaid premiums and other long term insurance liabilities which are disclosed separately.

| (Unit: in HKD thousands) | As at 31 December 2024 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Long term business | | | | | Applicable to Hong Kong branches of non-HK insurers: reinsurance business with offshore risk if fund of insurance business with offshore risk is established | Total long term business |
| | Participating business | Linked long term (Class C) | Retirement scheme category I (Class G) | Retirement scheme category II (Class H) | Other long term business | | |
| **Total insurance liabilities (gross of reinsurance)** | **-** | **-** | **1,064,279** | **285,970** | **2,000** | **-** | **1,352,249** |
| Of which: long term insurance liabilities | - | - | 1,064,279 | 285,970 | 2,000 | - | 1,352,249 |
| Outstanding claims | - | - | - | - | - | - | - |
| Current estimate[1] | - | - | 1,062,813 | 285,970 | 2,000 | - | 1,350,783 |
| Margin over current estimate | - | - | 1,466 | - | - | - | 1,466 |
| Prepaid premiums | - | - | - | - | - | - | - |
| Other long term insurance liabilities | - | - | - | - | - | - | - |
| Of which: general insurance liabilities | - | - | - | - | - | - | - |
| **Reinsurance assets** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Reinsurance liabilities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

(b) Assumptions and method used to derive the assumptions for determining insurance liabilities

<u>Class G business</u>

- Members' account balances are projected with guaranteed crediting rate of 5% per annum and no discretionary benefits.
- Lapse rates are determined based on prospective view of the Company's strategic directions, impacting members' redemptions in foreseeable future.
- Insurance liabilities include expected expense overrun against long-term expense levels, derived from the Company's internal business plan as of 31 December 2025.
- Insurance liabilities are discounted with the sum of:
    - Hong Kong dollar risk-free yield curves as of 31 December 2025, specified by the Insurance Authority; and
    - Matching adjustment, derived in accordance with section 24 of the Insurance (Valuation and Capital) Rules. Such adjustment is 0 basis point as of 31 December 2025.

<u>Class H business</u>

- Members' account balances as of 31 December 2025 are held as insurance liabilities.

<u>Other long term business</u>

HK$2 million provision is held as of 31 December 2025 with no underlying insurance business.

(c) Material change in assumptions and methods used to derive the assumptions, or other commentary on insurance liabilities (if any)

Not applicable.

## 6 Financial performance

(a) Financial performance in total and at a segmented level, including premiums, investment returns and claims

### Performance Analysis on Premiums and Claims

| (Unit: in HKD thousands) | For the financial year ended 31 December 2025 | | | |
|---|---|---|---|---|
| | **Total** | Long term business | Of which belongs to: long term business – participating business | General business |
| **Gross premiums[2]** | **35,278** | **35,278** | **-** | **-** |
| Regular premiums | Not applicable | **-** | **-** | Not applicable |
| Single premiums | Not applicable | 35,278 | - | Not applicable |
| **Net premiums** | **35,278** | **35,278** | **-** | **-** |
| Regular premiums | Not applicable | - | - | Not applicable |
| Single premiums | Not applicable | 35,278 | - | Not applicable |
| **Gross claims paid** | **644,591** | **644,591** | **-** | **-** |
| **Net claims paid** | **644,591** | **644,591** | **-** | **-** |

### Performance Analysis on Investment Returns

| (Unit: in HKD thousands) | For the financial year ended 31 December 2025 | | | | |
|---|---|---|---|---|---|
| | **Total** | Long term business | Of which belongs to: long term business – participating business | General business | Shareholders' fund (if applicable) |
| **Investment returns** | **103,632** | **88,008** | **-** | **-** | **15,264** |

(b) Material change or other commentary on financial performance (if any)

| |
|---|
| Not applicable. |

[2] For long term business, it refers to premiums received and receivable during the financial year. For general business, it refers to written premiums.

## 7 Capital adequacy

(a) Prescribed capital amount at total level and risk capital amount ("RCA") by sub-risk, determined in accordance with the Insurance (Valuation and Capital) Rules (without applying the transitional arrangement under Part 7 of the Insurance (Valuation and Capital) Rules)

### Prescribed Capital Amount

| (Unit: in HKD thousands) | As at 31 December 2025 | As at 31 December 2024 |
|---|---|---|
| **Market risk (diversified RCA)** | **3,007** | **14,353** |
| Interest rate risk RCA | 1,328 | 13,196 |
| Credit spread risk RCA | 1,980 | 5,637 |
| Equity risk RCA | - | - |
| Property risk RCA | - | - |
| Currency risk RCA | 1,184 | 10 |
| Diversification benefits within market risk | -1,485 | -4,490 |
| **Life Insurance Risk (diversified RCA)** | **5,671** | **5,599** |
| Mortality risk RCA | - | - |
| Longevity risk RCA | - | - |
| Life catastrophe risk RCA | - | - |
| Morbidity risk RCA | - | - |
| Expense risk RCA | 3,280 | 4,766 |
| Lapse risk RCA | 3,269 | 1,401 |
| Diversification benefits within life insurance risk | -877 | -567 |
| **General Insurance Risk (diversified RCA)** | **-** | **-** |
| Reserve and premium risk RCA | - | - |
| Natural catastrophe risk RCA | - | - |
| Man-made non-systemic catastrophe risk RCA | - | - |
| Man-made systemic catastrophe risk RCA | - | - |
| Mortgage insurance risk RCA | - | - |
| Diversification benefits within general insurance risk | - | - |
| **Counterparty default and other risk RCA** | **5,814** | **8,537** |
| Diversification benefits among risk modules | -4,063 | -7,618 |
| **Operational risk RCA** | **3,129** | **6,261** |
| Adjustment for loss absorbing capacity cap | - | - |
| Adjustment for tax effect | - | - |
| Any other items which the IA may specify to adjust | - | - |
| **Prescribed capital amount** | **13,558** | **27,131** |

(b) Composition of capital base determined in accordance with the Insurance (Valuation and Capital) Rules

| (Unit: in HKD thousands) | As at 31 December 2025 | As at 31 December 2024 |
|---|---|---|
| Unlimited Tier 1 capital | 481,289 | 713,911 |
| Limited Tier 1 capital | - | - |
| Tier 2 capital | - | - |
| **Capital base** | **481,289** | **713,911** |

**Capital Base**

(c) Ratio of capital base to prescribed capital amount

| | As at 31 December 2025 | As at 31 December 2024 |
|---|---|---|
| **Ratio of capital base to prescribed capital amount** | **3,550%** | **2,631%** |

(d) Material change or other commentary on prescribed capital amount, capital base, and ratio of capital base to prescribed capital amount (if any)

Prescribed capital amount is evaluated as reduction in net asset value under the set of risk scenarios prescribed under Part 5 of the Insurance (Valuation and Capital) Rules, with the following variation(s):

- Mortality / Longevity / Life catastrophe / Morbidity risk capital amounts ("RCA") are assumed to be zero, as exposure to such risks are deemed to be immaterial based on the Company's underlying business profile.

Change in prescribed capital amount during financial year ended 31 December 2025 is, in general, in line with change in insurance liabilities during the period.

Change in capital base during financial year ended 31 December 2025 includes, but not limited to:

- Capital return of HK$155 million, after share capital reduction from HK$355 million to HK$200 million in March 2025; and
- Dividend of HK$150 million in December 2025.

## 8 Risk Management

(a) Risk appetite and risk governance framework

The Company operates an Enterprise Risk Management ("ERM") framework to identify, assess, monitor and manage material risks in line with its strategic objectives and defined risk appetite. Risk appetite sets the level and types of risk the Company is willing to accept, supported by risk tolerances and limits that trigger escalation and management actions where breached.

The Board has ultimate responsibility for risk management, supported by the Board Risk Committee and the Executive Risk Management Committee ("ERMC"). The Company adopts a "Three Lines Model" to ensure effective risk ownership, oversight, and independent assurance.

Asset and liability management ("ALM") supports the management of capital, liquidity, and market risks, ensuring appropriate alignment between assets and liabilities.

(b) Insurance risk management

Insurance risks are assessed based on likelihood and impact, including consideration of risk concentrations. Risk mitigation includes product design controls, and ongoing experience monitoring, supported by stress testing where appropriate. Insurance risk exposures are regularly monitored and reported to management committees to ensure alignment with risk appetite.

(c) Investment risk management

Investment risks are managed to achieve appropriate risk-adjusted returns within defined risk appetite, while maintaining adequate liquidity and capital. Key risks, including credit, and interest rate risks, are controlled through limits, diversification, ALM practices and hedging strategies.

Liquidity and capital positions are monitored against defined thresholds, with escalation procedures in place. Oversight is provided through relevant governance committees, including the ALM Committee.

(d) Other risk management

Operational and business risks are managed through internal controls, governance and mitigation programs, covering areas such as regulatory compliance, cybersecurity, business continuity and third-party risk. Risk monitoring and reporting are conducted regularly, with material risks and incidents escalated to senior management and the Board in accordance with established protocols.

## 9 Statement of Compliance

(i) I am satisfied with the completeness, accuracy and consistency of the information disclosed in this disclosure statement in respect of Principal Insurance Company (Hong Kong) Limited (the “Company”);

(ii) I am satisfied that the information in this disclosure statement is prepared in accordance with the Insurance (Public Disclosure) Rules and the Insurance (Valuation and Capital) Rules (subject to any variation or relaxation applied thereto);

(iii) I am satisfied that the information in this disclosure statement can be reconciled with the relevant specified annual forms, on each of which an auditor’s report is provided, of the Company’s annual returns for the financial year to which this disclosure statement relates, as submitted under rule 4(1) of the Insurance (Submission of Statements, Reports and Information) Rules; and

(iv) I am satisfied that the Company has complied with all capital requirements that apply to it under the Insurance (Valuation and Capital) Rules (as relaxed or varied, if applicable), during the financial year to which this disclosure statement relates.

| | |
|---|---|
| Name: | Lau Martin Kin Yeung |
| Position: | Director |
| Company Name: | Principal Insurance Company (Hong Kong) Limited |