

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

Reports and Consolidated Financial Statements
For the year ended December 31, 2024

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2024

<u>CONTENTS</u>	<u>PAGE(S)</u>
REPORT OF THE DIRECTORS	1 - 6
INDEPENDENT AUDITOR'S REPORT	7 - 10
CONSOLIDATED STATEMENT OF PROFIT OR LOSS	11
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	12
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	13 & 14
STATEMENT OF FINANCIAL POSITION	15 & 16
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	17
STATEMENT OF CHANGES IN EQUITY	18
CONSOLIDATED STATEMENT OF CASH FLOWS	19 & 20
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT	21 - 134

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

REPORT OF THE DIRECTORS

The directors of the Company present their annual report and the audited consolidated financial statements for the year ended December 31, 2024.

PRINCIPAL ACTIVITIES

The principal activities of Sun Life Hong Kong Limited (the “Company”) are to underwrite long-term insurance business and retirement business. Details of the principal activities of the Company’s subsidiaries are set out in note 14 to the consolidated financial statements.

The Company did not carry on any insurance business during the year relating to liabilities or risks in respect of which persons are required by law to be insured.

RESULTS AND APPROPRIATIONS

The statement of profit or loss of the Company and its subsidiaries (collectively referred to as the Group) for the year ended December 31, 2024 and the financial position of the Group and the Company as at that date are set out in the consolidated financial statements on pages 11 to 16.

An interim dividend of US\$110,022,276.22 (i.e. US\$0.15485 per share) was declared and paid to the shareholders during the year. No final dividend is recommended.

PLANT AND EQUIPMENT

Details of movements during the year in plant and equipment are set out in note 16 the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital during the year are set out in note 26 the consolidated financial statements.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

REPORT OF THE DIRECTORS - continued

REINSURANCE ARRANGEMENTS

As at December 31, 2024, the following arrangements were in effect:

Reinsurer	Line of Business	Treaty type	Retention
RGA Reinsurance Company (RGA Re)	Non Par and simplified underwritten Par policies issued on or after April 1, 2000. New business switch to RGA Int from 2016.	Quota Share	Mainly 50% of net amount at risk up to US\$250,000 or US\$1,000,000, varying by issue date
	Substandard lives from former CMG Asia Limited	Quota Share / Excess Surplus	Varies by mortality rating up to US\$125,000
	Reversionary Bonus Par Life	Quota Share	20% of net amount at risk up to US\$1,000,000
	Reversionary Bonus Par Life	Quota Share	50% of net amount at risk up to US\$1,000,000 for mortality and morbidity risks
RGA International Reinsurance Company dac (RGA Int)	Critical Illness Plan	Quota Share	50% or 25% of net amount at risk up to US\$1,000,000
	Non Par and simplified underwritten Par policies. New business switch from RGA Re from 2016.	Quota Share	50% of net amount at risk up to US\$1,000,000
RGA Re RGA Int	High Net Worth Universal Life	Quota Share	50% of net amount at risk up to US\$5,000,000
	Fully underwritten whole life Par policies	Quota Share	5% of net amount at risk up to US\$250,000 or US\$1,000,000, varying by issue date, with tail lapse risk ceded
RGA Re RGA Global Reinsurance Company Limited (RGA Global)	Reversionary Bonus Par Life	Quota Share	25% of net amount at risk up to US\$1,000,000, with tail lapse risk ceded
	Critical Illness Plan	Quota Share	20% of net amount at risk up to US\$1,000,000 for mortality and morbidity risks

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

REPORT OF THE DIRECTORS - continued

REINSURANCE ARRANGEMENTS - continued

Reinsurer	Line of Business	Treaty type	Retention
Munich Reinsurance Company (Munich Re), Hong Kong Branch	Critical Illness Plans	Quota Share	50% of net amount at risk up to US\$250,000 or US\$1,000,000, varying by issue date
	Medical Reimbursement Plans	Quota Share	50% of benefits retained
	Group Life	Excess Surplus	HK\$3,000,000 or US\$390,000 per benefit
SCOR SE	Critical Illness Plan	Quota Share	50% of net amount at risk up to US\$2,500,000
Hannover Reinsurance Company (Hannover Re)	Basic death and attached accelerating critical illness benefit from former CMG Asia Limited	Quota Share	0% (100% benefit ceded)
Munich Re, Singapore Branch Hannover Re SCOR SE	High Net Worth Reversionary Bonus Par	Quota Share	50% of net amount at risk up to US\$5,000,000
Munich Re, Singapore Branch Hannover Re Swiss Re Asia Pte. Ltd. (Swiss Re) Bermuda Branch of Sun Life Assurance Company of Canada (SLA Bermuda)	High Net Worth Reversionary Bonus Par	Quota Share / Excess Surplus	50% of net amount at risk up to US\$5,000,000 Tail lapse risk is ceded for Munich Re, Singapore Branch and SLA Bermuda

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

REPORT OF THE DIRECTORS - continued

REINSURANCE ARRANGEMENTS - continued

Reinsurer	Line of Business	Treaty type	Retention
RGA Int Munich Re, Singapore Branch SLA Bermuda	Reversionary Bonus Par Life	Quota Share	About 15% of net amount at risk with up to US\$600,000, with tail lapse risk ceded
Munich Re, Singapore Branch SLA Bermuda	Critical Illness Plan	Quota Share	25% or 50% of net amount at risk up to US\$1,250,000 or US\$2,500,000 depending on issue date, with tail lapse risk ceded
SCOR Reinsurance Company (Asia)	Old term policies	Quota Share / Excess Surplus	50% up to US\$250,000 or Excess Surplus US\$3,750,000
General Re Life Corporation	Female Critical Illness Plan from former CMG Asia Limited	Quota Share	20% of Sum Insured
Swiss Re	Mainly Traditional Par Pre-Demutualization Blocks, Disability Income Insurance	Quota Share / Excess Surplus	Varies depending on benefits
Transamerica Life (Bermuda) Limited	Products sold through the Direct Marketing channel	Coinsurance	30% retained
SLA Bermuda	High Net Worth Reversionary Bonus Par products Individual participating whole life and endowment product lines under Open Par block	Coinsurance	5% retained
Munich Re, Singapore Branch (Note)	Group Life	Coinsurance	1% retained

Note: The Company entered into a reinsurance agreement with Munich Re, Singapore Branch, in March 2025 on the ceding of group life business, which takes retrospective effect from 1 July 2024.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

REPORT OF THE DIRECTORS - continued

SUBORDINATED LOANS

In 2024, the Company has paid the two subordinated loans of HK\$310,000,000 and HK\$250,000,000 granted by a fellow subsidiary. Two subordinated loans of HK\$12,500,000 and HK\$10,000,000 were granted to its subsidiary, with maturity period of one year. Its subsidiary has renewed the loans during the year ended December 31, 2024. Details of the subordinated loans are set out in note 27 to the consolidated financial statements.

DIRECTORS

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

Chou Chia Ling (resigned with effect from March 28, 2024)
Duarte Manuel de Frias
Stuart Edward Harrison
Lam Ka Yin
Thomas Alan Hulst
Karim Gilani

In accordance with the Company's Bye-laws, all existing directors shall serve until re-elected or their successors are appointed at the forthcoming Annual General Meeting.

CONTROLLERS

The controllers of the Company, within the meaning of Section 9(1) of the Insurance Ordinance, during the year and up to the date of this report were:

Sun Life Financial Inc. ("SLF")
Sun Life Assurance Company of Canada
Lam Ka Yin
Kevin David Strain

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

REPORT OF THE DIRECTORS - continued

DIRECTORS' AND CONTROLLERS' INTERESTS IN CONTRACTS

No contracts of significance, to which the Company, its ultimate holding company or any subsidiaries of the Company's ultimate holding company was a party and in which a director or a 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.

DIRECTORS' AND CONTROLLERS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its ultimate holding company or any subsidiaries of the Company's ultimate holding company a party to any arrangements to enable the directors and controllers of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

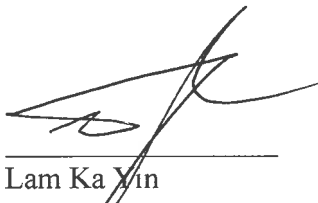
MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board



Lam Ka Yin

DIRECTOR

29 APR 2025

INDEPENDENT AUDITOR'S REPORT**TO THE DIRECTORS OF SUN LIFE HONG KONG LIMITED****香港永明金融有限公司****(Incorporated in Bermuda with limited liability)****Opinion**

We have audited the consolidated financial statements of Sun Life Hong Kong Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 11 to 134, which comprise the consolidated and Company's statements of financial position as at December 31, 2024, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated and Company's statements of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group and the Company as at December 31, 2024, and of the Group's consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group and the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF SUN LIFE HONG KONG LIMITED - continued

香港永明金融有限公司

(Incorporated in Bermuda with limited liability)

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF SUN LIFE HONG KONG LIMITED - continued

香港永明金融有限公司

(Incorporated in Bermuda with limited liability)

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and 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 Group's and 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF SUN LIFE HONG KONG LIMITED - continued

香港永明金融有限公司

(Incorporated in Bermuda with limited liability)

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the Group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance 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.



Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
April 29, 2025

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2024

	<u>NOTES</u>	<u>2024</u>	<u>2023</u>
		HK\$'m	(restated) HK\$'m
Insurance revenue	7	3,650	2,391
Insurance service expenses	8	(1,955)	(1,626)
Reinsurance contracts held net expenses	9	<u>(388)</u>	<u>(36)</u>
Net insurance service result		<u>1,307</u>	<u>729</u>
Net investment income		3,709	5,559
Insurance finance expenses from insurance contracts issued		(4,490)	(5,136)
Insurance finance income from reinsurance contracts held		<u>865</u>	<u>406</u>
Net investment result	10	<u>84</u>	<u>829</u>
Fee income	7	871	700
Finance costs	11	(94)	(71)
Deferred origination costs capitalised	18	107	128
Other operating expenses and staff costs	13	(1,241)	(1,200)
Share of loss of an associate	15	<u>(69)</u>	<u>(46)</u>
Profit before taxation		965	1,069
Income tax expense	12	<u>(68)</u>	<u>(11)</u>
Profit for the year	13	<u><u>897</u></u>	<u><u>1,058</u></u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2024

	<u>NOTES</u>	<u>2024</u>	<u>2023</u> (restated)
		HK\$m	HK\$m
Profit for the year		<u>897</u>	<u>1,058</u>
Other comprehensive income (expense):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Change in fair value of:			
- investments measured at fair value through other comprehensive income		50	159
Reclassification adjustment on disposal of:			
- investments measured at fair value through other comprehensive income		(30)	26
Deferred tax arising from movements of investment revaluation reserve	29	<u>5</u>	<u>(118)</u>
Other comprehensive income for the year		<u>25</u>	<u>67</u>
Total comprehensive income for the year		<u><u>922</u></u>	<u><u>1,125</u></u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2024

	<u>NOTES</u>	<u>2024</u>	<u>2023</u>	<u>As at</u> <u>January 1,</u> <u>2023</u>
		HK\$m	(restated) HK\$m	(restated) HK\$m
<u>ASSETS</u>				
Investment in an associate	15	314	383	177
Plant and equipment	16	85	100	109
Right-of-use assets	18	124	200	293
Intangible assets	19	3,448	3,533	1,776
Reinsurance contract held assets	20	2,383	1,081	1,377
Insurance contract assets	20	444	479	1,760
Investments in securities	21 & 33	103,104	89,660	86,217
Derivative financial instruments	22 & 33	783	597	368
Loans receivable	23	291	272	66
Amounts due from fellow subsidiaries	24	66	63	44
Other debtors, deposits and prepayments	17	675	569	296
Tax recoverable		-	4	2
Bank balances and cash	25	5,426	5,865	3,984
TOTAL ASSETS		<u>117,143</u>	<u>102,806</u>	<u>96,469</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2024 - continued

	<u>NOTES</u>	<u>2024</u>	<u>2023</u>	<u>As at</u>
			(restated)	<u>January 1,</u>
		HK\$'m	HK\$'m	<u>2023</u>
				(restated)
				HK\$'m
<u>EQUITY AND LIABILITIES</u>				
CAPITAL AND RESERVES				
Share capital	26	3,528	3,528	3,528
Reserves		4,719	4,652	3,527
		<u>8,247</u>	<u>8,180</u>	<u>7,055</u>
SUBORDINATED LOANS	27	<u>23</u>	<u>583</u>	<u>573</u>
OTHER LIABILITIES				
Insurance contract liabilities	20	101,529	88,692	83,852
Reinsurance contract held liabilities	20	120	308	1,832
Financial liabilities from investment contracts	20(f)	515	471	551
Other creditors and accrued charges	32	5,078	2,964	845
Amount due to immediate holding company	24	134	94	40
Amounts due to fellow subsidiaries	24	58	42	18
Deferred tax liabilities	29	99	107	5
Derivative financial instruments	22	117	53	149
Financial liabilities from securities lending	6	1,051	1,101	1,234
Tax payable		43	2	6
Lease liabilities	31	129	209	309
		<u>108,873</u>	<u>94,043</u>	<u>88,841</u>
TOTAL EQUITY AND LIABILITIES		<u><u>117,143</u></u>	<u><u>102,806</u></u>	<u><u>96,469</u></u>

The consolidated financial statements on pages 11 to 134 were approved and authorised for issue by the Board of Directors on **29 APR 2025** are signed on its behalf by:


 Lam Ka Yin
 CHIEF EXECUTIVE
 OFFICER & DIRECTOR


 Karim Gilani
 DIRECTOR


 Duarte Manuel de Frias
 DIRECTOR

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2024

	<u>NOTES</u>	<u>2024</u>	<u>2023</u>	<u>As at</u>
		HK\$'m	(restated) HK\$'m	<u>January 1,</u> <u>2023</u>
				(restated) HK\$'m
<u>ASSETS</u>				
Investments in subsidiaries	14	318	318	1,049
Investment in an associate	15	314	383	177
Plant and equipment	16	85	100	109
Right-of-use assets	18	124	200	293
Intangible assets	19	3,448	3,533	1,777
Reinsurance contract held assets	20	2,383	1,081	1,377
Insurance contract assets	20	444	479	1,760
Investments in securities	21	103,043	89,639	85,510
Derivative financial instruments	22	783	597	368
Loans receivable	23	291	272	67
Amounts due from fellow subsidiaries	24	66	63	44
Amounts due from subsidiaries	24	6	37	3
Other debtors, deposits and prepayments	17	604	502	229
Bank balances and cash	25	4,755	5,250	3,368
TOTAL ASSETS		116,664	102,454	96,131

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2024 - continued

	<u>NOTES</u>	<u>2024</u>	<u>2023</u>	<u>As at</u> <u>January 1,</u> <u>2023</u>
		HK\$'m	(restated) HK\$'m	(restated) HK\$'m
<u>EQUITY AND LIABILITIES</u>				
CAPITAL AND RESERVES				
Share capital	26	3,528	3,528	3,528
Reserves		<u>4,394</u>	<u>4,450</u>	<u>3,314</u>
		<u>7,922</u>	<u>7,978</u>	<u>6,842</u>
SUBORDINATED LOANS	27	<u>-</u>	<u>560</u>	<u>560</u>
OTHER LIABILITIES				
Insurance contract liabilities	20	101,529	88,692	83,852
Reinsurance contract held liabilities	20	120	308	1,831
Financial liabilities from investment contracts	20(f)	515	471	552
Other creditors and accrued charges	32	4,960	2,842	744
Amount due to immediate holding company	24	134	94	40
Amounts due to fellow subsidiaries	24	58	38	14
Amounts due to subsidiaries	24	4	-	-
Deferred tax liabilities	29	99	107	5
Derivative financial instruments	22	117	53	147
Financial liabilities from securities lending	6	1,051	1,101	1,234
Tax payable		26	1	1
Lease liabilities	31	<u>129</u>	<u>209</u>	<u>309</u>
		<u>108,742</u>	<u>93,916</u>	<u>88,729</u>
TOTAL EQUITY AND LIABILITIES		<u><u>116,664</u></u>	<u><u>102,454</u></u>	<u><u>96,131</u></u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2024

	<u>NOTES</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Investment revaluation reserve</u>	<u>Accumulated profits</u>	<u>Total</u>
		HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At January 1, 2023 (note)		3,528	842	(404)	2,988	6,954
Prior year adjustments	36	-	-	-	101	101
At January 1, 2023 (restated)		3,528	842	(404)	3,089	7,055
Change in fair value of investments measured at fair value through other comprehensive income		-	-	159	-	159
Reclassification adjustment on disposal of investments measured at fair value through other comprehensive income		-	-	26	-	26
Deferred tax arising from movements in investment revaluation reserve	29	-	-	(118)	-	(118)
Other comprehensive income for the year		-	-	67	-	67
Profit for the year		-	-	-	1,058	1,058
Total comprehensive income for the year		-	-	67	1,058	1,125
At December 31, 2023 (restated)		3,528	842	(337)	4,147	8,180
Change in fair value of investments measured at fair value through other comprehensive income		-	-	50	-	50
Reclassification adjustment on disposal of investments measured at fair value through other comprehensive income		-	-	(30)	-	(30)
Deferred tax arising from movements in investment revaluation reserve	29	-	-	5	-	5
Adjustment on expected credit loss		-	-	-	-	-
Other comprehensive income for the year		-	-	25	-	25
Profit for the year		-	-	-	897	897
Dividends paid		-	-	-	(855)	(855)
Total comprehensive income for the year		-	-	25	42	67
At December 31, 2024		3,528	842	(312)	4,189	8,247

Note: The total equity as at January 1, 2023 already included the impact of initial adoption of HKFRS 9.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2024

	<u>NOTES</u>	<u>Share capital</u> HK\$'m	<u>Share premium</u> HK\$'m	<u>Investment revaluation reserve</u> HK\$'m	<u>Accumulated profits</u> HK\$'m	<u>Total</u> HK\$'m
At January 1, 2023 (note)		3,528	842	(404)	2,775	6,741
Prior year adjustments	36	—	—	—	101	101
At January 1, 2023 (restated)		3,528	842	(404)	2,876	6,842
Change in fair value of investments measured at fair value through other comprehensive income		-	-	159	-	159
Reclassification adjustment on disposal of investments measured at fair value through other comprehensive income		-	-	26	-	26
Deferred tax arising from movements in investment revaluation reserve	29	-	-	(118)	-	(118)
Other comprehensive income for the year		-	-	67	-	67
Profit for the year		-	-	-	1,069	1,069
Total comprehensive income for the year		-	-	67	1,069	1,136
At December 31, 2023 (restated)		3,528	842	(337)	3,945	7,978
Change in fair value of investments measured at fair value through other comprehensive income		-	-	50	-	50
Reclassification adjustment on disposal of investments measured at fair value through other comprehensive income		-	-	(30)	-	(30)
Deferred tax arising from movements in investment revaluation reserve	29	-	-	5	-	5
Adjustment on expected credit loss		-	-	-	-	-
Other comprehensive income for the year		-	-	25	-	25
Profit for the year		-	-	-	774	774
Dividends paid		-	-	-	(855)	(855)
Total comprehensive income (loss) for the year		-	-	25	(81)	(56)
At December 31, 2024		3,528	842	(312)	3,864	7,922

Note: The total equity as at January 1, 2023 already included the impact of initial adoption of HKFRS 9.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024

	<u>NOTES</u>	<u>2024</u>	<u>2023</u>
		HK\$'m	(restated) HK\$'m
OPERATING ACTIVITIES			
Profit before taxation		965	1,069
Adjustments for:			
Dividend income		(261)	(266)
Interest income on debt securities		(3,326)	(2,863)
Other interest income		(266)	(252)
Share of loss of an associate	15	69	46
Finance costs	11	94	71
Depreciation of plant and equipment	16	15	44
Depreciation of right-of-use assets	18	130	135
Loss on write-off of intangible assets	19	-	1
Deferred origination costs capitalised	19	(107)	(128)
Amortisation of intangible assets	19	252	327
Net realised and unrealised loss (gain) on investments		105	(2,243)
Increase in prepayments		(269)	(56)
Operating cash flow before movements in working capital		<u>(2,599)</u>	<u>(4,115)</u>
Increase in insurance contract liabilities		12,837	4,840
Decrease in insurance contract assets		35	1,281
Increase (decrease) in financial liabilities from investment contracts		44	(80)
Decrease in reinsurance contract held liabilities		(188)	(1,524)
(Increase) decrease in reinsurance contract held assets		(1,302)	829
Increase in amount due to immediate holding company		40	53
Increase in amounts due from fellow subsidiaries		(3)	(20)
Increase in amounts due to fellow subsidiaries		16	24
Decrease (increase) in other debtors and deposits		163	(217)
Increase in other creditors and accrued charges		1,544	2,119
Cash generated from operations		10,587	3,190
Income tax paid		(28)	(51)
NET CASH FROM OPERATING ACTIVITIES		<u>10,559</u>	<u>3,139</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024 - continued

	<u>NOTES</u>	<u>2024</u>	<u>2023</u>
		HK\$'m	(restated) HK\$'m
INVESTING ACTIVITIES			
Dividends and interest received on investments in securities		3,587	3,129
Other interest received		266	252
Increase in loans receivable		(19)	(205)
Purchase of investments in securities		(32,464)	(17,228)
Proceeds on disposal of investments in securities		19,440	15,663
Purchase of plant and equipment	16	-	(35)
Purchase of intangible assets	19	(60)	(1,957)
Capital injection in an associate	15	-	(252)
Increase (decrease) in derivative financial liabilities		64	(96)
Increase in derivative financial assets		(186)	(229)
Decrease in financial liabilities from securities lending		(50)	(133)
Decrease in fixed time deposits with original maturity over three months	25	-	154
NET CASH USED IN INVESTING ACTIVITIES		<u>(9,422)</u>	<u>(937)</u>
FINANCING ACTIVITIES			
Subordinated loan raised	35	-	10
Repayment of subordinated loan	35	(560)	-
Payments of lease liabilities	35	(143)	(152)
Interest paid on subordinated loans	35	(18)	(25)
Dividends paid		(855)	-
NET CASH USED IN FINANCING ACTIVITIES		<u>(1,576)</u>	<u>(167)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(439)	2,035
CASH AND CASH EQUIVALENTS AT JANUARY 1		<u>5,865</u>	<u>3,830</u>
CASH AND CASH EQUIVALENTS AT DECEMBER 31		<u><u>5,426</u></u>	<u><u>5,865</u></u>
<u>Comprising:</u>			
Cash at bank and in hand	25	4,857	5,029
Fixed time deposits with original maturity within three months when acquired	25	569	836
		<u><u>5,426</u></u>	<u><u>5,865</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2024

1. GENERAL

The Company is an exempted company incorporated under the laws of the Islands of Bermuda with limited liability. Its immediate holding company is Sun Life Assurance Company of Canada ("Sun Life Assurance"), incorporated in Canada, and its ultimate holding company is Sun Life Financial Inc., incorporated and listed in Canada. The addresses of the registered office and principal place of business of the Company are Victoria Place, 5th Floor, 31 Victoria Street, Hamilton, Bermuda and 16th Floor, Cheung Kei Center Tower A, No. 18 Hung Luen Road, Hunghom, Kowloon, Hong Kong respectively.

The Company continues to be engaged in underwriting long term insurance business and retirement business in Hong Kong. Details of the principal activities of the Company's subsidiaries are set out in note 14 to the consolidated financial statements.

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is also the functional currency of the Company and all of its subsidiaries.

2. APPLICATION OF NEW AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group and the Company have applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after January 1, 2024 for the preparation of the consolidated financial statements.

Amendments to HKAS 1	Classification of Liabilities as Current or Noncurrent
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HK Int 5 (Revised)	Hong Kong Interpretation 5 (Revised) Presentation of Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

2. APPLICATION OF NEW AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

Amendments to HKFRSs in issue but not yet effective

The Group and the Company have not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKAS 21	Lack of Exchangeability ²
Amendments to HKFRS 9 and HKFRS 7	Classification and Measurement of Financial Instruments ³
HKFRS 18	Presentation and Disclosure in Financial Statements ⁴
HKFRS 19	Subsidiaries without Public Accountability: Disclosure ⁴
Amendments to HK Int 5	Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after January 1, 2025.

³ Effective for annual periods beginning on or after January 1, 2026.

⁴ Effective for annual periods beginning on or after January 1, 2027.

The directors of the Company anticipate that the application of these new and amendments to HKFRSs will have no material impact on this consolidated financial statements in the foreseeable future, except for HKFRS 18, which is expected to change the presentation and disclosures of the Group's consolidated financial statements but is not expected to impact the financial position or net results of the Group.

3. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of preparation

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include the applicable disclosures required by the Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value, for insurance and reinsurance contracts that are measured using estimates of future cash flows, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services when they are purchased.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group and the Company take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based payment, leasing transactions that are accounted for in accordance with HKFRS 16 Leases ("HKFRS 16"), and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 Impairment of Assets.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries.

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Interest in subsidiaries

Interest in subsidiaries, other than subsidiary that is an investment fund, is included in the Company's statement of financial position at cost less any identified impairment loss. The results of subsidiaries other than investment fund are accounted for by the Company on the basis of dividends received or receivable.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Interest in an associate

An associate is an entity over which the Group and the Company have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of the associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

On acquisition of the interest in an associate, any excess of the cost of the investment over the Group's and the Company's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of investment. Any excess of the Group's and the Company's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Goodwill

Goodwill arising on an acquisition of a subsidiary is carried at cost as established at the date of the acquisition of the subsidiary less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment before the end of that reporting period. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Goodwill - continued

On disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal. The Group's and Company's policy for goodwill arising on the acquisition of an associate is described above.

Dividend Income

Dividend income from investments is recognised when the Group's and the Company's rights to receive payment have been established.

Interest Income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is recognised using the effective interest method which is described in more detail below.

Revenue from contracts with customers

The Group and the Company recognise revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's and the Company's performance as the Group and the Company perform;
- the Group's and the Company's performance create or enhances an asset that the customer controls as the Group and the Company perform; or
- the Group's and the Company's performance do not create an asset with an alternative use to the Group and the Company, and the Group and the Company have an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Revenue from contracts with customers - continued

A contract asset represents the Group's and the Company's right to consideration in exchange for goods or services that the Group and the Company have transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's and the Company's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's and the Company's obligation to transfer goods or services to a customer for which the Group and the Company have received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Investment contract fees charged for managing investments are recognised as revenue as the services are provided. Given these services are rendered uniformly over time and are directly proportionate to the amount of assets under management the revenue is recognised as a stable percentage of assets under management over the period. The Group and the Company provide these services for investment contracts without DPF which combine a financial instrument and an investment management service obligation and for Mandatory Provident Fund ("MPF") contracts which are pure investment management service contracts.

Trustee fee income is recognised at a certain percentage of the adjusted daily net asset values of the funds for which the Group acts as a trustee.

Asset management fee income is generally recognised at a certain percentage of the adjusted daily net asset values of the funds under management.

Plant and equipment

Plant and equipment are tangible assets that are held for use in production or supply of services or for administrative purposes. Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of plant and equipment less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset is recognised in the profit or loss.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Intangible assets

Bancassurance arrangement between SLHK and DSB

A bancassurance arrangement of 15 years from July 1, 2023 to Jun 30, 2038 has been entered between the Company, Dah Sing Bank, Limited ("DSB") and Dah Sing Financial Holdings Limited (the parent company of DSB). Such agreement is qualified to be an intangible asset as it is a non-monetary asset without physical substance, and is identifiable through the distribution agreement with DSB, and has future economic benefits arising from the sales through the bancassurance arrangement in which is controlled by SLHK, being the exclusive supplier of DSB.

The upfront access fee paid by the Company to DSB is recognized as an intangible asset and amortized over the bancassurance term of 15 years. Any expenses relating to the sales of insurance contracts under HKFRS 17 are further reclassified to become part of the CSM of the related product cohorts as they are directly attributable acquisition expenses under HKFRS 17.

Subsequent to initial recognition, intangible assets are reported at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets that are internally-generated.

Deferred Origination Costs ("DOC")

Incremental costs of obtaining a contract

Origination costs are the incremental costs which are directly attributable to securing an investment management contract. The MPF contracts and the contracts that involve the provision of investment management services recognise DOC assets in accordance with HKFRS 15. The origination costs include commissions, and other incremental costs that are directly attributable to securing an investment management contract. An incremental cost is one that would not have been incurred if the entity had not secured the investment management contract. Origination costs on contracts with investment management services are deferred for one portfolio of contracts as set out in note 19.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Intangible assets - continued

Deferred Origination Costs ("DOC") - continued

Incremental costs of obtaining a contract - continued

The Group and the Company recognise such costs (sales commissions and other distribution costs) as an asset if the Group and the Company expect to recover these costs and those costs are essential to incur in order to obtain a contract with customer under HKFRS 15. The recognised asset is subsequently amortised to profit or loss in line with the revenue recognition from the provision of investment management services over time.

Impairment of non-financial assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group and the Company review the carrying amounts of non-financial assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated and Company's statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss "FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Financial instruments - continued

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition, unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified at the beginning of the reporting period during which the business model has changed.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt security is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity security that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income on an investment-by-investment basis.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Financial instruments - continued

Financial assets - continued

Financial assets at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss comprise two categories:

- financial assets or liabilities mandatorily classified as at fair value through profit or loss; and
- financial assets or liabilities designated at fair value through profit or loss upon initial recognition.

Management designates financial assets and liabilities at fair value through profit or loss if this eliminates a measurement or recognition inconsistency or if the liabilities are actively managed on a fair value basis, including among others debt securities held in participating funds and other participating business with distinct portfolios.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Dividend income from equity instruments measured at fair value through profit or loss is recognised in other investment return in the consolidated income statement, generally when the security becomes ex-dividend. Interest revenue is recognised on an accrued basis. For all financial assets and liabilities measured at fair value through profit or loss, changes in fair value are recognised in profit or loss as part of net investment result.

Transaction costs in respect of financial assets and liabilities at fair value through profit or loss are expensed as they are incurred.

Financial assets at fair value through other comprehensive income

These principally consist of the Group's debt securities (other than those backing participating funds, other participating business with distinct portfolios and unit-linked contracts). These financial assets are initially recognised at fair value plus attributable transaction costs and are subsequently measured at fair value. The difference between their cost and par value is amortised. Interest revenue is recognised in investment return in the consolidated income statement using the effective interest method.

Unrealised gains and losses on securities are analysed between differences resulting from foreign currency translation, and other fair value changes. Foreign currency translation differences are calculated as if they were carried at amortised cost and so are recognised in the consolidated income statement as other investment return. For impairments, reference is made to the section "Impairment of financial assets".

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Financial instruments - continued

Financial assets - continued

Financial assets at fair value through other comprehensive income - continued

Changes in the fair value of securities, except for impairment losses and relevant foreign exchange gains and losses, are recognised in other comprehensive income. Impairment losses and relevant foreign exchange gains and losses are recognised in the consolidated income statement.

Subsequent measurement

Equity securities, debt securities, mortgages and loans, that are classified or designated as FVTPL are recorded at fair value in the consolidated and Company's Statements of Financial Position, and gains or losses, including interest income, dividend income and foreign exchange gains and losses, are recognised in Net investment income (loss) in the consolidated and Company's Statements of profit or loss.

Debt securities and mortgages and loans that are classified as FVOCI are recorded at fair value. Interest income, foreign exchange gains (losses), and impairment are recognised in Net investment income (loss) in the consolidated Statements of profit or loss. Other gains or losses are recognised in OCI.

Other financial invested assets include investments in limited partnerships, segregated funds, mutual funds, that are classified as FVTPL. These financial assets are recorded at fair value, and gains or losses are recognised in Net investment income (loss) in the consolidated Statements of profit or loss.

Cash equivalents are highly liquid instruments with a term to maturity of three months or less. Cash equivalents are classified as FVTPL and the fair values are assumed to approximate their carrying values, due to their short-term nature or because they are frequently repriced to current market rates. Short-term securities are those that have a term to maturity exceeding three months but less than one year. The fair value of short-term securities is approximated by their carrying amount.

Derecognition

Financial assets are derecognised when our contractual rights to the cash flows of the financial asset have expired, or when we transfer the rights to receive contractual cash flows and substantially all the risks and rewards of owning the financial assets have been transferred. When we neither retain nor transfer substantially all the risks and rewards of ownership, the financial assets are derecognised if control over the financial assets have been relinquished. If we retain control of the financial assets, we continue to recognise the transferred assets to the extent of our continuing involvement.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Financial instruments - continued

Financial assets - continued

Derecognition - continued

When financial assets are derecognised, the difference between the carrying amount and the consideration received on the date of derecognition is recognised in Net investment income (loss) in the consolidated Statements of profit or loss. For debt securities at FVOCI, the cumulative gains (losses) previously recognised in OCI are reclassified to Net investment income (loss) in the consolidated Statements of profit or loss. For equity investments designated at FVOCI, the cumulative gains (losses) previously recognised in OCI are not reclassified to income.

Realised gains or losses on disposal of investments in securities are recognised on a trade date basis.

Impairment

We establish an allowance for expected credit losses ("ECL") for financial assets not classified or designated at FVTPL. The allowance for ECL on financial assets measured at FVOCI, including debt securities and mortgages and loans, does not reduce the carrying amount of the assets in the Consolidated and the Company's Statements of Financial Position, which remains at fair value. Rather, an amount equal to the allowance for ECL that would arise if the assets were measured at amortised cost is recognised in OCI, with changes in the allowance for ECL recognised in Provision for credit losses in Net investment income (loss) in the consolidated Statements of profit or loss.

At the end of each reporting period, we apply a three-stage impairment approach to measure the ECL on financial assets measured at FVOCI:

- Stage 1: For financial assets that have not experienced a significant increase in credit risk since the date of initial recognition, a loss allowance equal to the credit losses expected to result from default events occurring over the 12 months following the reporting date is recognised.
- Stage 2: For financial assets that have experienced a significant increase in credit risk since the date of initial recognition, a loss allowance equal to the credit losses expected to result from default events occurring over the remaining lifetime of the financial asset is recognised.
- Stage 3: When a financial asset is considered to be credit-impaired, a loss allowance equal to the ECL over the remaining lifetime of the financial asset is recognised. Interest income is calculated based on the carrying amount of the asset, net of the loss allowance.

We monitor all financial assets that are subject to impairment for significant increase in credit risk. In making this assessment, we consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Financial instruments - continued

Financial assets - continued

Impairment - continued

Significant increase in credit risk

The assessment of significant increase in credit risk requires judgment. We assign counterparties a relevant internal credit risk rating grade depending on their credit quality. Changes in borrower-specific internal risk ratings is a primary indicator of significant increase in credit risk.

At each reporting date, movements between Stage 1 and Stage 2 are determined based on whether an instrument's internal rating as at the reporting date has increased (decreased) significantly relative to the date it was initially recognized. We assess whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors. Unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due or moved to Watch List status and such assets are automatically migrated to Stage 2. Exposures are classified as "Watch List" when there is a moderate deterioration in credit quality, but the full payment of principal and interest is still expected to be collected, or there is an increased possibility of the exposure being impaired in the near term. No impairment charge is recorded for unrealized losses on assets related to these debtors.

Incorporation of forward-looking information

The measurement of ECL for each stage and the assessment of significant increase in credit risk considers future events and economic conditions. The probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") inputs used to estimate allowance for ECL are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Our estimation of ECL is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios (base case, upside and downside) and probability weights are attributed to each scenario. All scenarios considered are applied to all portfolios subject to ECL with the same probabilities. Our assessment of significant increase in credit risk is based on changes in internal rating as at the reporting date.

We subscribe to Moody's Analytics economic forecasting services and leverage its forward-looking macroeconomic information to model ECL.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Financial instruments - continued

Financial assets - continued

Impairment - continued

Modified financial assets

The contractual terms of a financial asset may be modified for a number of reasons, including changing market conditions and other factors not related to a current or potential credit deterioration of the borrower. An existing financial asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new financial asset at fair value in accordance with the accounting policies in this note.

If modification does not result in derecognition, the financial asset continues to be subject to the assessment for significant increase in credit risk relative to initial recognition. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For loans that were modified while having lifetime ECLs, such loans can revert to having 12-month ECLs if the borrower's financial condition that led to it being identified as credit-impaired are no longer present.

Definition of default

The definition of default used in the measurement of ECL is consistent with the definition of default used for our internal credit risk management purposes. We consider a financial asset to be in default when the issuer is unlikely to meet its credit obligations in full, without recourse action on our part, or when the financial asset is 90 days past due. Our definition of default may differ across financial assets and consider qualitative factors, such as the terms of financial covenants, breaches of such covenants, and other indicators of financial distress, as well as quantitative factors, such as overdue status and non-payment of other obligations under the same issuer. We use internally developed data and those obtained from external sources when assessing default.

Credit-impaired financial assets (Stage 3)

At each reporting date, we assess whether financial assets measured at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the borrower or economic conditions that correlate with defaults. If a financial asset is credit-impaired, interest income is calculated based on the carrying amount of the asset, which is net of the allowance for ECL, rather than on the gross carrying amount.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Financial instruments - continued

Financial assets - continued

Impairment - continued

Write-off of financial assets

The gross carrying amount of a financial asset, and the related allowance for ECL, is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when we determine that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with procedures for recovery of amounts due.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Group and the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including amounts due to immediate holding company/fellow subsidiaries, other creditors and subordinated loans are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Derecognition

The Group and the Company derecognise a financial liability when, and only when, the Group's and the Company's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

The Group and the Company use derivative financial instruments such as interest rate and foreign exchange swap contracts and forward foreign exchange contracts to hedge the risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are recognised on a trade date basis and are initially measured at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Financial liabilities from securities lending

Financial assets transferred as collateral in connection with securities lending agreements are not derecognised. They continue to be retained in the statement of financial position, and the consideration received is recorded as a financial liability.

Insurance and reinsurance contracts

Classification

Classification

Contracts under which the Company accepts significant insurance risk are classified as insurance contracts. Contracts held by the Company under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance contracts.

The key defining features of an insurance contract are:

- The transfer of risk from the policyholder to the entity
- The transfer of insurance risk (vs. financial risk)
- The transfer of significant insurance risk

A contract does not transfer significant insurance risk if there is no scenario with commercial substance in which the entity can suffer a loss on a present value basis. Insurance and reinsurance contracts also expose the Company to financial risk.

Insurance contracts may be issued and reinsurance contracts may be purchased by the Company. All references in these accounting policies to 'insurance contracts' and 'reinsurance contracts' include contracts issued or purchased by the Company, unless otherwise stated.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Classification - continued

For any contracts entered into by the Company that have the legal form of insurance contracts but do not transfer significant insurance risk, these contracts are classified as financial liabilities and are referred to as 'investment contracts'.

Insurance contracts are classified as direct participating contracts or contracts without direct participation features. Direct participating contracts are contracts for which, at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Company expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the Company expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

Investment contracts with DPF

The Company measure these contracts applying the variable fee approach ("VFA").

Combination and Separation of Contracts

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Combination and Separation of Contracts - continued

Investment components

The Group identifies the investment component of an insurance contract by determining the amount that it would be required to repay to the policyholder in all circumstances, regardless of whether an insured event occurs. Investment components of insurance contracts are treated as separate investment contracts only if the investment component is not highly interrelated with the insurance component and a contract with equivalent terms could be sold separately in the same market. Investment components that are not separated are accounted for as non-distinct investment components of insurance contracts.

Service components

Service components of insurance contracts are treated as separate service contracts only if the service component is not highly interrelated with the insurance component and we provide no significant service in integrating the service component with the insurance component. Service components that are not separated are accounted for with insurance contracts.

Insurance components

Insurance components of insurance contracts are treated as separate contracts only if the insurance component constitutes a separate insurance contract (e.g., certain reinsurance treaties that transfer risk on different types of insurance contracts).

For insurance contracts where both parties to the contract have the practical ability to terminate the contract, the extension of the contract beyond the termination date is treated as a new and separate contract. This occurs for most group life and health insurance contracts every year, when we have the right to reprice the contract and the policyholder has the option to not renew the contract. In such instances, each renewal is considered a new and separate contract. This also applies for many reinsurance contracts held, where the reinsurer has the right to reprice new cessions and we have the right to cease ceding new contracts with a notice period. In such instances, the cessions within each notice period are considered a new and separate reinsurance contract held.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Level of aggregation and recognition

Insurance contracts

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

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Level of aggregation and recognition - continued

Insurance contracts - continued

An insurance contract acquired in a transfer of contracts or a business combination is recognised on the date of acquisition.

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

Reinsurance contracts held

Reinsurance contracts held by the Company cover underlying insurance contracts and they are aggregated into groups for measurement purposes. Reinsurance contracts are grouped into portfolio in accordance with the direct portfolios. The Reinsurance Portfolios are further split by cohort so that the reinsurance treaty within the same cohort will not be longer than one year apart in terms of issue date.

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

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

Fulfilment cash flows and contract boundaries

Fulfilment cash flows

Fulfilment cash flows comprise:

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

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Fulfilment cash flows and contract boundaries - continued

Fulfilment cash flows - continued

Further details of the related methodology and assumptions in respect of estimation of fulfilment cash flows are provided in note 19.

Contract boundaries

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

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

A substantive obligation to provide insurance contract services ends when:

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

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

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Insurance acquisition cash flow

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

Measurement - Insurance contracts not measured under the premium allocation approach (“PAA”)

Initial measurement

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

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

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

The risk adjustment for non-financial risk represents the compensation required for uncertainty related to non-financial risk (mortality, morbidity, surrender and expenses, etc.). The risk adjustment is reduced as the non-financial risks of our insurance contracts diminish over time (“release of risk adjustment”). This amount is measured as the present value of the difference between estimated future cash flows with a margin applied to non-financial assumptions and estimated future cash flows without this adjustment. A margin is assessed for each non-financial assumption. Margins can take different forms but usually as a percentage of best estimate assumption and applied in the direction that results in larger liability. Margins generally range from 5% to 20% of best estimate assumption depending on the uncertainty in the determination of the assumption. The level of uncertainty, and hence the margin chosen, varies by assumption and by line of business and other factors. Considerations that would generally lead to a choice of margin at the higher end of the range are as follows:

- The statistical credibility of our experience is too low to be the primary source of data for choosing the assumption;
- Future experience is difficult to estimate;
- The cohort of risks lacks homogeneity;
- Operational risks adversely impact the ability to estimate the assumption; or

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Measurement - Insurance contracts not measured under the PAA - continued

Initial measurement - continued

- Past experience may not be representative of future experience and the experience may deteriorate.

Margins are generally stable over time and are revised only to reflect changes in the level of uncertainty in the assumptions.

The risk adjustment for reinsurance contracts held represents the amount of risk transferred to the reinsurer. This is measured as the difference between the risk adjustment on the underlying insurance contracts without reinsurance and what the risk adjustment (“RA”) on the underlying insurance contracts would be with reinsurance. The risk adjustment for reinsurance contracts held increases the asset or reduces the liability for reinsurance contracts held.

The risk adjustment confidence interval is calculated at an aggregate group-wide company level. The risk adjustment for insurance contracts corresponds to a confidence interval of approximately 85%-90% overall.

The CSM of a group of contracts represents the unearned profit that the Company will recognise as it provides services under those contracts. On initial recognition of a group of contracts, if the total of the fulfilment cash flows, any cash flows arising at that date and any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group (including assets for insurance acquisition cash flows) is a net inflow, then the group is not onerous.

In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition.

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

Subsequent measurement

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

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Measurement - Insurance contracts not measured under the PAA - continued

Subsequent measurement - continued

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

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

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

Insurance contracts without direct participation features

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

- the CSM of any new contracts that are added to the group in the period;
- interest accreted on the carrying amount of the CSM during the period, measured at the discount rates determined on initial recognition that are applied to nominal cash flows that do not vary based on the returns on underlying items. The locked-in discount rate is the weighted average of the rates applicable at the date of initial recognition of contracts that joined a group on a quarterly basis. The discount rate used for accretion of interest on the CSM is determined using the top-down approach at inception;
- changes in fulfilment cash flows that relate to future services, except to the extent that:
 - any increases in the fulfilment cash flows exceed the carrying amount of the CSM, in which case the excess is recognised in insurance service expenses and recognised as a loss component in LRC; or
 - any decreases in the fulfilment cash flows adjust the loss component in the LRC and the corresponding amount is recognised in insurance service expenses. If the loss component is reduced to zero, the excess reinstates the CSM;

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Measurement - Insurance contracts not measured under the PAA - continued

Subsequent measurement – continued

Insurance contracts without direct participation features - continued

- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue for service provided in the period.

Changes in fulfilment cash flows that relate to future services mainly comprise:

- experience adjustments arising from premiums received in the period that relate to future services and related cash flows, measured at the discount rates determined on initial recognition;
- changes in estimates of the present value of future cash flows in the LRC, measured at the discount rates determined on initial recognition, except for those that relate to the effects of the time value of money, financial risk and changes therein;
- differences between (a) any investment component expected to become payable in the period, determined as the payment expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable; and (b) the actual amount that becomes payable in the period;
- differences between (a) any loan to a policyholder expected to become repayable in the period, determined as the repayment expected at the start of the period plus any insurance finance income or expenses related to that expected repayment before it becomes repayable; and (b) the actual amount that becomes repayable in the period; and
- changes in the risk adjustment for non-financial risk that relate to future services.

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

Insurance contracts with direct participation features

Contracts with direct participation features are contracts under which the Company's obligation to the policyholder is the net of:

- the obligation to pay the policyholder an amount equal to the fair value of the underlying items; and

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Measurement - Insurance contracts not measured under the PAA - continued

Subsequent measurement - continued

Insurance contracts with direct participation features - continued

- a variable fee in exchange for future services provided by the contracts, being the amount of the Company's share of the fair value of the underlying items less fulfilment cash flows that do not vary based on the returns on underlying items. The Company provides investment services under these contracts by promising an investment return based on underlying items, in addition to insurance coverage.

When measuring a group of contracts with direct participation features, the Company adjusts the fulfilment cash flows for the changes in the obligation to pay policyholders an amount equal to the policyholder's share of the fair value of the underlying items. These changes do not relate to future services and are recognised in profit or loss.

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

- the CSM of any new contracts that are added to the group in the period;
- the change in the amount of the Company's share of the fair value of the underlying items and changes in fulfilment cash flows that relate to future services, except to the extent that:
 - a decrease in the amount of the Company's share of the fair value of the underlying items, or an increase in the fulfilment cash flows that relate to future services, exceeds the carrying amount of the CSM. The excess is recognised in insurance service expenses and recognised as a loss component in LRC; or
 - an increase in the amount of the Company's share of the fair value of the underlying items, or a decrease in the fulfilment cash flows that relate to future service, which adjusts the loss component in the LRC and the corresponding amount is recognised in insurance service expenses. If the loss component is reduced to zero, the excess reinstates the CSM.
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue for service provided in the period.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Measurement - Insurance contracts measured under the PAA

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

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

Initial measurement

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

Subsequent measurement

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Measurement - Reinsurance contracts held

Reinsurance contracts held by the Company cover underlying insurance contracts. The reinsurance contracts held portfolios are divided into:

- any contracts on which there is a net gain on initial recognition;
- any contracts on which there is a net cost on initial recognition that is not immediately recognised through profit or loss that have no significant possibility of a net gain arising subsequent to initial recognition; and
- any contracts on which there is a net cost on initial recognition that is immediately recognised through profit or loss remaining contracts in the portfolio.

For groups of reinsurance contracts held, the Company applies the same accounting policies as that applied to insurance contracts without direct participation features, with the following modifications.

The carrying amount of a group of reinsurance contracts held at each reporting date is the sum of the asset for remaining coverage and the asset for incurred claims. The asset for remaining coverage comprises (a) the fulfilment cash flows that relate to services that will be received under the contracts in future periods and (b) any remaining CSM at that date.

The Company measures the estimates of the present value of future cash flows using assumptions that are consistent with those used to measure the estimates of the present value of future cash flows for the underlying insurance contracts, with an adjustment for any risk of non-performance by the reinsurer. The effect of the non-performance risk of the reinsurer is assessed at each reporting date and the effect of changes in the non-performance risk is recognised in profit or loss.

The risk adjustment for non-financial risk is the amount of risk being transferred by the Company to the reinsurer.

On initial recognition, the CSM of a group of reinsurance contracts held represents a net cost or net gain on purchasing reinsurance. It is measured as the equal and opposite amount of the total of (a) the fulfilment cash flows, (b) the amount arising from assets or liabilities previously recognised for cash flows related to the group, before the group is recognised, (c) cash flows arising from the contracts in the group at that date and (d) any income recognised in profit or loss because of onerous underlying contracts recognised at that date. However, if any net cost on purchasing reinsurance coverage relates to insured events that occurred before the purchase of the reinsurance, then the Company recognises the cost immediately in profit or loss as an expense.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Measurement - Reinsurance contracts held - continued

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

- the CSM of any new contracts that are added to the group in the period;
- interest accreted on the carrying amount of the CSM during the period, measured at the discount rates determined on initial recognition that are applied to nominal cash flows;
- income recognised in profit or loss in respect of a loss recognised for onerous underlying contracts. A loss-recovery component is established or adjusted in the asset for remaining coverage of reinsurance contracts held for the amount of income recognised;
- reversals of a loss-recovery component to the extent that they are not changes in the fulfilment cash flows of the group;
- changes in fulfilment cash flows that relate to future services, measured at the discount rates determined on initial recognition, unless the changes result from changes in fulfilment cash flows of onerous underlying contracts, in which case they are recognised in profit or loss and create or adjust a loss-recovery component;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised in profit or loss for the services received in the period.

Reinsurance of onerous underlying insurance contracts

The Company adjusts the CSM of the group to which a reinsurance contract held belongs and as a result recognises income when it recognises a loss on initial recognition of onerous underlying contracts, if the reinsurance contract held is entered into before or at the same time as the onerous underlying contracts are recognised. The adjustment to the CSM is determined by multiplying:

- the amount of the loss that relates to the underlying contracts; and
- the percentage of claims on the underlying contracts that the Company expects to recover from the reinsurance contracts held.

If the reinsurance contract held covers only some of the insurance contracts included in an onerous group of contracts, then the Company uses a systematic and rational method to determine a portion of losses recognised on the onerous group of contracts containing the insurance contracts covered by the reinsurance contract held.

A loss-recovery component is established or adjusted in the asset for remaining coverage of reinsurance contracts held, which determines the amounts that are subsequently presented in profit or loss as reversals of recoveries of losses from the reinsurance contracts held and are excluded from the allocation of reinsurance premiums paid.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Measurement - Reinsurance contracts held - continued

Reinsurance contracts held measured under the PAA

An immaterial amount of reinsurance contracts initiated by the Company are measured under the PAA.

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. In such cases, the Company derecognises the initial contract and recognises the modified contract as a new contract.

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. Any assets for insurance acquisition cash flows recognised before the corresponding insurance contracts are recognised are included in the carrying amount of the related portfolios of insurance contracts issued.

The Company disaggregates the amounts recognised in the statement of profit or loss into an insurance service result, comprising insurance revenue and insurance service expenses, and insurance finance income or expenses.

The Company will separate the change in risk adjustment for non-financial risk into financial and non-financial portion.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Presentation - continued

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

Insurance revenue

The Company's insurance revenue depicts the provision of services arising from a group of insurance contracts at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. Insurance revenue from a group of insurance contracts is therefore the relevant portion for the period of the total consideration for the contracts, (i.e., the amount of premiums paid to the Company adjusted for financing effect (the time value of money) and excluding any investment components). The total consideration for a group of contracts covers amounts related to the provision of services and comprises:

- insurance service expenses, excluding any amounts relating to the risk adjustment for non-financial risk and any amounts allocated to the loss component of the liability for remaining coverage;
- amounts related to income tax that are specifically chargeable to the policyholder;
- the risk adjustment for non-financial risk, excluding any amounts allocated to the loss component of the liability for remaining coverage;
- the CSM release; and
- amounts related to insurance acquisition cash flows.

Loss components

The Company has grouped contracts that are onerous at initial recognition separately from contracts in the same portfolio that are not onerous at initial recognition. Groups that were not onerous at initial recognition can also subsequently become onerous if assumptions and experience changes. The Company has established a loss component of the liability for remaining coverage for any onerous group depicting the future losses recognised.

A loss component represents a notional record of the losses attributable to each group of onerous insurance contracts (or contracts profitable at inception that have become onerous). The loss component is released based on a systematic allocation of the subsequent changes relating to future service in the fulfilment cash flows to: (i) the loss component; and (ii) the liability for remaining coverage excluding the loss component. The loss component is also updated for subsequent changes relating to future service in estimates of the fulfilment cash flows and the risk adjustment for non-financial risk. The systematic allocation of subsequent changes to the loss component results in the total amounts allocated to the loss component being equal to zero by the end of the coverage period of a group of contracts (since the loss component will have been materialised in the form of incurred claims).

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Presentation - continued

Loss-recovery components

When 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.

Where a loss component has been set up subsequent to initial recognition of a group of underlying insurance contracts, the portion of income that has been recognised from related reinsurance contracts held is disclosed as a loss-recovery component.

Where a loss-recovery component has been set up at initial recognition or subsequently, the Company adjusts the loss-recovery component to reflect changes in the loss component of an onerous group of underlying insurance contracts.

The carrying amount of the loss-recovery component must not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the Company expects to recover from the group of reinsurance contracts held. On this basis, the loss-recovery component recognised at initial recognition is reduced to zero in line with reductions in the onerous group of underlying insurance contracts and is nil when loss component of the onerous group of underlying insurance contracts is nil.

Net expense from reinsurance contracts held

Net expense from reinsurance contracts held comprises an allocation of reinsurance premiums paid less amounts recovered from reinsurers and commissions from an allocation of reinsurance premiums. The Company treats reinsurance cash flows that are contingent on claims of the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held, and excludes investment components presented on the face of the statement of profit or loss and other comprehensive income. Amounts relating to the recovery of losses relating to reinsurance of onerous direct contracts are included as amounts recoverable from the reinsurer.

The Company presents on a net basis for the amounts received from the reinsurer and an allocation of premiums paid.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Insurance and reinsurance contracts - continued

Presentation - continued

Insurance finance income or expenses

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

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

The Company did not elect to disaggregate insurance finance income or expenses on insurance contracts issued between profit or loss and other comprehensive income because the related financial assets are managed on a fair value basis and measured at fair value through profit or loss.

Revenues

Revenues comprise:

- insurance revenue;
- interest revenue calculated using the effective interest method;
- other investment revenue, which includes net fair value gains on financial assets at FVTPL, net realised gains on financial assets and dividends on equity securities.

Investment contracts

Liabilities for investment contracts without DPF are measured at FVTPL or amortized cost. Contract recorded at FVTPL are measured at fair value at inception and each subsequent reporting period. At each subsequent period, changes in fair value of investment contract liabilities recorded at FVTPL are recorded as net investment income (loss) in our consolidated statement of profit or loss.

Provisions

Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event, it is probable that the Group and the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

For the life and annuity business, the charge for taxation is based on the assessable profit which is deemed to be five percent of the net premium income for the year.

For the other businesses, the tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The liabilities for current tax are calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group and the Company are able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Company expect, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Taxation - continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Share-based payment transactions

For cash-settled share-based payments, the Group and the Company measure the goods or services acquired and the liability incurred at the fair value of the liability. At the end of the reporting period, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognised in profit or loss.

Foreign currencies

In preparing the financial statement of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application of HKFRS 16 or arising from business combinations, the Group and the Company assess whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Leases - continued

The Group and the Company as a lessee

Short-term leases

The Group and the Company apply the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group and the Company; and
- an estimate of costs to be incurred by the Group and the Company in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group and the Company are reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of the assets' estimated useful life and the lease term.

Lease liabilities

At the commencement date of a lease, the Group and the Company recognise and measure the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group and the Company use the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Leases - continued

The Group and the Company as a lessee - continued

Lease liabilities - continued

The Group and the Company remeasure lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which case the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group and the Company account for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group and the Company remeasure the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group and the Company account for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use assets. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group and the Company allocate the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the MPF Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

3. MATERIAL ACCOUNTING POLICY INFORMATION - continued

Retirement benefit costs - continued

The Group and the Company are obliged to pay Long Service Payment (“LSP”) to employees under certain circumstances. Meanwhile, the Group and the Company make mandatory MPF contributions to the trustee who administers the assets held in a trust solely for the retirement benefits of each individual employee. Offsetting of LSP against an employee’s accrued retirement benefits derived from employers’ MPF contributions was allowed under the Employment Ordinance (Cap.57). In June 2022, the Government of the HKSAR gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”) which abolishes the use of the accrued benefits derived from employers’ mandatory MPF contributions to offset severance payment and LSP (the “Abolition”). The Abolition will officially take effect on May 1, 2025 (the “Transition Date”).

The Group and the Company considered the accrued benefits arising from employer MPF contributions that have been vested with the employee and which could be used to offset the employees’ LSP benefits as a deemed contribution by the employee towards the LSP. Historically, the Group and the Company have been applying the practical expedient in paragraph 93(b) of HKAS 19 to account for the deemed employee contributions as a deduction of the service cost in the period in which the related service is rendered.

Based on the HKICPA’s guidance, as a result of the Abolition, these contributions are no longer considered linked solely to the employee’s service in that period since the mandatory employer MPF contributions after the Transition Date can still be used to offset the pre-transition LSP obligation. Therefore, it would not be appropriate to view the contributions as independent of the number of years of service and the practical expedient in paragraph 93(b) of HKAS 19 is no longer applicable. Instead, these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit applying paragraph 93(a) of HKAS 19. Accordingly, the Group and the Company have assessed and considered that the impact in profit or loss for the service cost interest expense and remeasurement effect from changes in actuarial assumptions for the year ended December 31, 2024 are immaterial.

Cash equivalents

Cash equivalents represent short-term and highly liquid placements which are used by the Group and the Company in their cash management and which are readily convertible into a known amount of cash, subject to an insignificant risk of changes in value.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's and the Company's accounting policies, which are described in note 3, management is required to make various judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of estimation uncertainty and the critical judgments that can significantly affect the amounts recognised in the consolidated financial statements are disclosed below.

Classification of insurance products

The classification of insurance products into insurance contracts is determined by reference to whether the contracts transfer significant insurance risk. This determination is subject to management's judgement. Insurance contracts and investment contracts are subject to different basis of measurement of liabilities.

Level of aggregation and recognition of group of insurance contracts

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

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

Groups of contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risk and managed together and dividing each portfolio into cohorts and each cohorts into three groups based on profitability:

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

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

Measurement of insurance contracts not measured under the PAA

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION
UNCERTAINTY - continued

Measurement of insurance contracts not measured under the PAA - continued

The fulfilment cash flows of insurance contracts (including investment contracts with DPF) represent the present value of estimated future cash outflows, less the present value of estimated future cash inflows and adjusted for a provision for the risk adjustment for non-financial risk. The assumptions used and the techniques for estimating fulfilment cash flows and risk adjustment for non-financial risk are based on actual experience. The Company exercises significant judgement in making appropriate assumptions and techniques.

The judgements exercised in the valuation of insurance contracts (including investment contracts with DPF) affect the amounts recognised as assets or liabilities of insurance contracts and investment contracts with DPF. Further details of the related accounting policies in respect of insurance contracts are provided in note 3.

Determination of coverage unit

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

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

For contracts providing predominantly insurance coverage, the quantity of services is determined for the contract as a whole based on the expected maximum benefits less investment component. For contracts providing multiple services, the quantity of services is determined based on the benefits provided to policyholder for each service with the one-to-one weighting considered in the calculation through the use of factors. Relevant elements are considered in determining the quantity of service including among others, benefit payments and premiums. Bow-wave adjustment has been applied to coverage units. Bow-wave is the adjustment to capture the difference of the CSM amortisation between real world return and risk neutral return. The Company applies judgement in these determinations.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION
UNCERTAINTY - continued

Determination of coverage unit - continued

For reinsurance contracts held, the CSM amortisation reflects the expected pattern of underwriting of the underlying contracts because the level of service received depends on the number of underlying contracts in-force.

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

Insurance contracts – contract boundary modification and derecognition

During the medical annual review in 2022, Sun Life Hong Kong (SLHK) identified evidence of higher risk for existing policyholders compared to new policyholders, based on the experience of WeHealth, one of the best-selling renewable medical products under the Voluntary Health Insurance Scheme (VHIS).

SLHK enhanced the pricing approach for renewable medical products to explicitly consider future risks of the portfolio, i.e., a lifetime portfolio pricing approach. SLHK also changed the medical claim valuation assumptions to reflect the select and ultimate bases captured in our enhanced pricing approach.

Under HKFRS 17, the change in pricing and valuation assumptions triggered a reassessment of the contract boundary. This in turn necessitated a change in the valuation approach from PAA to general measurement model (“GMM”). SLHK reported this change as a contract modification, de-recognizing the existing PAA contracts and recognizing the GMM contracts. Rather than reporting the newly recognised GMM contracts under new business SLHK created a new line in the financials to reflect this unique reporting requirement. This change was effective on June 30, 2023.

Assets representing rights under investment management service contracts

The Group and the Company sell investment management service contracts under MPF contracts. A critical judgment is whether the costs incurred to secure these contracts that are directly attributable to the sale and incremental to the cost base (e.g. commissions) are likely to be recoverable from future investment management service revenues. When this threshold is passed a DOC asset is recognised and accounted for to represent the Group's and the Company's rights under these investment management service contracts. A critical judgment is to assess the probability of the recoverability of these assets at initial recognition and when the threshold for recognising the asset is passed, to establish an amortisation that is aligned with the recognition of revenues from the investment management service rendered and to assess, for each portfolio of contracts, that the unamortised asset is fully recoverable from future net revenues.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION
UNCERTAINTY - continued

Assets representing rights under investment management service contracts - continued

Management considered that there is high probability of recovering the DOC on the portfolio of MPF contracts. Having considered the projected net revenues the Group and the Company have concluded that the closing balance of HK\$834,000,000 (2023: HK\$882,000,000) is not subject to any impairment.

Intangible assets arising from acquisitions

The Group and the Company make estimates of future sales, policy decrement, expenses and other market factors, which form the basis of the assumptions used to calculate the intangible assets arising from acquisitions as disclosed in note 19. The assumptions which have the greatest effect on the measurement of the intangible assets are the future sales and risk adjusted discount rate. These assumptions were determined on a prudent basis with reference to past experience.

Impairment of goodwill and other intangible assets

For the purposes of impairment testing, goodwill and other intangible assets are grouped into cash-generating units. These assets are tested for impairment by comparing the carrying amount of the cash-generating unit, including goodwill, to the recoverable amount of that cash-generating unit. The determination of the recoverable amount requires significant judgement regarding the selection of appropriate valuation techniques and assumptions which are disclosed in the note 19 of this consolidated financial statements.

Fair value of financial instruments

The directors of the Company use their judgment in selecting an appropriate valuation technique for financial instruments measured at fair value under level 3 fair value hierarchy. The carrying value and valuation process for Level 3 assets are disclosed in the note 6 of these consolidated financial statements.

5. CAPITAL MANAGEMENT

The Group and the Company have an operating guideline designed to ensure that adequate capital is maintained and to provide the flexibility necessary to take advantage of growth opportunities and to support the risks associated with the Group's and the Company's business. The Company has early adopted the Hong Kong Risk-based Capital ("HKRBC") solvency regime since June 30, 2023. The overall strategy and approach to managing capital of the Company has been updated to ensure that an appropriate balance is maintained between the internal assessment of capital required and the prescribed capital requirements under HKRBC. During both years, the Company has complied with the externally imposed capital requirements, and since the early adoption of HKRBC, the Company has maintained a solvency position higher than the prescribed capital requirement applicable to the Group and the Company in accordance with the HKRBC Early Adoption Technical Specifications.

6. INSURANCE AND FINANCIAL RISK MANAGEMENT

Insurance risk

The Group and the Company are in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents, and related risks. Appropriate reinsurance has been arranged with several reputable international reinsurers to mitigate the risk of large mortality and morbidity fluctuations affecting the population of Hong Kong to which the majority of the Group's and the Company's policyholders belongs. The Group and the Company are not exposed to material claims concentration after taking into account the reinsurance arrangements. The retained net amount at risk after reinsurance on a single insured is limited. The Group and the Company have been following specific corporate guidelines and policies in underwriting and claims liability risk management to further mitigate the net insurance risk retained. Careful assessments are made in the selection, assumption and classification of risks in accordance with the Group's and the Company's underwriting principles. Limits are in place for any acceptable risk underwritten. In-force business is monitored to ensure the risk exposures in specific blocks of business develop in accordance with the pricing of those risks. Acceptance of risk will also be consistent with the Group's and the Company's financial capacity measured by its level of solvency capital. These procedures have not changed from last year and management continues to assess that they have kept the Group's and the Company's insurance risk sufficiently diversified to ensure there is no exposure to unreasonable concentration of risk.

The Group and the Company seek to pay all legitimate claims promptly and in accordance with both applicable regulatory requirements and internal guidelines. The requirements and processing of claims vary according to the products and nature of risk. The Group and the Company maintain documentation on claims administration, adjudication and investigation principles as well as procedural issues.

For traditional participating policies, dividends and bonuses could be adjusted according to the mortality and morbidity fluctuations if necessary.

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6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Sensitivities

The following table sets out the estimated immediate impact on, or sensitivity of, the CSM and net income to changes in the insurance and other non-financial assumptions used in the calculation of our insurance contract liabilities, based on a starting point and business mix as at December 31, 2024 and December 31, 2023. These sensitivities are calculated independently for each risk factor, generally assuming that all other risk variables stay constant. The estimates are illustrative and use different starting points for best estimate assumptions, CSM balances and business mix will result in different estimated sensitivities.

The impact on CSM is attributable to insurance contracts measured using the GMM and VFA. For insurance contracts measured using the GMM, the impact flows through the CSM at locked-in discount rates. For insurance contracts measured using the VFA, the impact flows through the CSM at current discount rates.

As at December 31	2024				2023			
	Potential impact on CSM		Potential impact on net		Potential impact on CSM		Potential impact on net	
	(pre-tax)		income/equity (pre-tax)		(pre-tax)		income/equity (pre-tax)	
Sensitivities	Insurance contracts issued	Net of reinsurance contracts held	Insurance contracts issued	Net of reinsurance contracts held	Insurance contracts issued	Net of reinsurance contracts held	Insurance contracts issued	Net of reinsurance contracts held
Policyholder Behaviour (10% increase / decrease, where adverse)	(540)	(516)	7	5	(499)	(470)	16	14
Life Mortality rates (2% increase)	(19)	(14)	(1)	(2)	(7)	(6)	(10)	(6)
Morbidity rates (5% incidence increase and 5% termination decrease)	(300)	(291)	16	15	(261)	(240)	28	26
Expenses (5% increase)	(179)	(129)	6	6	(166)	(114)	5	5

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Lapse risk

Lapse risk is the risk of fluctuation of the Group's and the Company's cash flows and profit due to high level of lapse/surrender by policyholder. Different surrender charges may apply to different products to compensate loss due to lapse or surrender. This may result in a gain at the time of surrender if the reserves release is greater than the surrender charges. Surrenders also result in the loss of normally expected profits from the policies in question. Persistency bonus on agency compensation and loyalty bonus features on some products serve as an incentive to reduce early surrenders.

Market risk

Market risk is the risk of changes in fair value of financial instruments and in the carrying amount of insurance contracts from fluctuation in interest rates (interest rate risk), foreign exchange rates (currency risk) and market prices (price risk).

The Group and the Company structure the levels of market risk they accept through an ongoing evaluation that includes determining what constitutes market risk for the Group and the Company, the basis used to fair value the financial assets and liabilities and to measure insurance/ reinsurance assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument and geographical area; the net exposure limits by geographical segments for investments in countries other than Hong Kong and the United States of America; monitoring compliance with investment limits and guidelines and reviewing for pertinence and changing environment.

The Group and the Company have set up investment guidelines and mandates for the long-term business fund. By following the investment policy, the Group and the Company limit the exposure to investments in securities by setting minimum limits of the portfolio mix in bonds and maximum limits of portfolio mix in equities and other investments. Currency and maturity are managed in accordance with the underlying liability characteristics, giving considerations to economic and competitive environments and availability of investment assets of the required maturities. The Group and the Company impose overall limits on credit quality on fixed income portfolios. The Group and the Company also only deal with institutions and counterparties with high creditworthiness.

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Interest rate risk

Interest rate risk is the risk that the fair value/future cash flows of a financial instrument and/or an insurance contract will fluctuate because of changes in interest rates. Certain insurance and investment contracts that the Group and the Company issue include interest/credit rate guarantees which expose the Group and the Company to losses if the assets backing those contracts' liabilities generate lower returns than the benefit accrued to the policyholders at the respective guaranteed interest/credit rate.

The Group and the Company have a duration matching policy for each portfolio of assets and associated liabilities to keep potential losses within acceptable limits. In addition, the Group and the Company also purchase derivatives to hedge against their exposures to changes in fair values.

Interest Rate Sensitivities

The following table sets out the estimated immediate impact on, or sensitivity of, our net income and on the CSM to certain instantaneous changes in interest rates as at December 31, 2024 and December 31, 2023

	<u>Interest Rate Sensitivities</u>			
	50 basis point decrease		50 basis point increase	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Potential impact on net income (pre-tax) ⁽¹⁾	50	20	(50)	(20)
CSM impact ⁽¹⁾	380	270	(380)	(150)

⁽¹⁾ The impact has been rounded to increments of HK\$10m.

The sensitivity analysis above is based on a simplified scenario on 50 basis point change in interest rates. Significant changes in market variables may result in other than proportionate impacts on our sensitivities.

The Group's and the Company's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Currency risk

The Group and the Company undertake certain transactions denominated in foreign currencies, and therefore the Group and the Company are exposed to exchange rate fluctuations. It is the Group's and the Company's policy to match their assets and liabilities by currency to minimise their exposure to currency risk to the maximum extent practicable. The Group and the Company sell insurance policies denominated in HK\$, Chinese yuan ("RMB"), and United States dollars ("US\$") and the currency mismatch exposure for the Group and the Company arises from the use of US\$ assets to back US\$ liabilities. Where appropriate, HK\$/RMB and HK\$/US\$ currency derivatives are used to minimise currency mismatch between assets and liabilities.

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities, including insurance-related assets and liabilities, at the reporting date are as follows:

	<u>Liabilities</u>		<u>Assets</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
	HK\$m	HK\$m	HK\$m	HK\$m
US\$	79,379	66,915	97,947	84,390
RMB	26,249	25,618	12,697	14,274

The Group's and the Company's exposure to currency risk is mainly in HK\$ against US\$. To limit the currency risk, the Group and the Company have entered into derivative contracts, namely forward foreign exchange contracts and foreign exchange swap contracts, to convert US\$ into HK\$ with a notional amount of HK\$30,723 million (2023: HK\$27,239 million). The Group's and the Company's net exposures in US\$, at the reporting date, after taking into account the derivative contracts, amounted to net liabilities of HK\$1.8 billion (2023: HK\$2.5 billion net liabilities).

Accordingly, no sensitivity analysis is prepared as the management considered that the effect is insignificant after the above hedging arrangement.

Price risk

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

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

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Price risk - continued

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

Equity Market Sensitivities

The following table sets out the estimated immediate impact on, or sensitivity of, our net income and CSM to certain instantaneous changes in equity market prices as at December 31, 2024 and December 31, 2023.

	<u>Equity Market Sensitivities</u>			
	10% decrease		10% increase	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Potential impact on net income (pre-tax) ⁽¹⁾	30	100	(30)	(90)
CSM impact ⁽¹⁾	(300)	(190)	250	190

(1) The impact has been rounded to increments of HK\$10m.

The sensitivity analysis above is based on a simplified scenario on 10% increase and decrease in equity price.

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Credit risk

Credit risk to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and the Company. It is the Group's and the Company's investment policy to invest in diversified portfolios that target a portfolio average of investment grade. In addition, only reputable international reinsurers are chosen as the Group's and the Company's reinsurers to reduce their default risk.

The Group and the Company do not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds, debt instruments and derivative financial instruments is limited because the counterparties are banks or financial institutions with high credit ratings assigned by international credit-rating agencies.

Analysis for underlying credit rating of debt securities:

THE GROUP

	<u>2024</u>	<u>2023</u>
AAA	6 %	4 %
AA	19 %	20 %
A	38 %	39 %
BBB	36 %	35 %
BB and lower	1 %	2 %
Total	<u>100 %</u>	<u>100 %</u>

THE COMPANY

	<u>2024</u>	<u>2023</u>
AAA	6 %	4 %
AA	19 %	20 %
A	38 %	39 %
BBB	36 %	35 %
BB and lower	1 %	2 %
Total	<u>100 %</u>	<u>100 %</u>

The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract and transaction. The Group and the Company maintain records of the payment history for these counterparties with whom they conduct regular business.

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

The credit risk of the limited partnership investment is insignificant due to managers' credit risk management capabilities, strict guidelines on credit quality and portfolio diversification, and on-going frequent review and timely follow-up.

The credit risk arising from the reinsurance contracts is considered to be immaterial.

Credit spread sensitivities

Credit spread sensitivities reflect the impact of changes in credit spreads on our asset and liability values (including provincial government bonds, corporate bonds, and other fixed income assets).

The following tables set out the sensitivity of, our net income to certain instantaneous changes in credit spreads and our net income and CSM as at December 31, 2024 and December 31, 2023.

	<u>Credit Spreads Sensitivities</u>			
	50 basis point decrease		50 basis point increase	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Potential impact on net income (pre-tax) ⁽¹⁾	200	140	(160)	(110)
CSM impact ⁽¹⁾	-	50	(80)	20

(1) The impact has been rounded to increments of HK\$10.

The sensitivity analysis above is based on a simplified scenario on 50 basis point change in credit spreads. Significant changes in market variables may result in other than proportionate impacts on our sensitivities.

Reinsurance contract held assets by credit rating

The table below presents the distribution of reinsurance contract held assets by credit rating:

	<u>2024</u>	<u>2023</u>
	HK\$'m	HK\$'m
AA or A	2,383	1,199
Below A	-	-
Not rated	-	-
Total reinsurance contract held assets	<u>2,383</u>	<u>1,199</u>

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments. Liquidity risk may result from the inability to sell financial assets quickly at their fair values; counterparties failing to settle a contractual obligation; insurance liabilities falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Group and the Company is the daily calls on their available cash resources in respect of claims arising from insurance and investment contracts.

The Group and the Company manage liquidity through a liquidity risk policy which includes determining what constitutes liquidity risk for the Group and the Company; setting the minimum proportion of funds to meet emergency calls; setting up contingency funding plans; specifying the sources of funding and the events that would trigger the plan; specifying the concentration of funding sources; reporting liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and reviewing the Group's and the Company's liquidity risk policy for pertinence and changing environment. The permissible investment portfolio primarily consists of securities with active secondary or resale markets.

The following table details the Group's and the Company's estimated expected timing of net cash outflows or the earliest contractual repayment date resulting from recognised insurance contracts and reinsurance contracts held in a liability position based on the reported carrying amounts.

THE GROUP AND THE COMPANY

	Expected net cash (in)outflows - Undiscounted						Total HK\$m
	1 year or less HK\$m	1-2 years HK\$m	2-3 years HK\$m	3-4 years HK\$m	4-5 years HK\$m	Over 5 years HK\$m	
<u>2024</u>							
Insurance contract liabilities ⁽¹⁾	8,171	(5,886)	(5,284)	(3,127)	(1,326)	1,249,023	1,241,571
Reinsurance contract liabilities	(156)	(323)	(377)	(406)	(494)	(113,097)	(114,853)
<u>2023</u>							
Insurance contract liabilities ⁽¹⁾	10,491	(2,778)	(1,041)	(658)	(149)	586,771	592,636
Reinsurance contract liabilities	614	(238)	(314)	(358)	(409)	(107,498)	(108,203)

⁽¹⁾ These amounts represent the undiscounted estimated cash flows of insurance contract liabilities and investment contract liabilities with DPF. These cash flows include estimates related to the timing and payment of death and disability claims, policy surrenders, policy maturities, policyholder dividends and bonuses, commissions and premium taxes offset by contractual future premiums and fees on in-force contracts. These estimated cash flows are based on the best-estimate assumptions used in the determination of insurance contract liabilities and investment contract liabilities with DPF. Due to the use of assumptions, actual cash flows will differ from these estimates.

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

THE GROUP

	<u>Weighted average effective interest rate</u> %	<u>Gross undiscounted cash flows</u>				<u>Adjustment</u> HK\$m	<u>Carrying amount total</u> HK\$m
		<u>Less than 3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>+ 5 years</u>		
		HK\$m	HK\$m	HK\$m	HK\$m		
<u>2024</u>							
Non-derivative financial liabilities							
Investment contracts liabilities without DPF ⁽⁵⁾	-	-	-	-	515	-	515
Other creditors and accrued charges	-	5,078	-	-	-	-	5,078
Amount due to immediate holding company	-	134	-	-	-	-	134
Amounts due to fellow subsidiaries	-	58	-	-	-	-	58
Financial liabilities from securities lending	-	1,051	-	-	-	-	1,051
Subordinated loan	4.72	10	13	-	-	-	23
<u>2023</u>							
Non-derivative financial liabilities							
Investment contracts liabilities without DPF ⁽⁵⁾	-	-	-	-	471	-	471
Other creditors and accrued charges	-	2,964	-	-	-	-	2,964
Amount due to immediate holding company	-	94	-	-	-	-	94
Amounts due to fellow subsidiaries	-	42	-	-	-	-	42
Financial liabilities from securities lending	-	1,101	-	-	-	-	1,101
Subordinated loan	3.70	7	583	-	-	(7)	583

THE COMPANY

	<u>Weighted average effective interest rate</u> %	<u>Gross undiscounted cash flows</u>				<u>Adjustment</u> HK\$m	<u>Carrying amount total</u> HK\$m
		<u>Less than 3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>+ 5 years</u>		
		HK\$m	HK\$m	HK\$m	HK\$m		
<u>2024</u>							
Non-derivative financial liabilities							
Investment contracts liabilities without DPF ⁽⁵⁾	-	-	-	-	515	-	515
Other creditors and accrued charges	-	4,960	-	-	-	-	4,960
Amount due to immediate holding company	-	134	-	-	-	-	134
Amounts due to fellow subsidiaries	-	58	-	-	-	-	58
Amount due to a subsidiary	-	4	-	-	-	-	4
Financial liabilities from securities lending	-	1,051	-	-	-	-	1,051
<u>2023</u>							
Non-derivative financial liabilities							
Investment contracts liabilities without DPF ⁽⁵⁾	-	-	-	-	471	-	471
Other creditors and accrued charges	-	2,842	-	-	-	-	2,842
Amount due to immediate holding company	-	94	-	-	-	-	94
Amounts due to fellow subsidiaries	-	38	-	-	-	-	38
Financial liabilities from securities lending	-	1,101	-	-	-	-	1,101
Subordinated loan	3.70	7	570	-	-	(17)	560

(5) For investment contract liabilities without DPF in the first time category (less than 3 months). The amount represents the fair value of the fund balance less surrender charge.

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

The following table details the Group's and the Company's contractual maturity for its non-derivative financial assets, other than segregated funds ^(note) as well as loans receivable and bank balances which are set out in notes 23 and 25, respectively. It has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The adjustment column represents the possible future cash flows included in the maturity analysis, such as future interest, that have not been included in the carrying amount of the financial assets. The cash flows are projected by actuarial software based on assets' characteristics (i.e. coupon rate, par value and maturity).

^(note) Segregated funds represent funds held by the Company excluding life, annuity and shareholder's fund.

THE GROUP

	<u>Weighted average effective interest rate</u> %	<u>Gross/net undiscounted cash flows</u>					<u>Carrying amount total</u> HK\$m
		<u>Less than 3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>+ 5 years</u>	<u>Adjustment</u> HK\$m	
		HK\$m	HK\$m	HK\$m	HK\$m		
<u>2024</u>							
Variable interest rate instruments	6.5	334	388	3,864	15,133	(8,960)	10,759
Fixed interest rate instruments	6.9	1,090	4,888	24,078	83,837	(50,456)	63,437
Mortgage loan investments	5.9	6	28	88	48	(33)	137
<u>2023</u>							
Variable interest rate instruments	6.3	255	701	3,106	9,774	(5,335)	8,501
Fixed interest rate instruments	6.1	846	2,597	18,796	78,436	(41,697)	58,978
Mortgage loan investments	5.4	7	21	123	80	(40)	191

THE COMPANY

	<u>Weighted average effective interest rate</u> %	<u>Gross/net undiscounted cash flows</u>					<u>Carrying amount total</u> HK\$m
		<u>Less than 3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>+ 5 years</u>	<u>Adjustment</u> HK\$m	
		HK\$m	HK\$m	HK\$m	HK\$m		
<u>2024</u>							
Variable interest rate instruments	6.5	334	388	3,864	15,133	(8,960)	10,759
Fixed interest rate instruments	6.9	1,090	4,888	24,078	83,837	(50,456)	63,437
Mortgage loan investments	5.9	6	28	88	48	(33)	137
<u>2023</u>							
Variable interest rate instruments	6.3	255	701	3,106	9,774	(5,335)	8,501
Fixed interest rate instruments	6.1	846	2,597	18,796	78,436	(41,697)	58,978
Mortgage loan investments	5.4	7	21	123	80	(40)	191

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

The following table details the Group's and the Company's contractual maturity for its derivative financial instruments. It has been drawn up based on the undiscounted net cash inflows (outflows) of the derivative instruments that settle on a net basis and the undiscounted gross inflows (outflows) of those derivatives that require gross settlement. When the amount payable or receivable in the interest rate swap contracts is not fixed, the amount disclosed has been determined with reference to the projected interest rates as illustrated by the forward yield curves quoted by Bloomberg at the reporting date.

THE GROUP

	<u>Weighted average effective interest rate</u> %	<u>Gross/net undiscounted cash flows</u>				<u>Adjustment</u> HK\$m	<u>Carrying amount total</u> HK\$m
		<u>Less than 3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>+ 5 years</u>		
		HK\$m	HK\$m	HK\$m	HK\$m		
<u>2024</u>							
Forward foreign exchange contracts	-	154	-	-	-	67	221
Foreign exchange swap contracts	1.8	(29)	(18)	5	6	410	374
Interest rate swap contracts	-	-	-	-	-	-	-
Credit default swap contracts	1.0	1	1	2	-	(2)	2
Swaption contracts	-	-	-	141	-	-	141
Bond forward	-	-	(1)	-	-	-	(1)
Listed option	-	-	(88)	20	-	-	(68)
Treasury futures	-	(3)	-	-	-	-	(3)
<u>2023</u>							
Forward foreign exchange contracts	-	(22)	-	-	-	(3)	(25)
Foreign exchange swap contracts	1.8	(7)	(25)	(82)	(48)	502	340
Interest rate swap contracts	4.9	-	(111)	(445)	(1,083)	1,704	65
Credit default swap contracts	1.0	-	1	4	-	(3)	2
Swaption contracts	-	106	-	-	-	-	106
Bond forward	-	1	-	-	-	-	1
Listed option	-	54	-	-	-	-	54
Equity futures	-	1	-	-	-	-	1

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continuedTHE COMPANY

	<u>Weighted average effective interest rate</u> %	<u>Gross/net undiscounted cash flows</u>					<u>Carrying amount total</u> HK\$'m
		<u>Less than 3 months</u>	<u>3 months to 1 year</u>	<u>1-5 years</u>	<u>+ 5 years</u>	<u>Adjustment</u> HK\$'m	
		HK\$'m	HK\$'m	HK\$'m	HK\$'m		
<u>2024</u>							
Forward foreign exchange contracts	-	154	-	-	-	67	221
Foreign exchange swap contracts	1.8	(29)	(18)	5	6	410	374
Interest rate swap contracts	-	-	-	-	-	-	-
Credit default swap contracts	1.0	1	1	2	-	(2)	2
Swaption contracts	-	-	-	141	-	-	141
Bond forward	-	-	(1)	-	-	-	(1)
Listed option	-	-	(88)	20	-	-	(68)
Treasury futures	-	(3)	-	-	-	-	(3)
<u>2023</u>							
Forward foreign exchange contracts	-	(22)	-	-	-	(3)	(25)
Foreign exchange swap contracts	1.8	(7)	(25)	(82)	(48)	502	340
Interest rate swap contracts	4.9	-	(111)	(445)	(1,083)	1,704	65
Credit default swap contracts	1.0	-	1	4	-	(3)	2
Swaption contracts	-	106	-	-	-	-	106
Bond forward	-	1	-	-	-	-	1
Listed option	-	54	-	-	-	-	54
Equity futures	-	1	-	-	-	-	1

Fair values

The fair values of financial assets and financial liabilities are determined as follows:

Level 1: Fair value is based on the unadjusted quoted prices for identical assets or liabilities in an active market. The types of assets classified as Level 1 generally include listed equities, listed unit trusts and certain listed debt securities. Fair value of unlisted unit trusts is determined with reference to the prices quoted by respective fund administrators.

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs, or inputs that are derived principally from or corroborated with observable market data. The types of assets and liabilities classified as Level 2 generally include certain listed and unlisted debt securities, unlisted unit trust investments, derivative instruments and mortgage loan investments.

Level 3: Fair value is based on valuation techniques that require one or more significant inputs that are not based on observable market inputs, or based on broker quotes that cannot be corroborated with observable market transactions. The types of assets classified as Level 3 generally include certain listed and unlisted debt securities and limited partnership investments.

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Fair value of the Group's and the Company's financial assets and financial liabilities that are measured at fair value on recurring basis

Fair value hierarchy as at December 31, 2024

THE GROUP

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	HK\$m	HK\$m	HK\$m	HK\$m
As at December 31, 2024				
Financial assets				
Designated at FVTPL				
Listed debt securities	2,167	43,677	-	45,844
Unlisted debt securities	-	24,213	275	24,488
Listed unit trust investments	16,053	74	-	16,127
Unlisted unit trust and investments	11,167	-	61	11,228
Mortgage loan investments	-	137	-	137
Derivative financial assets	37	746	-	783
Limited partnership	-	-	1,416	1,416
	<u>29,424</u>	<u>68,847</u>	<u>1,752</u>	<u>100,023</u>
Measured at FVTOCI				
Listed debt securities	502	2,496	-	2,998
Unlisted debt securities	-	848	19	867
	<u>502</u>	<u>3,344</u>	<u>19</u>	<u>3,865</u>
Total	<u>29,926</u>	<u>72,191</u>	<u>1,771</u>	<u>103,888</u>
Financial liabilities				
Derivative financial liabilities	(109)	(8)	-	(117)
Financial liabilities from investment contracts	-	(515)	-	(515)
Total	<u>(109)</u>	<u>(523)</u>	<u>-</u>	<u>(632)</u>

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Fair value of the Group's and the Company's financial assets and financial liabilities that are measured at fair value on recurring basis - continued

Fair value hierarchy as at December 31, 2024 - continued

THE COMPANY

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	HK\$m	HK\$m	HK\$m	HK\$m
As at December 31, 2024				
Financial assets				
Designated at FVTPL				
Listed debt securities	2,167	43,677	-	45,844
Unlisted debt securities	-	24,213	275	24,488
Listed unit trust investments	16,053	74	-	16,127
Unlisted unit trust and investments	11,167	-	-	11,167
Mortgage loan investments	-	137	-	137
Derivative financial assets	37	746	-	783
Limited partnership	-	-	1,416	1,416
	<u>29,424</u>	<u>68,847</u>	<u>1,691</u>	<u>99,962</u>
Measured at FVTOCI				
Listed debt securities	502	2,496	-	2,998
Unlisted debt securities	-	848	19	867
	<u>502</u>	<u>3,344</u>	<u>19</u>	<u>3,865</u>
Total	<u>29,926</u>	<u>72,191</u>	<u>1,710</u>	<u>103,827</u>
Financial liabilities				
Derivative financial liabilities	(109)	(8)	-	(117)
Financial liabilities from investment contracts	-	(515)	-	(515)
Total	<u>(109)</u>	<u>(523)</u>	<u>-</u>	<u>(632)</u>

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Fair value of the Group's and the Company's financial assets and financial liabilities that are measured at fair value on recurring basis - continued

Fair value hierarchy as at December 31, 2023

THE GROUP

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	HK\$m	HK\$m	HK\$m	HK\$m
As at December 31, 2023				
Financial assets				
Designated at FVTPL				
Listed debt securities	1,634	40,356	31	42,021
Unlisted debt securities	42	20,452	-	20,494
Listed unit trust investments	8,812	110	-	8,922
Unlisted unit trust and investments	11,708	118	20	11,846
Mortgage loan investments	-	191	-	191
Derivative financial assets	54	543	-	597
Limited partnership	-	-	1,261	1,261
	<u>22,250</u>	<u>61,770</u>	<u>1,312</u>	<u>85,332</u>
Measured at FVTOCI				
Listed debt securities	636	3,252	-	3,888
Unlisted debt securities	-	1,016	20	1,036
	<u>636</u>	<u>4,268</u>	<u>20</u>	<u>4,924</u>
Total	<u>22,886</u>	<u>66,038</u>	<u>1,332</u>	<u>90,256</u>
Financial liabilities				
Derivative financial liabilities	-	53	-	53
Financial liabilities from investment contracts	-	471	-	471
Total	<u>-</u>	<u>524</u>	<u>-</u>	<u>524</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Fair value of the Group's and the Company's financial assets and financial liabilities that are measured at fair value on recurring basis - continued

Fair value hierarchy as at December 31, 2023 - continued

THE COMPANY

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	HK\$m	HK\$m	HK\$m	HK\$m
As at December 31, 2023				
Financial assets				
Designated at FVTPL				
Listed debt securities	1,634	40,356	31	42,021
Unlisted debt securities	42	20,452	-	20,494
Listed unit trust investments	8,812	110	-	8,922
Unlisted unit trust and investments	11,707	118	-	11,825
Mortgage loan investments	-	191	-	191
Derivative financial assets	54	543	-	597
Limited partnership	-	-	1,261	1,261
	<u>22,249</u>	<u>61,770</u>	<u>1,292</u>	<u>85,311</u>
Measured at FVTOCI				
Listed debt securities	636	3,252	-	3,888
Unlisted debt securities	-	1,016	20	1,036
	<u>636</u>	<u>4,268</u>	<u>20</u>	<u>4,924</u>
Total	<u>22,885</u>	<u>66,038</u>	<u>1,312</u>	<u>90,235</u>
Financial liabilities				
Derivative financial liabilities	-	53	-	53
Financial liabilities from investment contracts	-	471	-	471
Total	<u>-</u>	<u>524</u>	<u>-</u>	<u>524</u>

There was no transfer between Level 1 and Level 2 fair value measurements in 2024 and 2023.

Fair value is determined based on quoted market prices for identical or similar instruments. When quoted market prices are not available, fair value is determined from observable market data by dealers that are typically the market makers. The fair value is categorised in Level 1 and 2 of the fair value hierarchy.

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Fair value of the Group's and the Company's financial assets and financial liabilities that are measured at fair value on recurring basis - continued

Financial assets measured at fair value based on Level 3:

	HK\$m
Balance at January 1, 2023	1,092
Total gains recognised in profit or loss	9
Purchases	478
Disposals	(122)
Transfers out of level 3	(125)
Balance at December 31, 2023	1,332
Total gains recognised in profit or loss	70
Purchases	486
Disposals	(198)
Transfers out of level 3	(195)
Transfers in of level 3	275
Balance at December 31, 2024	<u>1,770</u>

	2024 HK\$m	2023 HK\$m
Total gains the year included in profit or loss for Level 3 assets at the end of the reporting year	70	9
Total gains for the year included in other comprehensive income for Level 3 assets at the end of the reporting year	<u>-</u>	<u>-</u>

Unobservable inputs and sensitivity for Level 3 assets

Significant unobservable inputs for Level 3 assets would include proprietary cash flow models and issuer spreads, which comprise credit, liquidity and other security-specific features of the assets. An increase (decrease) in these issuer spreads would result in a lower (higher) fair value. The majority of the Level 3 debt securities categorised in Level 3 are FVTPL assets supporting insurance contract liabilities. Changes in the fair value of these assets supporting insurance contract liabilities are largely offset by changes in the corresponding insurance contract liabilities. As a result, though using reasonably possible alternative assumptions may have an impact on the fair value of the Level 3 assets, it would not have a significant impact on the consolidated financial statements.

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Valuation process for Level 3 assets

The fair value of debt securities is generally obtained by external pricing services or from broker quotes. These are subject to price validation and review procedures to ensure overall reasonability for Level 3 assets.

The fair value of the limited partnership investment is based on NAV provided by management of the limited partnership investments. The financial statements used in calculating the NAV are generally audited annually. Analytical review and other procedures are performed to ensure the fair value is reasonable.

The fair value of the unlisted unit trust and investment is measured based on significant unobservable inputs, which are used as consideration of the discounts for lack of marketability.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

The financial instruments are not offset in the consolidated and Company's statements of financial position. The following tables present the effect of conditional netting and similar arrangements. Similar arrangements include global master repurchase agreement and any related rights to financial collateral.

THE GROUP AND THE COMPANY

	<u>Amounts of financial instruments presented in the statement of financial position HK\$m</u>	<u>Related amounts not offset in the statement of financial position</u>		<u>Net amount HK\$m</u>
		<u>Financial instruments subject to enforceable master netting arrangements HK\$m</u>	<u>Financial collateral (received) pledged HK\$m</u>	
<u>As at December 31, 2024</u>				
Financial assets				
Derivative assets (note 22)	783	(8)	(668)	107
Total financial assets	<u>783</u>	<u>(8)</u>	<u>(668)</u>	<u>107</u>
Financial liabilities				
Derivative liabilities (note 22)	(117)	8	109	-
Financial liabilities from securities lending (note 30)	(1,051)	-	1,051	-
Total financial liabilities	<u>(1,168)</u>	<u>8</u>	<u>1,160</u>	<u>-</u>

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

6. INSURANCE AND FINANCIAL RISK MANAGEMENT - continued

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements - continued

THE GROUP AND THE COMPANY

	<u>Amounts of financial instruments presented in the statement of financial position</u> HK\$m	<u>Related amounts not offset in the statement of financial position</u>		<u>Net amount</u> HK\$m
		<u>Financial instruments subject to enforceable master netting arrangements</u> HK\$m	<u>Financial collateral (received) pledged</u> HK\$m	
<u>As at December 31, 2023</u>				
Financial assets				
Derivative assets (note 22)	597	(53)	(367)	177
Total financial assets	<u>597</u>	<u>(53)</u>	<u>(367)</u>	<u>177</u>
Financial liabilities				
Derivative liabilities (note 22)	(53)	53	-	-
Financial liabilities from securities lending (note 30)	<u>(1,101)</u>	<u>-</u>	<u>1,101</u>	<u>-</u>
Total financial liabilities	<u>(1,154)</u>	<u>53</u>	<u>1,101</u>	<u>-</u>

Note: Certain investments measured at FVTPL of the Group and the Company were loaned to third parties under the securities lending arrangements. At December 31, 2024, the carrying amount of these investments was HK\$1,051 million (2023: HK\$1,101 million)

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

7. INSURANCE REVENUE AND FEE INCOME

	<u>2024</u>	<u>2023</u>
	HK\$'m	HK\$'m
Insurance revenue		
Amounts relating to changes in liabilities for remaining coverage:		
Expected incurred claims and other insurance service expenses	1,151	641
Change in risk adjustment for non-financial risk for risk expired	395	353
CSM recognised for services provided	1,381	751
Recovery of insurance acquisition cash flows	<u>530</u>	<u>203</u>
Contracts not measured under the PAA	<u>3,457</u>	<u>1,948</u>
Contracts measured under the PAA	<u>193</u>	<u>443</u>
	<u><u>3,650</u></u>	<u><u>2,391</u></u>
Fee income		
Trustee fee	152	191
Assets management fee	665	487
Investment contract fee and others	<u>54</u>	<u>22</u>
	<u><u>871</u></u>	<u><u>700</u></u>

8. INSURANCE SERVICE EXPENSES

	<u>2024</u>	<u>2023</u>
	HK\$'m	HK\$'m
Incurred claims and other incurred insurance service expenses	(1,037)	(1,163)
Changes that relate to past service - adjustment to the LIC	(19)	(15)
Changes that relate to future service - losses on onerous groups of contracts and reversal of such losses	(139)	(14)
Insurance acquisition cash flows - amortisation	<u>(530)</u>	<u>(203)</u>
Contracts not measured under the PAA	<u>(1,725)</u>	<u>(1,395)</u>
Contracts measured under the PAA	<u>(230)</u>	<u>(231)</u>
	<u><u>(1,955)</u></u>	<u><u>(1,626)</u></u>

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

9. REINSURANCE CONTRACT HELD NET EXPENSES

An analysis of allocation of reinsurance premiums paid and amounts recovered from reinsurers, are presented in the tables below:

	<u>2024</u>	<u>2023</u>
	HK\$'m	(restated) HK\$'m
Allocation of reinsurance premiums paid		
Amounts relating to changes in the remaining coverage		
Expected incurred claims and other insurance service expenses	(128)	(131)
Change in risk adjustment for nonfinancial risk for risk expired	(94)	(32)
CSM recognised for services provided	<u>(291)</u>	<u>(46)</u>
Contracts not measured under the PAA	<u>(513)</u>	<u>(209)</u>
Contracts measured under the PAA	<u>(18)</u>	<u>1</u>
Amounts recovered from reinsurers		
Amounts recoverable for incurred claims and other incurred insurance service expenses		
	147	161
Changes in amounts recoverable that relate to past service		
– adjustments to incurred claims	-	1
Recoveries of loss on recognition of underlying onerous contracts		
	<u>(4)</u>	<u>7</u>
Contracts not measured under the PAA	<u>143</u>	<u>169</u>
Contracts measured under the PAA	<u>-</u>	<u>3</u>
Net expenses from reinsurance contracts held	<u><u>(388)</u></u>	<u><u>(36)</u></u>

SLHK entered into the modified coinsurance (“ModCo”) with Munich Re in August 2016 to provide capital relief on Hong Kong Insurance Ordinance (“HKIO”) Basis. However, the ModCo will no longer provide capital relief under the Hong Kong Risk-Based Capital (“HKRBC”) regime. In 2023, SLHK decided to recapture the ModCo treaty with effect from March 31, 2023.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

10. NET INVESTMENT RESULT

Net investment income (loss)

For the year ended December 31, 2024	Financial Instruments at FVOCI (HK\$'m)	Financial Instruments at FVTPL (HK\$'m)	Total (HK\$'m)
Interest income:			
Cash, cash equivalents and short-term investments	-	235	235
Debt securities	171	3,155	3,326
Mortgages and loans	-	9	9
Derivative investments	-	(5)	(5)
Other financial invested assets	-	25	25
Other income	-	2	2
Total interest income	<u>171</u>	<u>3,421</u>	<u>3,592</u>
Dividend and other investment income:			
Equity securities	14	247	261
Total investment expense	-	(81)	(81)
Net realised and unrealised gains (losses):			
Debt securities	30	(1,971)	(1,941)
Equity securities	-	2,083	2,083
Mortgages and loans	-	(274)	(274)
Derivative investments	-	40	40
Other financial invested assets	-	17	17
Total net realised and unrealised gains (losses)	<u>30</u>	<u>(105)</u>	<u>(75)</u>
Change in financial liabilities from investment contracts	-	9	9
Provision for expected credit losses	3	-	3
Net investment income from financial instruments	<u><u>218</u></u>	<u><u>3,491</u></u>	<u><u>3,709</u></u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

10. NET INVESTMENT RESULT - continued

Net investment income (loss)- continued

For the year ended December 31, 2023	Financial Instruments at FVOCI (HK\$'m)	Financial Instruments at FVTPL (HK\$'m)	Total (HK\$'m)
Interest income:			
Cash, cash equivalents and short-term investments	-	168	168
Debt securities	144	2,719	2,863
Mortgages and loans	-	13	13
Derivative investments	-	3	3
Other financial invested assets	-	54	54
Other income	-	14	14
Total interest income	<u>144</u>	<u>2,971</u>	<u>3,115</u>
Dividend and other investment income:			
Equity securities	17	249	266
Total dividend and other investment income	<u>161</u>	<u>3,220</u>	<u>3,381</u>
Net realised and unrealised gains (losses):			
Debt securities	169	1,857	2,026
Equity securities	-	(726)	(726)
Mortgages and loans	12	562	574
Derivative investments	-	499	499
Other financial invested assets	2	(277)	(275)
Total net realised and unrealised gains	<u>183</u>	<u>1,915</u>	<u>2,098</u>
Change in financial liabilities from investment contracts	-	81	81
Provision for expected credit losses	<u>(1)</u>	<u>-</u>	<u>(1)</u>
Net investment income from financial instruments	<u><u>343</u></u>	<u><u>5,216</u></u>	<u><u>5,559</u></u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

10. NET INVESTMENT RESULT - continued

Insurance finance expenses from insurance contracts issued

	<u>2024</u>	<u>2023</u>
	HK\$'m	(restated) HK\$'m
Effect of time value of money (interest on carrying value) including interest on policy loans and interest on amounts on deposits	(550)	(159)
Impact of change in discount rate on fulfilment cash flows excluding where measured at locked-in rates and effect of changes in financial risk	(338)	(435)
Changes in fair value of underlying items for contracts with direct participation features	(3,976)	(4,548)
Foreign exchange gains	<u>374</u>	<u>6</u>
Total insurance finance expenses from insurance contracts issued	<u><u>(4,490)</u></u>	<u><u>(5,136)</u></u>

Insurance finance income from reinsurance contracts held

	<u>2024</u>	<u>2023</u>
	HK\$'m	HK\$'m
Effect of time value of money interest accreted	708	835
Impact of change in discount rate on fulfilment cash flows excluding where measured at locked-in rates and effect of changes in financial risk	1,043	488
Changes in fair value of underlying items for contracts with direct participation features	(882)	(911)
Foreign exchange losses	<u>(4)</u>	<u>(6)</u>
Total insurance finance income from reinsurance contracts held	<u><u>865</u></u>	<u><u>406</u></u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

11. FINANCE COSTS

	<u>2024</u> HK\$m	<u>2023</u> HK\$m
Interest on lease liabilities	8	11
Interest on subordinated loans (note 27)	18	25
Interest on payables	68	35
	<u>94</u>	<u>71</u>

12. INCOME TAX (EXPENSE) CREDIT

	<u>2024</u> HK\$m	<u>2023</u> HK\$m
Current tax:		
Hong Kong	(113)	(17)
Overprovision in prior year	40	1
Deferred tax (note 29):		
Charge for the year	5	5
	<u>(68)</u>	<u>(11)</u>

Under the Hong Kong Inland Revenue Ordinance, assessable profit from the business of individual life insurance in Hong Kong is deemed to be 5% of the net premium income for the year. Hong Kong Profits Tax on other businesses is calculated at 16.5% during 2024 and 2023 of the estimated assessable profit for the year.

The tax expense for the year can be reconciled to the profit before taxation per consolidated statement of profit or loss as follows:

	<u>2024</u> HK\$m	<u>2023</u> HK\$m
Profit before taxation	965	1,069
Less: Profit before taxation from life insurance business	(775)	(1,236)
	<u>190</u>	<u>(167)</u>
Tax on (loss)/profit at the income tax rate of 16.5%	(31)	41
Tax on life insurance business ⁽¹⁾	(154)	(89)
Tax effect of income not taxable	74	36
Tax effect of expenses non deductible for determining taxable profit	-	(3)
Tax effect of tax losses not recognised	(3)	(2)
Overprovision in respect of prior year	40	1
Others (including the impact of adoption of HKFRS17)	6	5
Income tax expense for the year	<u>(68)</u>	<u>(11)</u>

Note (1): Life insurance tax refers to the differences which arise where the tax regime specific to the life insurance business does not adopt net income as the basis for calculating taxable profit, for example Hong Kong, where life business taxable profit is derived from life premiums.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

13. PROFIT FOR THE YEAR

	<u>2024</u> HK\$m	<u>2023</u> HK\$m
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration		
Fees	3	3
Other emoluments	34	30
Net contributions to retirement benefit plans and Mandatory Provident Fund Scheme	1	1
Staff costs ⁽¹⁾		
Salaries and other benefits	876	782
Net contributions to retirement benefit plans and Mandatory Provident Fund Scheme	54	45
<u>Other operating expenses</u>		
Amortisation of intangible assets (note 19)	252	327
Auditor's remuneration	8	5
Depreciation of plant and equipment (note 16)	15	44
Depreciation of right-of-use assets (note 18)	130	135
Loss on write-off of intangible assets (note 19)	-	1
Other expenses	836	688
	1,241	1,200

The aggregate amount of the emoluments of the three highest paid directors is HK\$15,255,611 (2023: HK\$13,791,000).

⁽¹⁾ Staff costs including both attributable expenses and operating expenses.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

14. INTEREST IN SUBSIDIARIES

	<u>THE COMPANY</u>	
	<u>2024</u>	<u>2023</u>
	HK\$m	HK\$m
Unlisted shares, at cost	329	329
Less: accumulated impairment loss	(11)	(11)
At fair value	-	-
	<u>318</u>	<u>318</u>
Amounts due from subsidiaries	6	37
Amounts due to subsidiaries	(4)	-
	<u>320</u>	<u>355</u>

The balances with subsidiaries are unsecured, interest-free and are receivable/ repayable on demand.

Particulars of the Company's subsidiaries as at December 31, 2024 and 2023 are as follows:

<u>Name of subsidiaries</u>	<u>Place of incorporation</u>	<u>Class of share held</u>	<u>Issued share capital</u>		<u>Proportion ownership held directly by the Company</u>	<u>Proportion of voting power held by the Company</u>	<u>Principal activities</u>
			<u>2024</u>	<u>2023</u>			
Sun Life Trustee Company Limited	Hong Kong	Ordinary	HK\$30,000,000	HK\$30,000,000	20% ⁽¹⁾	100%	Trustee of provident funds
Sun Life Hong Kong Services Limited	Hong Kong	Ordinary	HK\$13,000,001	HK\$13,000,001	100%	100%	Investments holding
Sun Life Asset Management (HK) Limited	Hong Kong	Ordinary	HK\$48,200,001	HK\$48,200,001	100%	100%	Asset management
Sun Life Pension Trust Limited	Hong Kong	Ordinary	HK\$177,800,000	HK\$177,800,000	20% ⁽¹⁾	100%	Trustee of provident funds
Sun Life Financial Holdings (HK) Limited	Hong Kong	Ordinary	HK\$1	HK\$1	100%	100%	Investments holding
Sun Life Management Holdings (HK) Limited	Hong Kong	Ordinary	HK\$1	HK\$1	100%	100%	Investments holding
Sun Life Investment Holdings (HK) Limited	Hong Kong	Ordinary	HK\$1	HK\$1	100%	100%	Investments holding

⁽¹⁾ The remaining 80% ownership of Sun Life Pension Trust Limited and Sun Life Trustee Company Limited were held by the subsidiaries of the Company in trust on behalf of the Company, in accordance with the requirements of the Trustee Ordinance.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

15. INTEREST IN AN ASSOCIATE

THE GROUP AND THE COMPANY

	<u>2024</u> HK\$'m	<u>2023</u> HK\$'m
Cost of investment in an associate	241	241
Accumulated capital injection ⁽¹⁾	327	327
Accumulated post-acquisition loss	(185)	(139)
Share of post-acquisition loss during the year	(69)	(46)
	<u>314</u>	<u>383</u>

The associate is accounted for using the equity method in the consolidated financial statements. Particulars of this associate as at December 31, 2024 are as follows:

<u>Name of associate</u>	<u>Place of incorporation</u>	<u>Principal place of business</u>	<u>Proportion of ownership and voting rights held by the Company</u>
Bowtie Life Insurance Company Limited	Hong Kong	Hong Kong	49.99% (2023: 49.99%)

Summarised financial information of the associate is set out below. The summarised financial information below represents amounts shown in the associate's financial information prepared in accordance with HKFRS.

	<u>2024</u> HK\$'m (unaudited)	<u>2023</u> HK\$'m (audited)
Total assets	242	348
Total liabilities	143	99
Total equity	99	249
Insurance revenue	227	158
Insurance services expense	(288)	(184)
Net expenses from reinsurance contracts held	—	(12)
	<u>(61)</u>	<u>(38)</u>
Other incomes	25	19
Other expenses	(116)	(102)
Loss before income tax and net loss	<u>(152)</u>	<u>(121)</u>

⁽¹⁾ In May 2023, there was conversion of the convertible note issued by the associate to preference shares. As a result, the Company's share of interest in the associate increased by 2.20% to 44.78% upon completion of the transaction. In September 2023, the Company participated in a Series B2 fundraising announced by the associate. As a result, the Company made an additional capital injection of HK\$190 million and its share of interest in the associate increased by 5.21% to 49.99% upon completion of the transaction.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

15. INTEREST IN AN ASSOCIATE - continued

Management performed annual impairment assessment on the interest in an associate as of December 31, 2024. The impairment test uses the market approach to estimate the fair value. The estimated fair value is derived by the market approach that uses the following assumptions and inputs:

	2024
Average growth rate in annual recurring revenue	43 %
Market multiples	3.66x
Discount for lack of marketability	15.6 %

We tested the reasonableness of the inputs and outcomes of our analysis against available comparable market data, and determined that the fair value of the associate exceeded its carrying values.

A sensitivity analysis was performed, and it was determined that no reasonable change to any key assumptions would cause the carrying value to exceed its recoverable value. The key assumptions and inputs for the sensitivity analysis are as follows:

	2024
Market multiples	2.30x to 3.35x
Discount for lack of marketability	17.9 %

Based on the result of the impairment assessment and sensitivity analysis, we considered that impairment was not necessary.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

16. PLANT AND EQUIPMENT

THE GROUP AND THE COMPANY

	<u>Leasehold improvements</u> HK\$m	<u>Furniture and fixtures</u> HK\$m	<u>Office equipment</u> HK\$m	<u>Computer equipment</u> HK\$m	<u>Total</u> HK\$m
COST					
At January 1, 2023	306	37	19	97	459
Additions	11	4	1	19	35
At December 31, 2023	317	41	20	116	494
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
At December 31, 2024	317	41	20	116	494
DEPRECIATION AND IMPAIRMENT					
At January 1, 2023	223	25	15	87	350
Provided for the year	23	3	1	17	44
At December 31, 2023	246	28	16	104	394
Provided for the year	9	3	1	2	15
At December 31, 2024	255	31	17	106	409
CARRYING VALUES					
At December 31, 2024	62	10	3	10	85
At December 31, 2023	71	13	4	12	100

The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	20% or over the remaining life of the lease whichever is shorter
Furniture and fixtures	10% - 33.33%
Office and computer equipment	20% - 33.33%

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

17. OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

	<u>2024</u> HK\$m	<u>2023</u> HK\$m
THE GROUP		
Prepayments	371	102
Other receivables	300	463
Investment income due and accrued	4	4
	<u>675</u>	<u>569</u>
THE COMPANY		
Prepayments	371	102
Other receivables	229	396
Investment income due and accrued	4	4
	<u>604</u>	<u>502</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

18. RIGHT-OF-USE ASSETS

THE GROUP AND THE COMPANY

	<u>Leasehold properties</u> HK\$m	<u>Computer equipment</u> HK\$m	<u>Others</u> HK\$m	<u>Total</u> HK\$m
As at January 1, 2023	231	40	21	292
Additions	43	-	-	43
Depreciation charge for the year	(104)	(20)	(11)	(135)
As at December 31, 2023	170	20	10	200
Additions	28	-	26	54
Depreciation charge for the year	(99)	(20)	(11)	(130)
As at December 31, 2024	<u>99</u>	<u>-</u>	<u>25</u>	<u>124</u>
			<u>2024</u> HK\$m	<u>2023</u> HK\$m
Expense relating to short-term leases			<u>-</u>	<u>-</u>
Total cash outflow for leases			<u>143</u>	<u>152</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

19. INTANGIBLE ASSETS

THE GROUP AND THE COMPANY

	DOC ⁽¹⁾ (MPF contracts) HK\$m	<u>Goodwill</u> HK\$m	<u>Other</u> <u>Intangibles</u> HK\$m	<u>Total</u> HK\$m
COST				
At January 1, 2023	1,378	373	761	2,512
Expense capitalised	128	–	–	128
Addition	–	–	1,957	1,957
Write-off	–	–	(1)	(1)
At December 31, 2023	1,506	373	2,717	4,596
Expense capitalised	107	–	–	107
Addition	–	–	60	60
At December 31, 2024	1,613	373	2,777	4,763
AMORTISATION				
At January 1, 2023	479	–	257	736
Charge for the year	145	–	182	327
At December 31, 2023	624	–	439	1,063
Charge for the year	155	–	97	252
At December 31, 2024	779	–	536	1,315
CARRYING VALUES				
At December 31, 2024	834	373	2,241	3,448
At December 31, 2023	882	373	2,278	3,533

⁽¹⁾ DOC represent the assets recognised in respect to the incremental costs of obtaining the customers contracts with expectation that these costs are recoverable.

19. INTANGIBLE ASSETS - continued

DOC has definite useful lives. Such assets are amortised in line with the recognition of the associated revenue from the provision of investment management services.

The entire operations of the Group and the Company are considered as a single cash-generating unit (“CGU”). Goodwill arising from the acquisition of life insurance operations and the acquisition of the MPF business is tested for impairment by determining the recoverable amount of the CGU based on a value in use calculation. These calculations use the estimated cash flows projected from new business based on expected profitability established during pricing. Future cash flows cover the expected life of the underlying policies are discounted to the present value using a risk-adjusted discount rate of 9.75% (2023: 11%). The recoverable amount is most sensitive to changes in the discount rate. Management believes that any reasonable changes to the discount rates would not cause the aggregate carrying amount of the goodwill to exceed the recoverable amount. During the years ended December 31, 2024 and 2023, the Group and the Company assessed the recoverable amount of the intangible assets and determined that those were not impaired.

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES
FROM INVESTMENT CONTRACTS

THE GROUP AND THE COMPANY

(a) Movement in carrying amounts

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

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued

(a) Movement in carrying amounts - continued

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

HK\$/m	Notes	2024				2023 (restated)			
		Liabilities for remaining coverage		Liabilities for incurred claims	Total	Liabilities for remaining coverage		Liabilities for incurred claims	Total
		Excluding loss component	Loss component			Excluding loss component	Loss component		
Opening assets		(768)	(162)	451	(479)	(1,024)	(69)	624	(1,760)
Opening liabilities		88,771	315	(452)	88,634	82,723	176	624	83,523
Net opening balance		88,003	153	(1)	88,155	81,699	107	(43)	81,763
Insurance revenue	7	(3,457)	-	-	(3,457)	(1,948)	-	-	(1,948)
Insurance service expenses									
Incurred claims and other insurance service expenses paid for insurance contracts issued, excluding insurance acquisition cash flows		-	3	1,034	1,037	-	24	1,139	1,163
Amortisation of insurance acquisition cash flows		330	-	-	530	203	-	-	203
Losses and reversal of losses on onerous contracts		-	139	-	139	-	14	-	14
Adjustments to liabilities for incurred claims		-	-	19	19	-	-	15	15
Total insurance service expenses	8	530	142	1,053	1,725	203	38	1,154	1,395
Other changes		11	-	-	11	(66)	4	62	-
Insurance service result		(2,916)	142	1,053	(1,721)	(1,811)	42	1,216	(553)
Insurance finance (income) expenses	10	4,492	1	(3)	4,490	5,140	4	(8)	5,136
Effect of movements in exchange rates	7	-	-	-	7	-	-	-	-
Total changes in the consolidated income statement and consolidated statement of comprehensive income		1,583	143	1,050	2,776	3,329	46	1,200	4,583
Cash flows									
Premiums received		27,910	-	-	27,910	10,372	-	-	10,372
Claims and other insurance service expenses paid, including investment components		-	-	(9,776)	(9,776)	-	-	(7,734)	(7,734)
Insurance acquisition cash flows paid		(9,570)	-	-	(9,570)	(2,347)	-	-	(2,347)
Non-cash/ others		1,101	-	369	1,470	2,075	-	(557)	1,518
Total cash flows		19,441	-	(9,407)	10,034	10,100	-	(8,291)	1,809
Investment components excluded from insurance revenue and insurance service expense									
Expected incurred claims		(5,941)	-	9,165	3,224	(7,316)	-	7,125	(191)
Experience adjustments		(3,224)	-	-	(3,224)	191	-	-	191
Net closing balance		99,862	296	807	100,965	88,003	153	(1)	88,155
Closing assets		(1,111)	(94)	761	(444)	(768)	(162)	451	(479)
Closing liabilities		100,973	390	46	101,409	88,771	315	(452)	88,634
Net closing balance		99,862	296	807	100,965	88,003	153	(1)	88,155

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued

(a) Movement in carrying amounts - continued

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

HK\$m	Notes	2024			
		Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM	Total
Opening assets		(1,503)	448	576	(479)
Opening liabilities		71,646	4,680	12,308	88,634
Net opening balance		70,143	5,128	12,884	88,155
Insurance service result					
Changes that relate to current services					
Amount of CSM recognised in P&L to reflect the transfer of services	7	-	-	(1,381)	(1,381)
Change in risk adjustment for non-financial risk	7	-	(395)	-	(395)
Experience adjustments		(107)	-	-	(107)
Others		(6)	-	-	(6)
Changes that relate to future services					
Contracts initially recognised in the year		(3,281)	484	2,936	139
Changes in estimates that adjust the CSM		(5,498)	894	4,604	-
Changes in estimates that do not adjust CSM, i.e. losses on groups of onerous contracts and reversals of such losses		10	-	-	10
Changes that relate to past service, i.e. changes in fulfilment cash flows relating to the liability for incurred claims		19	-	-	19
Total insurance service result		(8,863)	983	6,159	(1,721)
Insurance finance (income) expenses	10	3,862	512	116	4,490
Effect of movements in exchange rates		-	-	7	7
Total changes in the consolidated income statement and consolidated statement of comprehensive income		(5,001)	1,495	6,282	2,776
Cash flows		10,350	(294)	(22)	10,034
Net closing balance		75,492	6,329	19,144	100,965
Closing assets		(7,172)	4,273	2,455	(444)
Closing liabilities		82,664	2,056	16,689	101,409
Net closing balance		75,492	6,329	19,144	100,965

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued

(a) Movement in carrying amounts - continued

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

HK \$'m	Notes	2023 (restated)			Total
		Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM	
Opening assets		(2,991)	444	787	(1,760)
Opening liabilities		73,081	2,086	8,356	83,523
Net opening balance		70,090	2,530	9,143	81,763
Insurance service result					
Changes that relate to current services					
Amount of CSM recognised in P&L to reflect the transfer of services	7	-	-	(751)	(751)
Change in risk adjustment for non-financial risk	7	-	(353)	-	(353)
Experience adjustments		218	-	-	218
Others		276	-	-	276
Changes that relate to future services					
Contracts initially recognised in the year		(1,588)	414	1,188	14
Changes in estimates that adjust the CSM		(6,167)	2,915	3,252	-
Changes in estimates that do not adjust CSM, i.e. losses on groups of onerous contracts and reversals of such losses		50	(22)	-	28
Changes that relate to past service, i.e. changes in fulfilment cash flows relating to the liability for incurred claims		15	-	-	15
Total insurance service result		(7,196)	2,954	3,689	(553)
Insurance finance (income) expenses	10	5,440	(356)	52	5,136
Effect of movements in exchange rates		-	-	-	-
Total changes in the consolidated income statement and consolidated statement of comprehensive income		(1,756)	2,598	3,741	4,583
Cash flows		1,809	-	-	1,809
Net closing balance		70,143	5,128	12,884	88,155
Closing assets					
Closing assets		(1,503)	448	576	(479)
Closing liabilities					
Closing liabilities		71,646	4,680	12,308	88,634
Net closing balance		70,143	5,128	12,884	88,155

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued

(a) Movement in carrying amounts - continued

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

HK\$/m	Note	2024				2023 (restated)			
		Asset for remaining coverage		Asset for incurred claims	Total	Asset for remaining coverage		Asset for incurred claims	Total
		Excluding loss-recovery component	Loss-recovery component			Excluding loss-recovery component	Loss-recovery component		
Opening assets		(1,554)	-	476	(1,078)	(1,025)	-	(340)	(1,365)
Opening liabilities		(15,921)	(6)	16,235	308	(14,870)	-	16,702	1,832
Net opening balance		(17,475)	(6)	16,711	(770)	(15,895)	-	16,362	467
Changes in the consolidated income statement and consolidated statement of comprehensive income									
Net expenses from reinsurance contracts held (excluding effect of changes in non-performance risk of reinsurers)		551	5	(186)	370	215	(6)	(175)	34
Effect of changes in the risk of non-performance by the issuer of reinsurance contracts held		-	-	-	-	-	-	-	-
Net expenses from reinsurance contracts held		551	5	(186)	370	215	(6)	(175)	34
Insurance finance income (expenses) from reinsurance contracts held	10	(865)	-	-	(865)	(405)	-	(1)	(406)
Effect of movements in exchange rates		(2)	(1)	(3)	(6)	-	-	-	-
Total changes in the consolidated income statement and consolidated statement of comprehensive income		(316)	4	(189)	(501)	(190)	(6)	(176)	(372)
Cash flows									
Premiums paid		(1,126)	-	-	(1,126)	(1,198)	-	-	(1,198)
Amounts recovered from reinsurers		(882)	-	1,606	724	(911)	-	772	(139)
Non-cash/ others		955	-	(1,534)	(579)	98	-	374	472
Total cash flows		(1,053)	-	72	(981)	(2,011)	-	1,146	(865)
Investment components excluded from net expenses from reinsurance contracts held									
Expected incurred claims		1,240	-	(1,383)	(143)	613	-	(621)	(8)
Experience adjustments		143	-	-	143	8	-	-	8
Net closing balance		(17,461)	(2)	15,211	(2,252)	(17,475)	(6)	16,711	(770)
Closing assets		(7,983)	-	5,611	(2,372)	(1,554)	-	476	(1,078)
Closing liabilities		(9,478)	(2)	9,600	120	(15,921)	(6)	16,235	308
Net closing balance		(17,461)	(2)	15,211	(2,252)	(17,475)	(6)	16,711	(770)

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued

(a) Movement in carrying amounts - continued

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

HK\$m	Notes	2024			Total
		Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM	
Opening assets		(216)	(608)	(254)	(1,078)
Opening liabilities		1,290	(279)	(703)	308
Net opening balance		1,074	(887)	(957)	(770)
Net expenses from reinsurance contracts held					
Changes that relate to current services					
Amount of CSM recognised in P&L to reflect the transfer of services	9	-	-	291	291
Change in risk adjustment for non-financial risk	9	(2)	96	-	94
Experience adjustments		(19)	-	-	(19)
Others		-	-	-	-
Changes that relate to future services					
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM		-	-	-	-
Contracts initially recognised in the year		31	(26)	(5)	-
Changes in estimates that adjust the CSM		2,422	(81)	(2,341)	-
Changes in estimates that do not adjust CSM, i.e. losses on groups of onerous contracts and reversals of such losses		4	-	-	4
Changes that relate to past service, i.e. changes in fulfilment cash flows relating to the liability for incurred claims		-	-	-	-
Total net expenses from reinsurance contracts held		2,436	(11)	(2,055)	370
Insurance finance income (expenses) from reinsurance contracts held	10	(844)	33	(54)	(865)
Effect of movements in exchange rates		(2)	(1)	(3)	(6)
Total changes in the consolidated income statement and consolidated statement of comprehensive income		1,590	21	(2,112)	(501)
Cash flows		(1,274)	290	3	(981)
Net closing balance		1,390	(576)	(3,066)	(2,252)
Closing assets		730	(473)	(2,629)	(2,372)
Closing liabilities		660	(103)	(437)	120
Net closing balance		1,390	(576)	(3,066)	(2,252)

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued

(a) Movement in carrying amounts - continued

Analysis by measurement component of reinsurance contracts held not measured under the premium allocation approach - continued

HK\$'m	Notes	2023 (restated)			Total
		Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM	
Opening assets		(933)	(479)	47	(1,365)
Opening liabilities		2,892	(301)	(759)	1,832
Net opening balance		1,959	(780)	(712)	467
Net expenses from reinsurance contracts held					
Changes that relate to current services					
Amount of CSM recognised in P&L to reflect the transfer of services	10	-	-	46	46
Change in risk adjustment for non-financial risk	10	-	32	-	32
Experience adjustments		(37)	-	-	(27)
Others		(11)	-	-	(11)
Changes that relate to future services					
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM		-	-	-	-
Contracts initially recognised in the year		19	(12)	(7)	-
Changes in estimates that adjust the CSM		225	13	(238)	-
Changes in estimates that do not adjust CSM, i.e. losses on groups of onerous contracts and reversals of such losses		47	(53)	-	(6)
Changes that relate to past service, i.e. changes in fulfilment cash flows relating to the liability for incurred claims		-	-	-	-
Total net expenses from reinsurance contracts held		253	(20)	(199)	34
Insurance finance income (expenses) from reinsurance contracts held	10	(273)	(87)	(46)	(406)
Effect of movements in exchange rates		-	-	-	-
Total changes in the consolidated income statement and consolidated statement of comprehensive income		(20)	(107)	(245)	(372)
Cash flows		(865)	-	-	(865)
Net closing balance		1,074	(887)	(957)	(770)
Closing assets		(216)	(608)	(254)	(1,078)
Closing liabilities		1,290	(279)	(703)	308
Net closing balance		1,074	(887)	(957)	(770)

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued
(a) Movement in carrying amounts - continued

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

HK\$m	Notes	2024				Total	2023				Total
		Liabilities for remaining coverage		Liabilities for incurred claims			Liabilities for remaining coverage		Liabilities for incurred claims		
		Excluding loss component	Loss component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk		Excluding loss component	Loss component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk	
Opening assets		-	-	-	-	-	-	-	-	-	
Opening liabilities		111	-	(53)	-	253	-	76	-	329	
Net opening balance		111	-	(53)	-	253	-	76	-	329	
Insurance revenue	7	(193)	-	-	-	(443)	-	-	-	(443)	
Insurance service expenses											
Incurred claims and other insurance service expenses paid for insurance contracts issued, excluding insurance acquisition cash flows		-	-	205	-	-	-	207	-	207	
Amortisation of insurance acquisition cash flows		25	-	-	-	20	-	-	-	20	
Losses and reversal of losses on onerous contracts		-	-	-	-	-	-	-	-	-	
Adjustments to liabilities for incurred claims		-	-	-	-	-	-	4	-	4	
Total insurance service expenses	8	25	-	205	-	20	-	211	-	231	
Other changes		-	-	-	-	63	-	(63)	-	-	
Insurance service result		(168)	-	205	-	(360)	-	148	-	(212)	
Insurance finance (income) expenses		-	-	-	-	-	-	-	-	-	
Effect of movements in exchange rates		-	-	-	-	-	-	-	-	-	
Total changes in the consolidated income statement and consolidated statement of comprehensive income		(168)	-	205	-	(360)	-	148	-	(212)	
Cash flows											
Premiums received		218	-	-	-	218	-	-	-	218	
Claims and other insurance service expenses paid, including investment components		-	-	(193)	-	-	-	(277)	-	(277)	
Insurance acquisition cash flows paid		-	-	-	-	-	-	-	-	-	
Non-cash/ others		-	-	-	-	-	-	-	-	-	
Total cash flows		218	-	(193)	-	218	-	(277)	-	(59)	
Investment components excluded from insurance revenue and insurance service expense:											
Expected incurred claims		-	-	-	-	-	-	-	-	-	
Experience adjustments		-	-	-	-	-	-	-	-	-	
Net closing balance		161	-	(41)	-	111	-	(53)	-	58	
Closing assets		-	-	-	-	-	-	-	-	-	
Closing liabilities		161	-	(41)	-	111	-	(53)	-	58	
Net closing balance		161	-	(41)	-	111	-	(53)	-	58	

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued

(a) Movement in carrying amounts - continued

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

HK\$m	2024					2023				
	Asset for remaining coverage		Asset for incurred claims			Asset for remaining coverage		Asset for incurred claims		
	Excluding loss-recovery component	Loss-recovery component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk	Total	Excluding loss component	Loss component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk	Total
Opening assets	(1)	-	-	-	(3)	(1)	-	(11)	-	(12)
Opening liabilities	-	-	-	-	-	-	-	-	-	-
Net opening balance	(3)	-	-	-	(3)	(1)	-	(11)	-	(12)
Changes in the consolidated income statement and consolidated statement of comprehensive income										
Net expenses from reinsurance contracts held (excluding effect of changes in non-performance risk of reinsurers)	-	-	(18)	-	(18)	1	-	(7)	-	(6)
Effect of changes in the risk of non-performance by the issuer of reinsurance contracts held	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	10	-	10
Net expenses from reinsurance contracts held	-	-	(18)	-	(18)	1	-	3	-	4
Insurance finance income (expenses) from reinsurance contracts held	-	-	-	-	-	-	-	-	-	-
Effect of movements in exchange rates	-	-	-	-	-	-	-	-	-	-
Total changes in the consolidated income statement and consolidated statement of comprehensive income	-	-	(18)	-	(18)	1	-	3	-	4
Cash flows										
Premiums paid	(1)	-	-	-	(1)	(1)	-	-	-	(2)
Amounts recovered from reinsurers	-	-	11	-	11	-	-	8	-	8
Non-cash/ others	-	-	-	-	-	-	-	-	-	-
Total cash flows	(1)	-	11	-	10	(1)	-	8	-	6
Investment components excluded from net expenses from reinsurance contracts held										
Expected incurred claims	-	-	-	-	-	-	-	-	-	-
Experience adjustments	-	-	-	-	-	-	-	-	-	-
Net closing balance	(4)	-	(7)	-	(11)	(3)	-	-	-	(3)
Closing assets	(4)	-	(7)	-	(11)	(3)	-	-	-	(3)
Closing liabilities	-	-	-	-	-	-	-	-	-	-
Net closing balance	(4)	-	(7)	-	(11)	(3)	-	-	-	(3)

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued

(b) Effect of contracts initially recognised in the year

The following tables summarise the effect on the measurement components of insurance contracts and reinsurance contracts held arising from the initial recognition of contracts not measured under the premium allocation approach that were initially recognised in the year.

Insurance contracts

HK\$m	Profitable contracts issued	Onerous contracts issued	Profitable contracts acquired	Total
2024				
Estimates of present value of future cash outflows				
Insurance acquisition cash flows	7,069	57	-	7,126
Claims payable and other expenses	20,966	270	-	21,236
Total estimates of present value of future cash outflows	28,035	327	-	28,362
Estimates of present value of future cash inflows	(31,418)	(225)	-	(31,643)
Risk adjustment for non-financial risk	447	37	-	484
Contractual service margin	2,936	-	-	2,936
Losses recognised on initial recognition	-	139	-	139
2023				
Estimates of present value of future cash outflows				
Insurance acquisition cash flows	4,293	70	-	4,363
Claims payable and other expenses	10,444	495	-	10,939
Total estimates of present value of future cash outflows	14,737	565	-	15,302
Estimates of present value of future cash inflows	(16,320)	(570)	-	(16,890)
Risk adjustment for non-financial risk	395	19	-	414
Contractual service margin	1,188	-	-	1,188
Losses recognised on initial recognition	-	14	-	14

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued

(b) Effect of contracts initially recognised in the year - continued

Reinsurance contracts held

HK\$m	2024			2023		
	Contracts purchased individually	Contracts acquired	Total	Contracts purchased individually	Contracts acquired	Total
Estimates of present value of future cash inflows	(207)	-	(207)	(118)	-	(118)
Estimates of present value of future cash outflows	238	-	238	136	-	136
Risk adjustment for non-financial risk	(26)	-	(26)	(12)	-	(12)
Income recognised on initial recognition	-	-	-	1	-	1
Contractual service margin	5	-	5	7	-	7

(c) Analysis of contractual service margin

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

HK\$m	Total	Five year or less	After five years through ten years	After ten years
2024				
Insurance contracts	19,144	6,256	4,204	8,684
Reinsurance contracts held	(3,066)	(1,003)	(663)	(1,400)
2023 (restated)				
Insurance contracts	12,884	4,060	2,861	5,963
Reinsurance contracts held	(957)	(258)	(183)	(516)

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued

(d) Methodology and assumptions

General

A group of insurance contracts is measured as the total of FCF ("future cash flows"), which is the present value of future cash flows plus the risk adjustment for non-financial risk, and, for groups measured using the GMM or VFA, the CSM. In measuring the present value of future cash flows, assumptions must be made about mortality and morbidity rates, lapse and other policyholder behaviour ("policyholder behaviour"), expenses and other factors over the life of our products, and the prevailing market view of the cost of financial risk in our products. Many of these assumptions relate to events that are anticipated to occur many years in the future. Assumptions require significant judgment and regular review and, where appropriate, revision.

The risk adjustment is the compensation we require for the uncertainty related to non-financial risk in the estimates of future cash flows. This compensation is measured by discounting cash flows from applying margins to the non-financial assumptions used in the estimate of future cash flows.

The CSM represents the unearned profit that will be recognized as insurance contract services are provided.

The methods and assumptions used in the measurement of insurance contracts are reviewed regularly and are subject to external actuarial peer review.

Present Value of Future Cash Flows

Assumptions for non-financial risk variables in the present value of future cash flows are intended to be current, neutral estimates of the expected outcome. The choice of assumptions takes into account current circumstances, past experience data from our own experience or from the industry, the relationship of past to expected future experience, anti-selection, the relationship among assumptions (including those for financial risk variables), and other relevant factors.

Assumptions for financial risk variables in the present value of future cash flows are based on current observable market prices, adjusted to account for differences between the financial risk embedded in our products and those in the corresponding observed market instrument. Where no relevant market instrument is available, we use the best information available.

Mortality

Mortality refers to the rates at which death occurs for defined groups of people. Mortality assumptions are generally based on the past five to ten years of experience. Our experience is combined with industry experience or experience from reinsurers where our own experience is insufficient to be statistically valid. Assumed mortality rates for life insurance and annuity contracts include assumptions about future mortality improvement based on recent trends in population mortality and our outlook for future trends.

Morbidity

Morbidity refers to the rate of being unhealthy or disabled and the rates of recovery therefrom. Assumptions have been developed based on recent historical experience, and expectations of current and expected future experience. Morbidity rate assumptions have been expressed as a percentage of standard industry experience tables or as expected claims ratios.

Lapse or surrender

Policyholders may allow their policies to lapse prior to the end of the contractual coverage period by choosing not to continue to pay premiums or by surrendering their policy for the cash surrender value. Assumptions have been developed based on their recent historical experience, and their expectations of current and expected future experience. Lapse rate would vary by policy year and product type with different rates for regular and single premium where appropriate.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued

(d) Methodology and assumptions - continued

Premium payment patterns

For universal life contracts, it is necessary to set assumptions about premium payment patterns. Studies prepared by industry or the actuarial profession are used for products where our experience is insufficient to be statistically valid. Premium payment patterns usually vary by plan, age at issue, method of premium payment, policy duration and financial risk variables.

Expense

Future expenses directly attributable to the fulfillment of our insurance contracts include the costs of premium collection, claims adjudication and processing, actuarial calculations, preparation and mailing of policy statements, and related overhead. Future expense assumptions are mainly based on our recent experience using an internal expense allocation methodology. Inflationary increases assumed in future expenses are based on long-term expectations.

Acquisition expenses directly attributable to portfolios of insurance contracts include the costs of selling, underwriting and issuing insurance contracts. For new insurance contracts measured using the GMM or VFA, actual or estimated directly attributable acquisition expenses are recognized in the initial measurement of the contract. If estimates are used, the difference between estimated and actual acquisition expenses adjusts the CSM when the group of insurance contracts is closed to new contracts.

Current Discount Rates

Current discount rates are used to discount estimates of future cash flows in determining the present value of future cash flows. Current discount rates reflect the time value of money, the characteristics of the cash flows, and the liquidity characteristics of the insurance contracts.

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

As at 31 December 2024	1 year	5 years	10 years	15 years	20 years
SLHK	4.20% - 5.18%	4.44% - 5.11%	4.67% - 5.61%	4.90% - 5.81%	5.03% - 5.94%
As at 31 December 2023	1 year	5 years	10 years	15 years	20 years
SLHK	4.84% - 6.02%	3.86% - 4.97%	3.91% - 5.85%	4.12% - 6.21%	4.34% - 6.45%

*Range shown above does not include RMB (NP & UL) to avoid distortion from RMB currency.

SUN LIFE HONG KONG LIMITED
 香港永明金融有限公司

20. INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES FROM INVESTMENT CONTRACTS - continued

(e) Underlying items of contracts with direct participation features

The following table sets out the composition and the fair value of the underlying items for the Company's contracts with direct participation features at the reporting date.

<u>HK\$m</u>	As at 31 December 2024	As at 31 December 2023
Cash and cash equivalents	5,334	6,041
Financial investments and policy loan	74,752	50,510
Property held for own use and investment property	-	-
Investment in subsidiaries and associates	-	(8)
Other assets	18	2,320
Less: payables and other liabilities	(1,542)	(363)
Total	<u>78,562</u>	<u>58,500</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

20. **INSURANCE CONTRACTS/REINSURANCE CONTRACTS/FINANCIAL LIABILITIES
FROM INVESTMENT CONTRACTS - continued**

(f) Financial liabilities from investment contracts without DPF

	<u>2024</u> HK\$'m	<u>2023</u> HK\$'m
Analysed as follows:		
Investment linked contracts at fair value - current	<u>515</u>	<u>471</u>

Group retirement business without guarantee measured at fair value is a type of investment contract without DPF.

Movements during year are as follows:

	<u>2024</u> HK\$'m	<u>2023</u> HK\$'m
Balances as at January 1	471	551
Deposit	115	(1)
Interest	(15)	(60)
Withdrawals	(42)	7
Fees	(18)	(26)
Foreign exchange rate movements	<u>4</u>	<u>-</u>
Balances as at December 31	<u>515</u>	<u>471</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

21. INVESTMENTS IN SECURITIES

THE GROUP

	<u>Designated</u> <u>at FVTPL</u> HK\$m	<u>Measured at</u> <u>FVTOCI</u> HK\$m	<u>Total</u> HK\$m
2024			
Fixed interest investments			
Government			
- listed	4,286	515	4,801
- unlisted	106	1	107
Others			
- listed	35,702	2,079	37,781
- unlisted	20,582	166	20,748
Variable interest investments			
Others			
- listed	5,856	404	6,260
- unlisted	3,799	700	4,499
Unit trust and equities investments			
- listed	16,127	-	16,127
- unlisted	11,228	-	11,228
Limited partnership	1,416	-	1,416
Mortgage loan investments	137	-	137
	<u>99,239</u>	<u>3,865</u>	<u>103,104</u>
Total			
- listed	61,971	2,998	64,969
- unlisted	37,268	867	38,135
	<u>99,239</u>	<u>3,865</u>	<u>103,104</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

21. INVESTMENTS IN SECURITIES - continued

THE COMPANY

	<u>Designated</u> <u>at FVTPL</u> HK\$m	<u>Measured at</u> <u>FVTOCI</u> HK\$m	<u>Total</u> HK\$m
2024			
Fixed interest investments			
Government			
- listed	4,286	515	4,801
- unlisted	106	1	107
Others			
- listed	35,702	2,079	37,781
- unlisted	20,582	166	20,748
Variable interest investments			
Others			
- listed	5,856	404	6,260
- unlisted	3,799	700	4,499
Unit trust and equities investments			
- listed	16,127	-	16,127
- unlisted	11,167	-	11,167
Limited partnership	1,416	-	1,416
Mortgage loan investments	137	-	137
	<u>99,178</u>	<u>3,865</u>	<u>103,043</u>
Total			
- listed	61,971	2,998	64,969
- unlisted	37,207	867	38,074
	<u>99,178</u>	<u>3,865</u>	<u>103,043</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

21. INVESTMENTS IN SECURITIES - continued

THE GROUP

	<u>Designated</u> <u>at FVTPL</u> HK\$m	<u>Measured at</u> <u>FVTOCI</u> HK\$m	<u>Total</u> HK\$m
2023			
Fixed interest investments			
Government			
- listed	3,051	654	3,705
- unlisted	225	1	226
Others			
- listed	33,934	2,696	36,630
- unlisted	17,934	483	18,417
Variable interest investments			
Others			
- listed	5,037	538	5,575
- unlisted	2,374	552	2,926
Unit trust and equities investments			
- listed	8,922	-	8,922
- unlisted	11,846	-	11,846
Limited partnership	1,222	-	1,222
Mortgage loan investments	191	-	191
	<u>84,736</u>	<u>4,924</u>	<u>89,660</u>
Total			
- listed	50,944	3,888	54,832
- unlisted	33,792	1,036	34,828
	<u>84,736</u>	<u>4,924</u>	<u>89,660</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

21. INVESTMENTS IN SECURITIES - continued

THE COMPANY

	<u>Designated</u> <u>at FVTPL</u> HK\$m	<u>Measured at</u> <u>FVTOCI</u> HK\$m	<u>Total</u> HK\$m
2023			
Fixed interest investments			
Government			
- listed	3,051	654	3,705
- unlisted	225	1	226
Others			
- listed	33,934	2,696	36,630
- unlisted	17,934	483	18,417
Variable interest investments			
Others			
- listed	5,037	538	5,575
- unlisted	2,374	552	2,926
Unit trust and equities investments			
- listed	8,922	-	8,922
- unlisted	11,825	-	11,825
Limited partnership	1,222	-	1,222
Mortgage loan investments	191	-	191
	<u>84,715</u>	<u>4,924</u>	<u>89,639</u>
Total			
- listed	50,944	3,888	54,832
- unlisted	33,771	1,036	34,807
	<u>84,715</u>	<u>4,924</u>	<u>89,639</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

22. DERIVATIVE FINANCIAL INSTRUMENTS

THE GROUP AND THE COMPANY

	<u>2024</u> HK\$'m	<u>2023</u> HK\$'m
Fair value of:		
Financial assets		
Foreign exchange forward contracts	228	8
Foreign exchange swap contracts	374	358
Interest rate swap contracts	-	67
Swaption contracts	141	106
Credit default swap contracts	2	2
Listed options	36	54
Bond forward	-	1
Equity futures	2	1
	<u>783</u>	<u>597</u>
Financial liabilities		
Foreign exchange forward contracts	(7)	(33)
Foreign exchange swap contracts	-	(18)
Interest rate swap contracts	-	(2)
Bond forward	(1)	-
Equity futures	(2)	-
Listed options	(104)	-
Treasury futures	(3)	-
	<u>(117)</u>	<u>(53)</u>
Total	<u>666</u>	<u>544</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

22. DERIVATIVE FINANCIAL INSTRUMENTS - continued

THE GROUP AND THE COMPANY - continued

	<u>2024</u> HK\$m	<u>2023</u> HK\$m
Notional amounts of derivatives:		
Foreign exchange forward contracts with latest maturity date on March 17, 2025 (2023: March 11, 2024)		
Buy USD / Sell HKD	9,094	8,581
Buy HKD / Sell RMB	3,096	2,516
Buy HKD / Sell EUR	418	558
Buy HKD / Sell GBP	113	53
Buy HKD / Sell INR	1,005	925
Buy HKD / Sell KRW	759	669
Buy HKD / Sell TWD	897	467
Buy HKD / Sell USD	8,340	6,880
Buy GBP / Sell USD	67	68
Buy RMB / Sell HKD	10	61
Buy EUR / Sell HKD	20	-
Buy GBP / Sell HKD	67	-
Buy HKD / Sell IDR	130	-
	<hr/>	<hr/>
Credit default swap contracts with latest maturity date on December 20, 2027 (2023: December 20, 2027)	117	117
	<hr/>	<hr/>
Interest rate swap contracts were fully disposed during 2024 (2023: November 17, 2042)	-	3,256
	<hr/>	<hr/>
Swaptions contracts with latest maturity date on September 28, 2039 (2023: September 28, 2039)	2,719	2,733
	<hr/>	<hr/>
Bond forward contracts with latest maturity date on August 18, 2025 (2023: August 18, 2025)	39	39
	<hr/>	<hr/>
Listed option with latest maturity date on December 30, 2026 (2023: December 30, 2026)	3,830	388
	<hr/>	<hr/>
Foreign exchange swap contracts with latest maturity date on September 29, 2033 (2023: September 29, 2033)		
Buy HKD / Sell USD	14,802	15,262
Buy USD / Sell NZD	171	182
	<hr/>	<hr/>
Equity futures with latest maturity date on March 21, 2025 (2023: January 31, 2024)	1,166	428
	<hr/>	<hr/>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

22. DERIVATIVE FINANCIAL INSTRUMENTS - continued

THE GROUP AND THE COMPANY - continued

	<u>2024</u> HK\$m	<u>2023</u> HK\$m
Notional amounts of derivatives: - continued		
Foreign exchange spot contracts were fully disposed during 2024 (2023: latest maturity date on January 2, 2024)	<u>-</u>	<u>87</u>
Treasury futures contracts with latest maturity date on March 20, 2025 (2023: Nil)	<u>1,512</u>	<u>-</u>

The notional amounts of these instruments indicate the volume of transactions outstanding as at the reporting date; they do not represent amounts at risk. The net unrealised gain amounted to HK\$666,362,000 at December 31, 2024 (December 31, 2023: HK\$543,660,000 unrealised gain).

At December 31, 2024, the collateral in the form of cash and securities received on derivative assets was HK\$673,898,000 (December 31, 2023: HK\$405,649,000) and pledged in respect of derivative liabilities was HK\$698,766,000 in connection with the derivative transactions entered by the Group and the Company. (December 31, 2023: HK\$309,764,000).

23. LOANS RECEIVABLE

THE GROUP AND THE COMPANY

	<u>2024</u> HK\$m	<u>2023</u> HK\$m
Other unsecured loans to agents	<u>291</u>	<u>272</u>
Due within one year	82	63
Due after one year	<u>209</u>	<u>209</u>
	<u><u>291</u></u>	<u><u>272</u></u>

The fair values of the loans receivable at the end of the reporting period, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at that date, approximate their carrying amount.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

24. RELATED PARTY TRANSACTIONS

During the year, the Group and the Company entered into the following transactions with related parties:

THE GROUP

	Administration and other service fee income		Management fee and other expenses		Interest expenses		Other revenue		Amounts due from		Amounts due to	
	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Immediate holding company	-	-	116	-	-	-	3	-	-	-	134	94
Fellow subsidiaries	151	110	206	58	18	25	23	1	66	63	58	42
Subsidiaries	-	-	8	-	-	-	27	-	-	-	-	-
	Subordinated loans from		Reinsurance contract held assets		Reinsurance contract held income							
	2024	2023	2024	2023	2024	2023						
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m						
Immediate holding company	-	-	15,841	16,105	851	975						
Fellow subsidiaries	23	583	-	-	-	-						

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

24. RELATED PARTY TRANSACTIONS - continued

THE COMPANY

	Administration and other service fee income		Management fee and other expenses		Interest expenses		Other revenue		Amounts due from		Amounts due to	
	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Immediate holding company	-	-	116	-	-	-	3	-	-	-	134	94
Fellow subsidiaries	151	110	206	58	17	24	23	1	66	63	58	38
Subsidiaries	-	-	8	7	-	-	27	-	6	37	4	-
	Subordinated loans from		Reinsurance contract held assets		Reinsurance contract held income							
	2024	2023	2024	2023	2024	2023						
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m						
Immediate holding company	-	-	15,841	16,105	851	975						
Fellow subsidiaries	-	560	-	-	-	-						

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

24. RELATED PARTY TRANSACTIONS - continued

Amounts due from/to fellow subsidiaries and immediate holding company are unsecured, interest free and are receivable/ repayable on demand.

Compensation of key management personnel

The remuneration of directors, who are also the Group's key management personnel, during the year are as follows:

	<u>2024</u> HK\$m	<u>2023</u> HK\$m
Short-term benefits	20	18
Post-employment benefits	1	1
Share-based payments	18	15
	<u>39</u>	<u>34</u>

25. BANK BALANCES AND CASH

	<u>THE GROUP</u>		<u>THE COMPANY</u>	
	<u>2024</u> HK\$m	<u>2023</u> HK\$m	<u>2024</u> HK\$m	<u>2023</u> HK\$m
Cash at bank and in hand ⁽¹⁾	4,857	5,029	4,755	4,874
Fixed time deposits with original maturity within three months when acquired	569	836	-	376
Bank balances and cash	<u>5,426</u>	<u>5,865</u>	<u>4,755</u>	<u>5,250</u>

The fixed time deposits carry fixed interest rates of 0.37% to 4.17% (2023: 0.75% to 5.75%) per annum. The bank balances and fixed time deposits are deposited with creditworthy banks with no recent history of default. Most of the banks have an average credit rating of A. The fair value of the fixed time deposits at the end of the reporting period approximates the corresponding carrying amounts.

⁽¹⁾ Cash at bank includes HK\$1,051 million (2023: HK\$1,101 million) in relation to cash received on collateral from securities lending (note 30).

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

26. SHARE CAPITAL

	<u>Number of shares</u>		<u>Share capital</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
	'000	'000	HK\$m	HK\$m
Authorised:				
Ordinary shares of US\$0.639 each at beginning and end of year	<u>1,290,000</u>	<u>1,290,000</u>	<u>6,430</u>	<u>6,430</u>
Ordinary shares of HK\$1 each at beginning and end of year	<u>200,000</u>	<u>200,000</u>	<u>200</u>	<u>200</u>
	<u>Number of shares</u>		<u>Share capital</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
	'000	'000	HK\$m	HK\$m
Issued and fully paid:				
Ordinary shares of US\$0.639 each at beginning and end of year	<u>710,509</u>	<u>710,509</u>	<u>3,526</u>	<u>3,526</u>
Issued and partly paid:				
Ordinary shares of HK\$1 each (partly paid to HK\$0.01 each share) at beginning and end of year	<u>200,000</u>	<u>200,000</u>	<u>2</u>	<u>2</u>
			<u>3,528</u>	<u>3,528</u>

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

27. SUBORDINATED LOANS

THE GROUP AND THE COMPANY

The HK\$310,000,000 subordinated loan due to a fellow subsidiary, with a maturity date of June 17, 2023, was renewed during the year. The subordinated loan is unsecured, bears interest at 4.5% per annum (2023: 4.5%) and is repayable on June 17, 2024. The Company has paid the loan in June 2024.

Another HK\$250,000,000 subordinated loan due to a fellow subsidiary, with a maturity date of September 29, 2023, was renewed during the year. The subordinated loan is unsecured, bears interest at 5.5% per annum (2023: 5.5%) and is repayable on September 29, 2024. The Company has paid the loan in September 2024.

The HK\$12,500,000 subordinated loan was granted by the same entity to a subsidiary, with a maturity date of December 30, 2024, was renewed during the year. The subordinated loan is unsecured, bears interest at 4.5% per annum (2023: 5.5%) and is repayable on December 30, 2025.

Another HK\$10,000,000 subordinated loan was granted by the same entity to a subsidiary, with a maturity date of March 30, 2025, was renewed in March 2025. The subordinated loan is unsecured, bears interest at 4.5% per annum (2023: 4.6%) and is repayable on March 30, 2026.

The fair value of the subordinated loans approximate their carrying amounts because of the short expected life of the financial liability which makes the effect of discounting is immaterial. The interest expense on the loans during the year amounted to HK\$18,000,000 (2023: HK\$25,000,000).

28. ACCUMULATED SURPLUS ATTRIBUTABLE TO RING-FENCED POLICYHOLDERS

The amount represents the accumulated surplus in respect of the ring-fenced business acquired in 1999, attributable to the relevant policyholders. This excludes the Group's and the Company's entitlement to 10% of the amount of bonus declared to the relevant policyholders in excess of the amount of guaranteed bonus under the 90/10 rule.

29. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

THE GROUP AND THE COMPANY

	<u>2024</u>	<u>2023</u>
	HK\$m	HK\$m
Deferred tax liabilities	<u>99</u>	<u>107</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

29. DEFERRED TAXATION - continued

The following is an analysis of the major deferred tax liabilities recognised and movements thereon during the current and prior years:

THE GROUP AND THE COMPANY

	<u>Unused tax</u> <u>loss</u> HK \$'m	<u>Revaluation</u> <u>of</u> <u>investments</u> HK \$'m	<u>Deferred</u> <u>origination</u> <u>costs of MPF</u> HK \$'m	<u>Intangible</u> <u>from business</u> <u>acquisition</u> HK \$'m	<u>Right-of-use</u> <u>assets</u> HK \$'m	<u>Total</u> HK \$'m
At January 1, 2023	70	141	(149)	(67)	-	(5)
Credited to other comprehensive income for the year (note 12)	-	(118)	-	-	-	(118)
Write-off (note 19)	-	-	-	-	-	-
(Charged) credited to profit or loss for the year	(46)	54	3	5	-	16
At December 31, 2023	24	77	(146)	(62)	-	(107)
Credited to other comprehensive income for the year (note 12)	-	5	-	-	-	5
(Charged) credited to profit or loss for the year	(11)	1	8	5	-	3
At December 31, 2024	<u>13</u>	<u>83</u>	<u>(138)</u>	<u>(57)</u>	<u>-</u>	<u>(99)</u>

At the end of the reporting period, the Group has HK\$68,256,000 estimated unused tax losses arising in Hong Kong (2023: HK\$50,330,000) that are available for offset against future taxable profits.

30. FINANCIAL LIABILITIES FROM SECURITIES LENDING

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are lent to other institutions through a lending agent for short periods. Collateral in relation to the securities lent is deposited by the borrower with the agent, and maintained by the lending agent until the underlying securities have been returned to the Company. Collateral primarily consists of cash and cash equivalents. The carrying values of the securities lent and the related cash collateral held are HK\$1,051 million (2023: HK\$1,101 million) and HK\$1,051 million (2023: HK\$1,101 million) respectively as at December 31, 2024.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

31. LEASE LIABILITIES

THE GROUP AND THE COMPANY

	<u>2024</u> HK\$m	<u>2023</u> HK\$m
Lease liabilities payable:		
Within one year	86	131
Within a period of more than one year but not more than two years	29	60
Within a period of more than two years but not more than five years	14	18
Within a period of more than five years	-	-
	<u>129</u>	<u>209</u>
Less: Amount due for settlement within 12 months	<u>(86)</u>	<u>(131)</u>
Amount due for settlement after 12 months	<u><u>43</u></u>	<u><u>78</u></u>

The incremental borrowing rates applied to lease liabilities range from 0.45% to 5.19% (2023: 0.31% to 5.4%).

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The only liability arising from financing activities is the lease liability, and the related cash changes are presented in the statement of cash flows.

SUN LIFE HONG KONG LIMITED

香港永明金融有限公司

32. OTHER CREDITORS AND ACCRUED CHARGES

THE GROUP

	<u>2024</u>	<u>2023</u>
	HK\$'m	HK\$'m
Investment transaction payable	2,207	1,553
Upfront access fee payables for bancassurance partnership	1,130	1,312
Other payables	29	32
Accruals	1,712	67
	<u>5,078</u>	<u>2,964</u>

The carrying value of the payables approximates to their fair value.

THE COMPANY

	<u>2024</u>	<u>2023</u>
	HK\$'m	HK\$'m
Investment transaction payable	2,207	1,431
Upfront access fee payables for bancassurance partnership	1,130	1,313
Other payables	29	32
Accruals	1,594	66
	<u>4,960</u>	<u>2,842</u>

The carrying value of the payables approximates to their fair value.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

33. FINANCIAL INSTRUMENTS AND INSURANCE CONTRACTS

Categories of financial instruments and insurance contracts

	<u>THE GROUP</u>		<u>THE COMPANY</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
	HK\$m	HK\$m	HK\$m	HK\$m
<u>Financial assets</u>				
At FVTPL	99,239	84,736	99,178	84,715
Derivative financial instruments	783	597	783	597
Available-for-sale investments	-	-	-	-
Held-to-maturity investments	-	-	-	-
Loans and receivables (including bank balances and cash)	-	-	-	-
At FVTOCI	3,865	4,924	3,865	4,924
At amortised cost	-	6,664	-	6,664
<u>Financial liabilities</u>				
At FVTPL	515	471	515	471
Derivative financial instruments	117	53	117	53
Financial liabilities from securities lending	1,051	1,101	1,051	1,101
At amortised cost	5,293	3,681	5,153	3,534
<u>Insurance-related assets</u>				
Insurance contract assets	444	479	444	479
Reinsurance contract held assets	2,383	1,081	2,383	1,081
<u>Insurance-related liabilities</u>				
Insurance contract liabilities	101,529	88,692	101,529	88,692
Reinsurance contract held liabilities	120	308	120	308

34. EQUITY COMEPNSATION BENEFITS

Sun Life Financial Inc. ("SLF Inc.") offers a Long-Term Incentive Program to certain executives of the Group and the Company, including directors and controllers. Details of the plans are as follows:

Sun Share Unit ("Sun Share") Plan

Under the Sun Shares plan, participants are granted units that are equivalent in value to one common share of SLF Inc. and have a grant price equal to the average of the closing price of a common share on the Toronto Stock Exchange ("TSX") on the five trading days immediately prior to the date of grant. Participants generally hold units for up to 36 months from the date of grant. The units earn dividend equivalents in the form of additional units at the same rate as the dividends on common shares. Units may vest or become payable if SLF Inc. meet specified threshold performance targets. The plan provides for performance factors to motivate participants to achieve a higher return for shareholders (performance factors are determined through a multiplier that can be as low as zero or as high as two times the number of units that vest). Payments to participants are based on the number of units vested multiplied by the average closing price of a common share on the TSX on the five trading days immediately prior to the vesting date.

The charge recognised in the consolidated statement of profit or loss in respect of the value of the above plans amounted to HK\$18,300,000 (2023: HK\$14,685,000).

Executive Stock Option Plan

SLF Inc. grants stock options to certain employees under the Executive Stock Option Plan. These options are granted at the closing price of the common shares on the TSX on the grant date. The options granted under the stock option plans generally vest over a four-year period. All options have a maximum exercise period of 10 years.

Details of specific categories of options are as follows:

	<u>Date of grant</u>	<u>Vesting period</u>	<u>Exercise period</u>	<u>Exercise price</u>
Executive Stock Option Plan	February 22, 2022	Fully vested four	From date of vest	CAD68.12
	February 21, 2023	years following the	to 10 years after the	CAD67.68
	February 20, 2024	date of grant at a	grant date	CAD73.43
	May 22, 2024	rate of 25% per year		CAD69.47

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

34. EQUITY COMEPNSATION BENEFITS - continued

Executive Stock Option Plan - continued

During the year, no options were exercised by the directors of the Company or employees of the Company. At the beginning and end of the reporting period, there were no (2023: nil) share options outstanding in respect of options granted to the directors or employees of the Company. The weighted average fair values of the stock options, calculated using the Black-Scholes option pricing model, granted during the year ended December 31, 2024, was nil (2023: nil).

As these options are granted to the executives of the Group and the Company for services provided to several group companies. An allocation of the amount attributable to the Group and the Company have been charged through the intercompany recharges.

35. RECONCILIATION OF LIABLITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's and Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's and Company's statement of cash flows as cash flows from financing activities.

	<u>Dividend</u> <u>paid</u> HK'm	<u>Subordinated</u> <u>loans</u> HK\$m	<u>Lease</u> <u>liabilities</u> HK\$m
At January 1, 2023	-	573	309
Newly granted	-	10	-
New leases entered	-	-	41
Lease modified	-	-	-
Financing cash flows	-	(25)	(152)
Interest expenses (note 11)	-	25	11
At December 31, 2023	-	583	209
Newly granted	-	-	-
New leases entered	-	-	29
Lease modified	-	-	26
Repayment on subordinated loans	-	(560)	-
Dividend paid	(855)	-	-
Financing cash flows	-	(18)	(143)
Interest expenses (note 11)	-	18	8
At December 31, 2024	<u>(855)</u>	<u>23</u>	<u>129</u>

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

36. PRIOR YEAR ADJUSTMENTS

In preparing the Group's consolidated financial statements for the year ended December 31, 2024, the directors of the Group identified certain misstatements in respect of the financial statements for prior years. The directors identified that the Group's accounting policy in regards to non-distinct investment components (NDICs) had not been applied correctly for certain insurance and reinsurance contracts, in addition to identifying mathematical mistakes resulting in the Group not recognizing the Group's share of fair value of underlying items on certain participating contracts. As a result, there was a misstatement of the Group's insurance and reinsurance contract assets, insurance contract liabilities, insurance finance income and expenses and retained earnings. Accordingly, prior year comparatives have been restated to reflect the correction of these misstatements.

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

36. PRIOR YEAR ADJUSTMENTS - continued

The effects of the prior year adjustments described above on the consolidated statement of profit or loss and consolidated statement of financial position of the Group as at and for the year ended December 31, 2023 by line items are summarized as follows:

	Consolidated statement of financial position	Consolidated statement of financial position	Consolidated statement of financial position	Consolidated statement of financial position	Consolidated statement of profit or loss and other comprehensive income
	Insurance contract liabilities HK\$m	Insurance contract assets HK\$m	Reinsurance contract assets HK\$m	Reserves HK\$m	Insurance finance (expense) income from insurance contracts issued HK\$m
As at and for the year ended December 31, 2023 (as previously stated)	88,775	267	1,199	4,475	(5,212)
Adjustment related to the recognition of the Group's share of fair value of underlying items	(93)	-	-	93	76
Adjustment related to the application of the Group's accounting policy on NDICs	10	212	(118)	84	-
As at and for the year ended December 31, 2023 (as restated)	88,692	479	1,081	4,652	(5,136)

SUN LIFE HONG KONG LIMITED
香港永明金融有限公司

36. PRIOR YEAR ADJUSTMENTS - continued

The effects of the prior year adjustments described above on the consolidated statement of financial position of the Group as at January 1, 2023 by line items are summarized as follows:

	Consolidated statement of financial position	Consolidated statement of financial position	Consolidated statement of financial position	Consolidated statement of financial position
As at January 1, 2023 (as previously stated)				
Adjustment related to the recognition of the Group's share of fair value of underlying items				
Adjustment related to the application of the Group's accounting policy on NDICs				
As at January 1, 2023 (as restated)				
	Insurance contract liabilities	Insurance contract assets	Reinsurance contract assets	Reserves
	HK\$m	HK\$m	HK\$m	HK\$m
	83,916	1,606	1,495	3,427
	(17)	-	-	17
	(47)	154	(118)	84
	83,852	1,760	1,377	3,528