Disclosure Statement at 31 December 2025

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

1 Company profile

(a) Authorized insurer's name

Factory Mutual Insurance Company, Hong Kong Branch.

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

Factory Mutual Insurance Company, Hong Kong Branch (the "Branch") was registered with the Hong Kong Companies Registry on 20 February 2013 and was licensed by the Insurance Authority ("IA") of Hong Kong on 28 February 2014 to carry out various classes of General Business.

The registered office of the Branch is Suites 3801-02, 38th Floor, One Taikoo Place, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(c) Description of corporate structure

The Branch is an insurance branch of Factory Mutual Insurance Company ("FMIC" or the "Company"). The Company is incorporated in the United States of America.

The registered office of the Company is 270 Central Avenue, P.O. Box 7500, Johnston, RI, 02919-4923, USA.

2 Corporate governance framework

The Hong Kong Risk and Compliance Committee ("RCC"), chaired by the Country Chief Executive, was established to ensure that the Branch remains compliant with applicable and evolving laws and regulations, and to appropriately develop and implement strategies, policies, procedures and controls to manage compliance. The RCC is accountable to and reports to the Asia Pacific Risk Management Committee ("RMC").

3 Financial position

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

(Unit: in HKD thousands)	As at 31 December 2025	As at 31 December 2024
	Total	**Total**
Total assets	**588,319**	**658,832**
Cash and deposits	566,834	573,661
Other financial assets	7,531	17,773
Reinsurance assets	3,586	53,292
Tax assets	39	9,730
Other assets	10,329	4,376
Total liabilities	**145,527**	**276,869**
Insurance liabilities	62,406	243,925
Other financial liabilities	47,521	26,026
Tax liabilities	28,213	-
Other liabilities	7,388	6,918
Net assets	**442,792**	**381,963**

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

i) Insurance liabilities decreased by HKD 181,519K mainly due to the release of an outstanding reserve relating to an accident year 2024 loss that was no longer required.

ii) Reinsurance assets decreased by HKD 49,706K mainly due to stop-loss recoveries received as well as the release of reinsurance assets relating to the loss referred to above, which were no longer required.

4 Investments

(a) Assumptions and methods used for valuation of investments

Not applicable.

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

Not applicable.

5 Insurance liabilities

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

Insurance Liabilities of General Business

(Unit: in HKD thousands)	As at 31 December 2025		
	Direct insurance		Total general business
	Marine, aviation, and transport	Property damage	
Total general insurance liabilities (gross of reinsurance)	Not applicable	Not applicable	62,406
Total general insurance liabilities excluding other general insurance liabilities (gross of reinsurance)	12,503	49,903	62,406
Outstanding claims liabilities	10,398	8,952	19,350
Premium liabilities	21	31,318	31,338
Margin over current estimate for outstanding claims liabilities	2,078	1,477	3,555
Margin over current estimate for premium liabilities	6	8,156	8,163
Total general insurance liabilities excluding other general insurance liabilities (net of reinsurance)	12,498	46,322	58,820

(Unit: in HKD thousands)	As at 31 December 2024		
	Direct insurance		Total general business
	Marine, aviation, and transport	Property damage	
Total general insurance liabilities (gross of reinsurance)	Not applicable	Not applicable	243,925
Total general insurance liabilities excluding other general insurance liabilities (gross of reinsurance)	25,909	218,016	243,925
Outstanding claims liabilities	19,345	181,467	200,812
Premium liabilities	5,049	29,964	35,013
Margin over current estimate for outstanding claims liabilities	-	-	-
Margin over current estimate for premium liabilities	*1,515*	*6,585*	*8,100*
Total general insurance liabilities excluding other general insurance liabilities (net of reinsurance)	25,471	165,162	190,633

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

The valuation of the Branch's insurance liabilities has been carried out on both gross and reinsurance basis. Insurance liabilities comprise the sum of claims liabilities and premium liabilities, and have been determined in accordance with the requirements of the Hong Kong Risk-Based Capital ("HKRBC") regime, based on management's interpretation of the IA's guidelines.

For the estimation of claims liabilities relating to attritional claims, the actuary has considered a range of standard actuarial projection methods, including the Incurred Chain Ladder ("ICD"), Expected Loss Ratio ("ELR") and Incurred Bornhuetter-Ferguson ("IBF") methods. Large losses have been excluded from the triangles due to the distortion they may introduce into the projections. The incurred but not reported ("IBNR") reserves for such claims have been assessed separately.

Premium liabilities are determined in accordance with HKRBC requirements as the unexpired risk reserve ("URR"), inclusive of a Margin Over Current Estimate ("MOCE"). The URR represents the estimated mean of the statistical distribution of the ultimate settlement value of claims relating to the Unearned Premium Reserves. It includes an allowance for expenses associated with administering the policies as well as direct and indirect expenses associated with settling those claims, and allowance for future reinsurance costs for the unearned exposure.

Discounting has been applied to both claims liabilities and premium liabilities. The discounted values are derived by applying appropriate discount factors to the undiscounted best estimate liabilities. These discount factors are determined based on the selected yield curve (i.e., HKD spot rates from risk-free yield curves provided by the IA), together with assumptions regarding the average duration of the underlying liabilities.

The MOCE has been determined such that the calculated liabilities which include the margin have a 75% probability of adequacy. For claims liabilities, the MOCE is applied to outstanding claims (case reserves plus IBNR) including direct and indirect claims handling expenses. For premium liabilities, the MOCE is applied to the best estimate URR. The MOCE ratios applicable to premium liabilities are expected to be higher than those for claims liabilities for each class of business. This reflects the greater uncertainty in estimating premium liabilities than outstanding claims as premium liabilities also entails estimating the occurrence and severity of claims that have not yet occurred.

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

The valuation of insurance liabilities has been performed using methodologies consistent with those applied in the previous year, except for the following key changes:

i) In 2025, the valuation of insurance liabilities has been carried out separately for gross and reinsurance balances, instead of a gross and net basis as in the previous year.

ii) Discounting was applied on expenses. In the previous review, discounting was applied to losses only and zero discounting was assumed for expenses.

6 Financial performance

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

Performance Analysis on Premiums and Claims

(Unit: in HKD thousands)	For the financial year ended 31 December 2025	For the financial year ended 31 December 2024
	Total	**Total**
Gross premiums	196,864	242,333
Net premiums	90,953	123,473
Gross claims paid	26,423	61,709
Net claims (received) / paid	(12,603)	61,709

Performance Analysis on Investment Returns

(Unit: in HKD thousands)	For the financial year ended 31 December 2025	For the financial year ended 31 December 2024
	Total	**Total**
Investment returns	7,063	-

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

i) Negative net claims paid in 2025 were mainly due to stop-loss recoveries received from a loss incurred in 2024.

ii) Investment returns in 2025 were from interest earned on fixed deposits and a current account. No interest was earned in 2024.

(c) Underwriting Results for general business (for pricing adequacy disclosure purposes)

Underwriting Results of General Business

(Unit: in HKD thousands)	For the financial year ended 31 December 2025		
	Direct insurance		Total general business
	Marine, aviation, and transport	Property damage	
Gross premium	78	196,787	196,864
Net premium	(2,375)	93,329	90,953
Net undiscounted best estimate combined business results, relating to current year	(20,338)	75,662	55,323
Net undiscounted best estimate combined business results, relating to prior year	6,588	167,350	173,937
Undiscounted underwriting results - (loss) / profit	(15,829)	241,535	225,705

(Unit: in HKD thousands)	For the financial year ended 31 December 2024		
	Direct insurance		Total general business
	Marine, aviation, and transport	Property damage	
Gross premium	31,856	210,477	242,333
Net premium	26,650	96,824	123,473
Net undiscounted best estimate combined business results, relating to current year	(12,939)	(27,857)	(40,796)
Net undiscounted best estimate combined business results, relating to prior year	6,626	5,753	12,379
Undiscounted underwriting results - loss	(6,313)	(22,103)	(28,417)

(d) Material change or other commentary on underwriting results (if any)

i) Marine, aviation, and transport
The decline in the gross and net premiums was mainly due to a policy not being renewed in 2025.

ii) Property damage
The undiscounted underwriting loss in 2024 was primarily attributable to a loss incurred during the year. The related loss reserve was released in 2025, as it was no longer required.

7 Capital adequacy

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

Prescribed Capital Amount

(Unit: in HKD thousands)	As at 31 December 2025	As at 31 December 2024
Market risk (diversified RCA)	**3,118**	**4,186**
Interest rate risk RCA	1,209	3,030
Currency risk RCA	2,588	2,229
Diversification benefits within market risk	(679)	(1,072)
General Insurance Risk (diversified RCA)	**81,124**	**232,290**
Reserve and premium risk RCA	22,920	72,569
Natural catastrophe risk RCA	5,497	107,264
Man-made non-systemic catastrophe risk RCA	72,090	172,659
Diversification benefits within general insurance risk	(19,383)	(120,203)
Counterparty default and other risk RCA	**3,423**	**4,757**
Diversification benefits among risk modules	(4,761)	(6,611)
Operational risk RCA	5,414	6,664
Adjustment for tax effect	(7,069)	(19,906)
Prescribed capital amount	**81,250**	**221,380**

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

Capital Base

(Unit: in HKD thousands)	As at 31 December 2025	As at 31 December 2024
Unlimited Tier 1 capital	442,044	380,007
Tier 2 capital	39	1,956
Capital base	**442,083**	**381,963**

(c) Ratio of capital base to prescribed capital amount

	As at 31 December 2025	As at 31 December 2024
Ratio of capital base to prescribed capital amount	**544%**	**173%**

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

i) The increase in capital base was mainly due to profit during the year, partially offset by a capital repatriation to the Head Office.

ii) The decrease in prescribed capital amount reflects the Branch's reduced general insurance risk exposure, principally due to lower projected net earned premium, lower outstanding claims and reduced catastrophe exposure after allowance for the stop-loss reinsurance treaty. The reduced general insurance risk exposure has the effect of reducing (a) reserve and premium risk RCA, (b) natural catastrophe risk RCA and (c) man-made non-systemic catastrophe risk RCA.

8 Risk Management

(a) Risk appetite and risk governance framework

The Risk Management Framework ("RMF") enables FMIC in the Asia-Pacific region, including the Branch, to appropriately develop and implement strategies, policies, procedures and controls to manage different types of material risks. The RMF encompasses the systems, structures, policies, processes and people within the operations that identify, measure, monitor, report and control or mitigate all internal and external sources of material risk. Material risks are those that could have a material impact, both financial and non-financial, on operations or the interests of policyholders. The RMF provides reasonable assurance that each material risk to operations is being prudently and soundly managed, having regard to the size, business mix and complexity of operations.

The Branch RMF includes a documented Risk Appetite and Tolerance Statement ("RAS").

The RAS reflects the policies and procedures of the FMIC Group and has been supplemented with risk tolerances that reflect the Branch business plan, the various capital protection mechanisms in place and local market conditions. The purpose of the RAS is to describe the type and level of risk that the Branch is prepared to accept in pursuit of its strategic objectives and business plan, giving consideration to the interests of policyholders.

Where risk exposures, incidents, or control deficiencies exceed risk appetite or fall outside tolerance, they must not be managed as business-as-usual. Instead, they require formal escalation and oversight under the RMF. Such reporting is made to senior management and relevant governance bodies, including the Hong Kong RCC and the APAC RMC.

(b) Insurance risk management

The Branch writes commercial property insurance business in Hong Kong, of which, most are presented in the Property Damage line of business. Other general insurance lines of business, where presented in the disclosure tables, are immaterial by volume and arise only from limited ancillary exposures. Policies issued by the Branch are predominately 12-month contracts that expose the Branch to risks that vary by location, industry, and type of coverage, including fire and natural catastrophes such as windstorms, floods, and earthquakes. Claims experience can differ from expectations due to variations in frequency, severity, timing, and inflation, particularly for claims that take longer to settle.

To manage these risks, the Branch focuses on maintaining adequate reserves to meet its liabilities, supported by disciplined underwriting practices, risk selection and reinsurance arrangements. Risk exposure is further reduced through careful claim assessments, strict review policies, and proactive, timely claims settlement. Inflation risk is incorporated into liability estimates to ensure reserves remain sufficient over time.

Reinsurance plays a key role in risk mitigation, primarily through non-proportional (excess-of-loss) arrangements with varying retention limits. While recoverables from reinsurers are estimated consistently with claims provisions, the Branch retains ultimate responsibility to policyholders and is therefore exposed to counterparty credit risk if reinsurers default. The Branch uses reinsurance to mitigate volatility from large individual losses and catastrophe events, preserve solvency capital and ensure liquidity. Reinsurance counterparties are subject to credit quality and exposure monitoring. The reinsurance programme is diversified—including group programmes, automatic and facultative placements, captive arrangements, and an intercompany stop-loss treaty—so that the Branch is not overly reliant on any single reinsurer.

Overall, underwriting and reinsurance strategies are designed to limit exposure to large or catastrophic losses, with a risk tolerance that targets keeping the combined ratio below 125% in any given year.

(c) Investment risk management

The investment risk management framework places a strong emphasis on prudence, capital preservation, and liquidity across both long-term and short-term assets. For long-term assets held at the Branch level, the business is restricted to investing only in cash and fixed income securities, and these must comply strictly with the limits set out in the investment policies. Exposure to credit and concentration risk is therefore tightly controlled through these policy limits. In addition, the framework eliminates equity risk by explicitly prohibiting investments in equities, derivatives, structured products, or any other financial instruments that are not expressly permitted. For short-term assets, particularly Branch cash, the framework addresses currency, credit, and concentration risks. Cash deposits that support technical provisions are required to align with the currency profile of the underlying liabilities, ensuring that at least 100% of policyholder obligations in each major currency are matched by corresponding deposits. Credit quality is also tightly regulated, with deposits allowed only with financial institutions that have a minimum credit rating of "A" or equivalent from recognised rating agencies such as Fitch or S&P. Furthermore, exposures to these counterparties must remain within limits determined by local regulatory risk-based capital requirements, thereby mitigating concentration risk. In addition, the framework requires the maintenance of a primary bucket of liquid assets to support policyholder funds and technical reserves. This pool must consist of cash or cash equivalents held with highly rated institutions (minimum "A" rating) and must be of the highest credit quality and liquidity. It should be readily convertible to cash even under stressed conditions and must fully cover at least 100% of the technical reserves. Overall, the approach ensures a conservative investment strategy that prioritises liquidity, high credit quality, and strict adherence to regulatory and policy constraints.

(d) Other risk management (if any)

Not applicable.

9. Statement of Compliance

(i) I am satisfied with the completeness, accuracy and consistency of the information disclosed in this disclosure statement in respect of Factory Mutual Insurance Company, Hong Kong Branch;

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

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

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

Name:	Martin Au-Yeung
Position:	Chief Executive Officer
Company Name:	Factory Mutual Insurance Company, Hong Kong Branch