

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED
REPORT OF DIRECTORS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2025

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

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PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

REPORT OF DIRECTORS

The directors of Prudential General Insurance Hong Kong Limited (the “Company”) have the pleasure of presenting the Company’s annual report together with the audited financial statements for the year ended 31 December 2025.

Principal place of business

Prudential General Insurance Hong Kong Limited is a limited liability company incorporated and domiciled in Hong Kong, and has its registered office at 59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong. The principal place of business is at 28th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong.

Principal activity

The principal activity of the Company is the underwriting of general insurance business, including employees’ compensation, motor vehicle and liability insurance business in Hong Kong.

Results and dividends

The results of the Company for the year ended 31 December 2025 and the Company’s financial position as at that date are set out in the financial statements on pages 7 to 8.

An interim dividend of 16.85 HK cents per share (HK\$60,413,341.44) was paid on 28 May 2025 (2024: HK\$41,877,022.44). The directors did not recommend the payment of a final dividend during the year.

Share capital

The Company has not issued any shares for the year ended 31 December 2025. Details of movements in share capital of the Company are set out in note 20 to the financial statements.

Directors

The directors who held office during the year and up to the date of report were:

Tim Lau

Lawrence Chi Kong Lam

Alan Shen Fong Tan* (resigned as director on 31 October 2025)

Kenneth Patrick Chung*

Margaret Wing Han Kwan*

Leong Hin Gan* (appointed as director on 23 September 2025)

* Independent Non-Executive Director

There being no provision in the Company’s Articles of Association in connection with the retirement of directors, all existing directors will continue in office for the following year.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

REPORT OF DIRECTORS (CONTINUED)

Directors' interests in transactions, arrangement or contracts

No transaction, arrangement or contract of significance to which the Company, or any of its holding companies or fellow subsidiaries was a party and in which a director 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.

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

Directors' benefits from rights to acquire shares or debentures

The Company's ultimate holding company, Prudential plc, operates several share option schemes. Under these schemes, share awards or options to purchase shares in Prudential plc have been granted to certain staff in the group, certain of whom are directors of the Company.

During the year, Lawrence Chi Kong Lam and Leong Hin Gan held shares or rights to acquire shares in Prudential plc under the arrangements.

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

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this year.

Property and equipment

Details of the movements in property and equipment of the Company are set out in note 14 to the financial statements.

Management contracts

The following material management contracts with fellow subsidiaries existed during the year:

- Investment management agreement with Eastspring Investments (Singapore) Limited ("Eastspring"), whereby Eastspring undertakes to provide certain investment management services; and
- Intra-group services agreements with a fellow subsidiary, Prudential Hong Kong Limited ("PHKL"), whereby PHKL provides administration service for medical businesses, and certain managerial and operational support services to the Company.

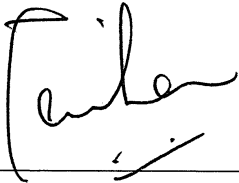
PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

REPORT OF DIRECTORS (CONTINUED)

Auditors

Ernst & Young, auditors of the Company, will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Tim Lau', is written over a horizontal line.

Tim Lau
Chairman

Hong Kong, 22 April 2026

Independent auditor's report**To the sole member of Prudential General Insurance Hong Kong Limited**

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Prudential General Insurance Hong Kong Limited (the "Company") set out on pages 7 to 53, which comprise the statement of financial position as at 31 December 2025, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

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

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") as issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the report of directors, other than the financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the financial statements

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

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

Independent auditor's report (continued)

To the sole member of Prudential General Insurance Hong Kong Limited

(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements

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

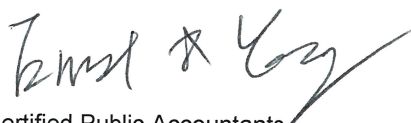
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditor report is Leung Kai Chun (practising certificate number: P08013).



Certified Public Accountants

Hong Kong

22 April 2026

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

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

	Note	2025 HK\$'000	2024 HK\$'000
Insurance revenue		1,317,062	1,243,225
Insurance service expenses	5	(1,304,382)	(1,139,987)
Net income/ (expenses) from reinsurance contracts held		62,968	(54,014)
Insurance service result		75,648	49,224
Interest revenue calculated using the effective interest method	7	22,800	23,048
Other investment return on financial investments	7	24,640	26,679
Investment result		47,440	49,727
Insurance finance expenses for insurance contracts issued	8	(21,298)	(15,517)
Reinsurance finance income for reinsurance contracts held	8	1,488	1,047
Net insurance financial result		27,630	35,257
Other income		4,484	612
Other expenses	9	(4,507)	(4,197)
Profit before tax		103,255	80,896
Tax charge	12	(8,214)	(1,020)
Profit and total comprehensive income for the year		95,041	79,876

Details of dividends payable to equity holder of the Company attributable to the profit for the year are set out in note 13.

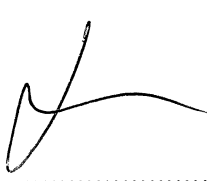
The notes on pages 11 to 53 are an integral part of these financial statements.

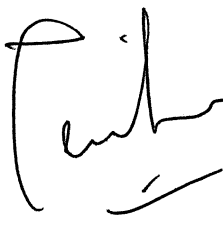
PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

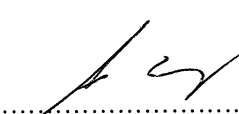
**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2025**

	Note	2025 HK\$'000	2024 HK\$'000
Assets			
Property and equipment	14	11,196	13,212
Insurance contract assets	18	548	520
Reinsurance contract assets	18	140,095	26,943
Other receivables	15	14,091	10,608
Deferred tax assets	12	5,302	5,415
Financial assets at fair value through profit or loss			
- Debt securities	16	328,697	345,624
Bank deposits with original maturities of more than three months		905,461	817,161
Cash and cash equivalents	17	182,058	158,176
Total assets		1,587,448	1,377,659
Liabilities			
Insurance contract liabilities	18	965,831	786,313
Reinsurance contract liabilities	18	1,126	875
Other payables and liabilities	19	40,025	43,919
Current income tax liabilities	12	2,462	3,176
Total liabilities		1,009,444	834,283
Net assets		578,004	543,376
Equity			
Share capital	20	358,536	358,536
Capital contribution reserves		-	-
Retained earnings		219,468	184,840
Total equity		578,004	543,376

The financial statements on pages 7 to 53 were approved and authorised for issue by the Board of Directors on 22 April 2026 and were signed on its behalf.


.....
Lawrence Chi Kong Lam
Chief Executive Officer


.....
Tim Lau
Director


.....
Kenneth Patrick Chung
Director

The notes on pages 11 to 53 are an integral part of these financial statements.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

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

	Note	Share capital HK\$'000	Capital contribution reserves HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
Balance at 1 January 2024		358,536	-	146,841	505,377
Share-based compensation		-	2,349	-	2,349
Settlement of share-based compensation		-	(2,349)	-	(2,349)
Dividends paid		-	-	(41,877)	(41,877)
Profit and total comprehensive income for the year		-	-	79,876	79,876
Balance at 31 December 2024 and 1 January 2025		358,536	-	184,840	543,376
Share-based compensation		-	2,973	-	2,973
Settlement of share-based compensation		-	(2,973)	-	(2,973)
Dividends paid	13	-	-	(60,413)	(60,413)
Profit and total comprehensive income for the year		-	-	95,041	95,041
Balance at 31 December 2025		358,536	-	219,468	578,004

The notes on pages 11 to 53 are an integral part of these financial statements.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

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

	Note	2025 HK\$'000	2024 HK\$'000
Cash flows from operating activities			
Profit before tax		103,255	80,896
Adjustments for non-cash items and changes in operating assets and liabilities:			
- Depreciation of property and equipment	14	2,016	2,086
- Fair value gains on financial assets at fair value through profit or loss		(16,737)	(18,134)
- Increase in insurance contract assets		(28)	(19)
- (Increase)/ decrease in reinsurance contract assets		(113,152)	1,328
- Increase in insurance contract liabilities		179,518	82,435
- Increase/ (decrease) in reinsurance contract liabilities		251	(488)
- (Increase)/ decrease in other receivables and prepayments		(129)	495
- Decrease in other payables and liabilities		(3,894)	(633)
Operating cash items:			
- Interest income from debt securities		(7,903)	(8,545)
- Interest income from deposits and cash and cash equivalents		(22,800)	(23,048)
- Tax paid		(8,815)	(3,266)
Net cash flows generated from operating activities		111,582	113,107
Investing activities			
Purchase of property, plant and equipment	14	-	(2,626)
Purchase of deposits maturing in more than three months		(1,088,087)	(1,502,524)
Purchase of debt securities		(309,632)	(294,158)
Sales proceeds from disposal of bank deposits with original maturities of more than three months		1,012,800	1,442,500
Sale proceeds from disposal of bank deposits with original maturities three months or less		-	5
Sale proceeds from disposal of debt securities		330,283	289,147
Interest received from securities and bank deposits with original maturities of more than three months		26,188	33,040
Interest received from cash and cash equivalents		1,161	1,345
Net cash flows used in investing activities		(27,287)	(33,271)
Financing activities			
Dividends paid	13	(60,413)	(41,877)
Net cash flows used in financing activities		(60,413)	(41,877)
Net increase in cash and cash equivalents		23,882	37,959
Cash and cash equivalents at 1 January		158,176	120,217
Cash and cash equivalents at 31 December	17	182,058	158,176

The notes on pages 11 to 53 are an integral part of these financial statements.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Prudential General Insurance Hong Kong Limited (the “Company”) is a limited liability company incorporated in Hong Kong. The address of its registered office is at 59th Floor, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong.

The Company’s principal activity is the underwriting of general insurance business, including employees’ compensation, motor vehicle and liability insurance business in Hong Kong.

These financial statements have been approved for issue by the Board of Directors on 22 April 2026.

2 Material accounting policies

2.1 Statement of compliance

For the purposes of compliance with sections 379 and 380 of the Companies Ordinance (Cap. 622), these financial statements have been prepared to present a true and fair view of the financial position and financial performance of the Company only. Consequently, they have been prepared in accordance with all applicable HKFRS Accounting Standards (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) as issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance (Cap. 622) that are relevant to the preparation of company level financial statements by an intermediate parent company.

The HKICPA has issued certain new and revised HKFRS Accounting Standards that are first effective or available for early adoption for the current accounting period of the Company. Note 2.3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are material to the Company for the current and prior accounting periods reflected in these financial statements.

2.2 Basis of preparation

The financial statements are presented in Hong Kong dollars, rounded to the nearest thousand, unless otherwise stated. They have been prepared under the historical cost convention, except debt securities, and certificate of deposits are stated at fair value through profit or loss and insurance contract assets/ liabilities and reinsurance contract assets/ liabilities, which have been measured at the basis of fulfilment cashflows.

The preparation of financial statements in conformity with HKFRS Accounting Standards requires the use of accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Company. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

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

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.3 Changes in accounting policies and disclosures

(a) New and amended standards and interpretations

The Company has not adopted amendments to HKAS 21 Lack of Exchangeability, which is not applicable to the Company in the current year's financial statements. The Company has not early adopted any other standard or amendment that has been issued but is not yet effective.

(b) Amendments issued but not yet effective

The following standards, interpretations and amendments have been issued by the HKICPA but are not yet effective for the Company in 2025. This is not intended to be a complete list as only those standards, interpretations and amendments that could have an impact on the financial statements are discussed.

HKFRS 18	<i>Presentation and Disclosure in Financial Statements²</i>
Amendments to HKFRS 9 and HKFRS 7	<i>Amendments to the Classification and Measurement of Financial Instruments¹</i>
Amendments to HKAS 21	<i>Translation to a Hyperinflationary Presentation Currency²</i>
Annual Improvements to HKFRS Accounting Standards — Volume 11	<i>Amendments to HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKAS 7¹</i>

¹ Effective for annual periods beginning on or after 1 January 2026

² Effective for annual/reporting periods beginning on or after 1 January 2027

The Company is currently assessing the impact of the standards, interpretations and amendments. Based on a preliminary assessment, the standards, interpretations and amendments are not expected to have any significant impact on the financial statements, except HKFRS 18.

HKFRS 18 replaces HKAS 1 Presentation of Financial Statements. While a number of sections have been brought forward from HKAS 1 with limited changes, HKFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Entities are required to classify all income and expenses within the statement of profit or loss into one of the five categories: operating, investing, financing, income taxes and discontinued operations and to present two new defined subtotals. It also requires disclosures about management-defined performance measures in a single note and introduces enhanced requirements on the grouping (aggregation and disaggregation) and the location of information in both the primary financial statements and the notes. Some requirements previously included in HKAS 1 are moved to HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which is renamed as HKAS 8 Basis of Preparation of Financial Statements. As a consequence of the issuance of HKFRS 18, limited, but widely applicable, amendments are made to HKAS 7 Statement of Cash Flows, HKAS 33 Earnings per Share and HKAS 34 Interim Financial Reporting. In addition, there are minor consequential amendments to other HKFRS Accounting Standards. HKFRS 18 and the consequential amendments to other HKFRS Accounting Standards are effective for annual periods beginning on or after 1 January 2027 with earlier application permitted. Retrospective application is required. The Company is currently analysing the new requirements and assessing the impact of HKFRS 18 on the presentation and disclosure of the Company's financial statements.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.4 Insurance and reinsurance contracts (continued)

(a) Classification

The Company issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. The Company issues general insurance products include personal accident, medical insurance, employees' compensation, motor vehicle and liability insurance business. The Company does not issue any contracts with direct participating features.

(b) Insurance and reinsurance contracts accounting treatment

Separating components from insurance and reinsurance contracts

The Company assesses its general insurance product to determine whether they contain distinct components which must be accounted for under another HKFRS Accounting Standards instead of under HKFRS 17. Currently, the Company's products do not include any distinct components that require separation.

Level of aggregation

HKFRS 17 requires a company to determine the level of aggregation for applying its requirements. The level of aggregation for the Company is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. This means that, for determining the level of aggregation, the Company identifies a contract as the smallest "unit", i.e., the lowest common denominator. However, the Company makes an evaluation of whether a series of contracts need to be treated together as one unit based on reasonable and supportable information, or whether a single contract contains components that need to be separated and treated as if they were stand-alone contracts. As such, what is treated as a contract for accounting purposes may differ from what is considered as a contract for other purposes (i.e., legal or management). HKFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart.

The Company applied a full retrospective approach for transition to HKFRS 17. The portfolios are further divided by year of issue and profitability for recognition and measurement purposes. Hence, within each year of issue, portfolios of contracts are divided into three groups, as follows:

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

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.4 Insurance and reinsurance contracts (continued)

(b) Insurance and reinsurance contracts accounting treatment (continued)

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

- Pricing information
- Results of similar contracts it has recognised
- Environmental factors, e.g., a change in market experience or regulations

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

Recognition

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

- The beginning of the coverage period of the group of contracts;
- The date when the first payment from a policyholder in the group is due; or
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous.

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

Contract boundary

The Company includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

- The Company has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or

Both of the following criteria are satisfied:

- The Company has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
- The pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

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

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.4 Insurance and reinsurance contracts (continued)

(c) Measurement - Premium Allocation Approach

	HKFRS 17 Options	Adopted approach
Premium Allocation Approach (PAA) Eligibility	Subject to specified criteria, the PAA can be adopted as a simplified approach to the HKFRS 17 general model.	Approximately 97% of PGHK products are no more than one year and therefore automatically qualifies for PAA. Other 3% which coverage period range from 2 years to 4 years (e.g. maid product, travel insurance product covering overseas study and working holiday, and health checkup product) shown no material difference in the measurement of the liability for remaining coverage between PAA and the general measurement model for these products. Therefore all PGHK underlying contracts are PAA eligible.
Insurance acquisition cash flows for insurance contracts issued	Where the coverage period of all contracts within a group is not longer than one year, insurance acquisition cash flows can either be expensed as incurred, or allocated, using a systematic and rational method, to groups of insurance contracts (including future groups containing insurance contracts that are expected to arise from renewals) and then amortised over the coverage period of the related group. For groups containing contracts longer than one year, insurance acquisition cash flows must be allocated to related groups of insurance contracts and amortised over the coverage period of the related group.	Insurance acquisition cash flows are allocated to related groups of insurance contracts and amortised over the coverage period of the related group.
Liability for Remaining Coverage (LFRC), adjusted for financial risk and time value of money	Where there is no significant financing component in relation to the LFRC, or where the time between providing each part of the services and the related premium due date is no more than a year, an entity is not required to make an adjustment for accretion of interest on the LFRC.	There is no allowance as there is no significant financing component in relation to the LFRC.
Liability for Incurred Claims, (LFIC) adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claim is incurred, it is not required to adjust these amounts for the time value of money.	LFIC is adjusted for the time value of money.
Insurance finance income and expense	There is an option to disaggregate part of the movement in LFIC resulting from changes in discount rates and present this in statement of other comprehensive income ("OCI").	The change in LFIC as a result of changes in discount rates will be captured within profit or loss.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.4 Insurance and reinsurance contracts (continued)

(c) Measurement - Premium Allocation Approach (continued)

(i) Insurance contracts – initial measurement

The Company applies the PAA to all the insurance contracts that it issues as:

- The coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary (refer to note 2.4 (b)); or
- For contracts longer than one year, the Company has modelled possible future scenarios and reasonably expects that the measurement of the liability for remaining coverage for the group containing those contracts under the PAA does not differ materially from the measurement that would be produced applying the general model. In assessing materiality, the Company has also considered qualitative factors such as the nature of the risk and types of its lines of business.

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

For a group of contracts that is not onerous at initial recognition, the Company measures the liability for remaining coverage as:

- The premiums, if any, received at initial recognition;
- Minus any insurance acquisition cash flows at that date;
- Plus or minus any amount arising from the derecognition at that date of the asset recognised for insurance acquisition cash flows; and
- Any other asset or liability previously recognised for cash flows related to the group of contracts that the Company pays or receives before the group of insurance contracts is recognised.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Company performs additional analysis to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Company recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognised. For additional disclosures on the loss component, please refer to note 2.4 (c)(viii).

(ii) Reinsurance contracts held – initial measurement

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

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.4 Insurance and reinsurance contracts (continued)

(c) Measurement - Premium Allocation Approach (continued)

(iii) Insurance contracts – subsequent measurement

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

- Plus premiums received in the period;
- Minus insurance acquisition cash flows;
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the group; and
- Minus the amount recognised as insurance revenue for the services provided in the period.

The Company estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Company, and include an explicit adjustment for non-financial risk (the risk adjustment).

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Company recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognised. For additional disclosures on the loss component, please refer to note 2.4 (c)(viii).

(iv) Reinsurance contracts held – subsequent measurement

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

(v) Insurance contracts – modification and derecognition

The Company derecognises insurance contracts when:

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

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

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.4 Insurance and reinsurance contracts (continued)

(c) Measurement - Premium Allocation Approach (continued)

(vi) Presentation

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

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

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

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

(vii) Insurance revenue

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

The Company changes the basis of allocation between the two methods above as necessary, if facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate.

For the periods presented, all revenue has been recognised on the basis of the passage of time.

(viii) Loss components

If at any time during the coverage period, the facts and circumstances indicate that a group of insurance contracts is onerous, the Company establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group as determined. Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero.

(ix) Insurance finance income and expense

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 recognises insurance finance income or expenses on insurance contracts issued in profit or loss.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.4 Insurance and reinsurance contracts (continued)

(c) Measurement - Premium Allocation Approach (continued)

(x) Net income or expense from reinsurance contracts held

The Company presents on the face of the statement of profit or loss and other comprehensive income, the income or expense from a group of reinsurance contracts held. The Company treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held, and excludes investment components and commissions from an allocation of reinsurance premiums presented on the face of the statement of profit or loss and other comprehensive income.

2.5 Revenue recognition

The accounting policy in relation to revenue from insurance contracts is disclosed in note 2.4.

(a) Other income

Other incomes are recognised as the services are rendered.

(b) Interest income

Interest income for financial assets that are not classified as fair value through profit or loss is recognised using the effective interest method.

2.6 Leases

At inception of a contract, the Company assesses whether the contract is, or contains, 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

Where the contract contains lease component(s) and non-lease component(s), the Company has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Company recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Company enters into a lease in respect of a low-value asset, the Company decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a straight-line basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The lease liability is remeasured when there is a change arising from the reassessment of whether the Company will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.7 Income tax

Income tax is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity.

Current income tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except that deferred tax is not recognised for the Pillar Two income taxes, per the amendments to HKAS 12 'International Tax Reform – Pillar Two Model Rules'. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

2.8 Employee benefits

(a) Provident fund obligations

The Company pays contributions to administered provident funds on a mandatory basis and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when incurred.

(b) Share-based payments

The Company offers share award plans for certain key employees and an Employee Share Purchase Plan for all employees. These plans are equity settled plans.

Share awards of the ultimate parent company's equity instruments, for which the ultimate parent company, Prudential plc or a related company, Prudential Holdings Limited ("PHL") has the obligation to settle, are valued using the share price at the date of grant and are accounted for as equity-settled, i.e. recognised in equity as a capital contribution from Prudential plc. The compensation costs for all awards are recognised in the statement of profit or loss and other comprehensive income over the plans' respective vesting periods.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.9 Property and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives.

Premise renovation cost:	Over the lease terms
Property leased for own use:	Over the lease terms
IT & other equipments:	Over their estimated useful life
Furniture and fixture:	4 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of profit or loss and other comprehensive income. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to retained profits and are not reclassified to the statement of profit or loss and other comprehensive income. These processes are described in note 2.10.

2.10 Financial assets

The Company classifies all of its financial assets as fair value through profit or loss or amortised cost based on the business model for managing the assets and the asset's contractual terms.

(a) Classification - financial assets measured at fair value through profit or loss

A financial asset is typically classified as fair value through profit or loss at inception if it meets the following criteria:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial assets or recognising the gains and losses on them on different bases;
- Certain investments, such as equity investments, are managed and evaluated on fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis, are designated at fair value through profit and loss;
- Financial assets, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss; or
- Derivatives are recognised initially, and are subsequently remeasured, at fair value. The gain or loss on measurement to fair value is recognised immediately in the statement of profit or loss and other comprehensive income, except where the derivatives qualify for hedge accounting.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.10 Financial assets (continued)

(b) Classification - financial assets measured at amortised cost

Other financial assets include loans and receivables with fixed or determinable payments are measured at amortised cost using the effective interest method, subject to impairment if the assets are held for the collection of contractual cash flows where those contractual cash flows represent solely payments of principal and interest.

(c) Measurement

The fair values of quoted investments are based on bid prices at the reporting period. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

Realised gains and losses, unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss, are included in the statement of profit or loss and other comprehensive income in the period in which they arise. Where the financial assets at amortised cost are interest-bearing, interest calculated using the effective interest method is recognised in the statement of profit or loss and other comprehensive income. Expected credit losses ("ECL") as explained in note 2.12 are recognised in the statement of profit or loss when the financial assets are impaired.

(d) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Company has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

2.11 Other receivables

Other receivables include amounts due from intra-group companies or third parties, interest receivables, prepayments and deposits paid to third parties. These receivables are recognized at cost less accumulated impairment losses, unless the effect of discounting would be material, in which case, they are stated at amortised cost less accumulated impairment losses. For the impairment of other receivables, please refer to note 2.12 (a).

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.12 Impairment of assets

(a) Financial assets measured at amortised cost

The Company recognises a loss allowance for expected credit loss (“ECL”) on financial assets which are subject to impairment under HKFRS 9 (including other receivables, bank deposits and cash at bank balances). The amount of ECL is assessed at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Company’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For financial assets subject to ECL, the Company measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Company recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive, discounted at the effective interest rate determined at initial recognition.

The Company may consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

(b) Other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the statement of profit or loss and other comprehensive income for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, call deposits, other short-term highly liquid investments with original maturities of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits, as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

2.14 Other payables

Other payables include amounts due to intra-group companies and accrued expenses payable to third parties. Expense due is recognized as a payable at cost.

2.15 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets are included in the statement of changes in equity.

2.16 Share capital

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

2.17 Dividend distribution

Interim dividends are recorded in the period in which they are declared. Final dividends are recorded in the period in which they are approved by shareholders.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (continued)

2.18 Related parties

A party is considered to be related to the Company if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company; or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Company are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Company are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
 - (vi) the entity is controlled or joint ventures by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting estimates and judgements

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

The Company's estimates for reported and unreported losses and establishing resulting provisions and related reinsurance recoveries are continually reviewed and updated, and adjustments resulting from this review are reflected in the statement of profit or loss and other comprehensive income. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting ultimate liabilities for notified claims and claims incurred but not reported. However, estimation of claims provision is a complex process. Significant uncertainty exists as to the ultimate settlement of these liabilities since, among other issues, there are inconsistent court resolutions with respect to underlying policy intent and coverage, and uncertainties as to the allocation of responsibility for resultant damages. As such, the Company has allowed for a certain level of prudent margins for uncertainty in any process of estimating outstanding claims.

Onerous groups

For groups of contracts that are onerous, the liability for remaining coverage is determined by the expected fulfilment cash flows and a loss component is recognised when the expected fulfilment cash flow is exceeding the unearned premium reserve.

Liability for incurred claims

The Company uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of incurred claims. The methods more commonly used are the chain-ladder method, the Bornhuetter-Ferguson method and the payment per claim incurred method. These methods extrapolate the development of incurred claims for each accident year based upon observed development of earlier years and expected loss ratios. The key methods, which remain unchanged from prior years, are:

- Chain ladder methods, which use historical data to estimate the cumulative incurred claims. This is most appropriate for mature classes of business that have a relatively stable development pattern;
- Bornhuetter-Ferguson method, which is used in situations in which a reliable claims experience is not available for the projection (e.g. lack of credible data); and
- Expected loss ratio methods, which use the expected result of the loss ratio for a class of business.

The actual method or blend of methods used varies by accident year being considered, the class of business and observed historical claims development.

To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case. Such reasons include:

- Changes in processes that affect the development/ recording of claims paid and incurred (such as changes in claim reserving procedures);
- Economic, legal, political and social trends (resulting in different than expected levels of inflation);
- Changes in mix of business; and
- Random fluctuations, including the impact of large losses.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting estimates and judgements (continued)

Discount rates

Liabilities for incurred claims are calculated by discounting expected future cash flows at a risk free rate, plus an illiquidity premium where applicable. Risk-free rates are based on government bond yields for majority of currencies. Yield curves are constructed by using a market-observed curve up to a last liquid point and then extrapolating to an ultimate forward rate.

The following tables set out the range of yield curves used to discount cash flows of insurance contracts for HKD.

At 31 December 2025

	1 year	2 year	3 year	4 year	5-10 years
HKD	2.63	2.56	2.58	2.65	2.72 - 3.10

At 31 December 2024

	1 year	2 year	3 year	4 year	5-10 years
HKD	3.88	3.75	3.67	3.61	3.60 - 3.65

The sensitivity of profit or loss and equity to changes in interest rates is set out in note 4.3, covers a sensitivity to changes in the discount rates.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

The Company has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 75th percentile. That is, the Company has assessed its indifference to uncertainty for all product lines (as an indication of the compensation that it requires for bearing non-financial risk) as being equivalent to the 75th percentile confidence level less the mean of an estimated probability distribution of the future cash flows. The Company has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Company manages them.

4.1 Insurance risk

Insurance risk is a risk other than financial risk transferred from the holder of a contract to the issuer, in this case the Company. The principal insurance risk faced by the Company is that the combined cost of claims, administration and acquisition costs of the contract exceed the aggregate amount of premiums received and investment income.

The Company manages its exposure to insurance risk by applying formal underwriting, reinsurance and claims handling procedures designed to ensure compliance with regulations and insurance risk appetite.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Company also cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks, group risks or defined blocks of business, on yearly renewal term, excess or catastrophe excess basis. These reinsurance agreements spread the risk of exposure to losses. The amount of each risk retained depends on the Company's evaluation of the specific risk, subject in certain circumstances, to maximum limits based on characteristics of coverage.

Insurance risk depends on the types of business, and varies considerably. Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost.

(a) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered, and the increase in the number of cases coming to court that were inactive or latent for a long period of time. For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, typhoons) and their consequences (for example, subsidence claims).

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Underwriting actions are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (i.e. subrogation).

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (continued)

4.1 Insurance risk (continued)

(a) Frequency and severity of claims (continued)

The Company reinsures a portion of the risks it underwrites in order to control its exposure to potential losses and as part of its capital management. The reinsurance arrangements comprise a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure of the Company. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances. All purchases of facultative reinsurance are subject to approval and the total expenditure on facultative reinsurance is closely monitored.

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

Claims on insurance contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the covered loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to incurred but not reported claims ("IBNR").

The estimated cost of claims includes both direct expenses and indirect claim handling expenses. Direct expenses are those incurred in settling claims, net of the expected subrogation value and other recoveries. Indirect claim handling expenses are the Company's own administrative costs in settling claims. The Company takes all reasonable steps to ensure that it reflects appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprise a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period. The amount of general liability claims is particularly sensitive to the level of court awards and to the development of legal precedents on matters of contract and tort. General insurance contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of reporting period.

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

The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims has happened. For general liability contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics from previous periods. Large claims exclusion is to avoid potential distortion to normal claims development patterns. In fact, large loss adjustment is to improve accuracy of claims estimate without capturing any noise from shock loss.

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

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (continued)

4.1 Insurance risk (continued)

(c) Concentration risk

The Company actively assesses and manages product concentration risk. The Company has a range of product offerings with different extent and nature of risk coverage, e.g. accident products, medical insurance, employees' compensation, motor vehicle and liability insurance. This naturally reduces the Company's exposures to concentrations of insurance risk.

4.2 Financial risk

The Company is exposed to financial risk through its financial assets, reinsurance assets and insurance liabilities. The most important components of this financial risk are market risk, credit risk and liquidity risk.

4.2.1 Market risk

Market risk can be described as the risk of change in fair value or cash flow of a financial instrument due to changes in interest rates, or foreign currency exchange rates. In managing interest rate and foreign currency risks the Company aims to reduce the impact of short-term fluctuations on the Company's earnings. Over the longer term, however, permanent changes in foreign exchange rates and interest rates would have an impact on the Company's earnings.

(a) Interest rate risk

Interest rate profile

Short term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing. The table below summarises the interest rate exposures at the end of reporting period for interest-bearing financial assets.

	Fair value interest rate risk HK\$'000	Cash flow interest rate risk HK\$'000	Not directly exposed to interest rate risk HK\$'000	Total HK\$'000
<u>2025</u>				
Debt securities	328,697	-	-	328,697
Bank deposits with original maturities of more than three months	905,461	-	-	905,461
Cash and cash equivalents	52,243	5,368	124,447	182,058
Total	<u>1,286,401</u>	<u>5,368</u>	<u>124,447</u>	<u>1,416,216</u>
<u>2024</u>				
Debt securities	345,624	-	-	345,624
Bank deposits with original maturities of more than three months	817,161	-	-	817,161
Cash and cash equivalents	-	5,701	152,475	158,176
Total	<u>1,162,785</u>	<u>5,701</u>	<u>152,475</u>	<u>1,320,961</u>

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.1 Market risk (continued)

(b) Currency risk

Premiums are received in two main currencies (Hong Kong dollars and US dollars) and the Company aims to hold assets that broadly match with the currency of the underlying liabilities. The currency risk that the Company exposed to is not significant as the Hong Kong dollars is pegged against the US dollars.

4.2.2 Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- Insurance contracts assets;
- Reinsurance contracts assets;
- Investments;
- Other receivables; and
- Deposits and cash and cash equivalents.

The Company manages this risk through using reputable multi-national reinsurers with high credit rating. When selecting a reinsurer the Company considers its relative security which is assessed from public rating information and that from internal investigations.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as the primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract and monitored afterwards. Unless otherwise specified, the Company manages this risk through using reinsurers with credit rating of A- or better grade only.

The Company maintains records of the payment history for significant contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties, and limiting the exposure to individual counterparties.

Investment restrictions have minimised the credit risk of the asset portfolio – the majority of fixed interest investments are investment grade, and securities purchased are traded in recognised markets.

Cash and cash equivalents and bank deposits are deposited with various financial institutions that management believes are of high credit quality and accordingly, minimal credit risk exists.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.2 Credit risk (continued)

Without taking into account of any collateral held or other credit enhancements, the amount that best represents the Company's maximum exposure to credit risk at the reporting date is:

	Reinsurance contract assets HK\$'000	Debt securities HK\$'000	Deposits, cash and cash equivalents HK\$'000
<u>2025</u>			
AA+ to AA-	-	328,697	56,346
A+ to A-	140,095	-	231,737
Lower than A- and no rating	-	-	799,436
Total	<u>140,095</u>	<u>328,697</u>	<u>1,087,519</u>
<u>2024</u>			
AA+ to AA-	-	345,624	227,740
A+ to A-	26,943	-	179,562
Lower than A- and no rating	-	-	568,035
Total	<u>26,943</u>	<u>345,624</u>	<u>975,337</u>

The majority of Company's financial instruments are carried at FVTPL. Other assets held at amortised cost include other receivables with carrying amounts of HK\$14,091,000 (2024: HK\$10,608,000), which is primarily comprised of accrued investment income and the credit risk is considered to be low by nature. No expected credit losses are recognised on these assets.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.3 Liquidity risk

It is an inherent characteristic of almost all insurance contracts that there is uncertainty over the amount and the timing of settlement of claims liabilities that may arise, and this leads to liquidity risk.

To fund the cash outflows arising from claims liabilities, the Company utilises liquidity primarily from the following sources:

- Cash inflows arising from premiums from new business, policy renewals and recurring premium products; and
- Cash resources.

The Company manages liquidity risk by utilising some or all of the following techniques:

- Matching cash inflows with expected cash outflows using specific cash flow projections; and
- Maintaining sufficient cash resources.

The table below details the contractual maturity profile of financial assets and liabilities in accordance with HKFRS 7 *Financial Instruments: Disclosures*.

Contractual maturity of financial liabilities:

	Contractual maturity (undiscounted)					Total
	Carrying amount	No stated maturity/ repayable on demand	Within 1 year	1 – 5 years	Over 5 years	
At 31 December 2025	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables and liabilities	40,025	10,955	29,070	-	-	40,025

	Contractual maturity (undiscounted)					Total
	Carrying amount	No stated maturity/ repayable on demand	Within 1 year	1 – 5 years	Over 5 years	
At 31 December 2024	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables and liabilities	43,919	16,492	27,427	-	-	43,919

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (continued)

4.3 Sensitivities to insurance and market risks and claims development table

The sensitivities of retained earnings and profit for the year to reasonably possible changes in key risk variables at 31 December 2025 are as follows. For each sensitivity test, the impact of a change in a single factor is shown, with other assumptions remain unchanged.

<u>Sensitivity Factor</u>	<u>Description of sensitivity factor applied</u>
Interest rate and investment return	The impact of a change in market rate by + 1% and – 0.5% (e.g. if the current interest rate is 5%; the impact of an immediate change to 6% and 4.5%, respectively). The test allows consistently for similar changes to investment returns and movements in the market value of assets backing fixed interest securities.
Expected loss	The impact of an increase in expected loss by 10%.

The following sensitivity analysis shows the impact on profit or loss and equity for reasonably possible movements in key assumptions with all other assumptions held constant.

Insurance risk

<u>2025</u> HK\$'000	Change in assumptions	Impact on profit before tax and equity gross of reinsurance	Impact on profit before tax and equity net of reinsurance
Expected loss	+5%	(21,633)	(21,633)
Expected loss	-5%	19,695	19,695

<u>2024</u> HK\$'000	Change in assumptions	Impact on profit before tax and equity gross of reinsurance	Impact on profit before tax and equity net of reinsurance
Expected loss	+5%	(19,667)	(19,667)
Expected loss	-5%	17,950	17,950

Interest rate risk

<u>2025</u> HK\$'000	Change in interest rate	Impact on profit before tax	Impact on equity
Financial assets	+100 bps	(6,236)	(6,236)
Net insurance contract liabilities	+100 bps	6,746	6,746
Financial assets	- 50 bps	3,118	3,118
Net insurance contract liabilities	- 50 bps	(3,459)	(3,459)

<u>2024</u> HK\$'000	Change in interest rate	Impact on profit before tax	Impact on equity
Financial assets	+100 bps	(6,125)	(6,125)
Net insurance contract liabilities	+100 bps	5,257	5,257
Financial assets	- 50 bps	3,063	3,063
Net insurance contract liabilities	- 50 bps	(2,600)	(2,600)

Limitations of sensitivity analysis

The above table demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (continued)

4.3 Sensitivities to insurance and market risks and claims development table (continued)

Limitations of sensitivity analysis (continued)

Unless stated otherwise, the sensitivity analysis does not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to policyholders, and taking other protective action.

Claims development table

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

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

Gross undiscounted liability for incurred claims for 2025 – All line

Accident year	Before 2019 HK\$'000	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2023 HK\$'000	2024 HK\$'000	2025 HK\$'000	Total HK\$'000
At end of accident year	2,278,406	589,833	520,942	578,018	595,316	694,462	706,750	876,775	
One year later	2,276,511	599,103	502,958	575,322	525,800	648,458	653,577		
Two years later	2,212,141	573,972	480,429	562,806	526,742	639,514			
Three years later	2,125,673	556,099	471,220	557,313	510,776				
Four years later	2,077,508	551,194	466,123	552,350					
Five years later	2,052,857	551,987	462,792						
Six years later	2,041,737	550,473							
Seven years later and thereafter	2,039,579								
Gross estimates of the undiscounted amount of the claims	2,039,579	550,473	462,792	552,350	510,776	639,514	653,577	876,775	6,285,836
Cumulative payments to date	2,035,375	547,259	458,791	541,976	491,874	588,295	560,896	491,845	5,716,311
Gross undiscounted outstanding claims	4,204	3,214	4,001	10,374	18,902	51,219	92,681	384,930	569,525
Effect of discounting									(15,831)
Gross outstanding claims									553,694

	Note	Estimates of the present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Total HK\$'000
Gross outstanding claims		514,746	38,948	553,694
Payable arising from insurance contracts and accrued expenses		77,928	-	77,928
Total gross liabilities for incurred claims	18.1 (a)	592,674	38,948	631,622

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (continued)

4.3 Sensitivities to insurance and market risks and claims development table (continued)

Claims development table (continued)

Net undiscounted liability for incurred claims for 2025 – All line

Accident year	Before 2019 HK\$'000	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2023 HK\$'000	2024 HK\$'000	2025 HK\$'000	Total HK\$'000
At end of accident year	2,056,153	549,652	500,646	569,400	584,265	659,236	679,443	735,639	
One year later	2,068,356	561,843	485,186	569,097	514,624	616,114	622,832		
Two years later	2,014,007	538,329	462,998	556,869	516,203	608,456			
Three years later	1,930,049	521,246	454,093	551,737	500,328				
Four years later	1,883,228	516,394	449,293	546,785					
Five years later	1,858,706	517,185	445,954						
Six years later	1,847,625	515,671							
Seven years later and thereafter	1,845,598								
Net estimates of the undiscounted amount of the claims	1,845,598	515,671	445,954	546,785	500,328	608,456	622,832	735,639	5,821,263
Cumulative payments to date	1,842,430	512,458	442,029	536,428	481,900	558,987	534,728	449,698	5,358,658
Net undiscounted outstanding claims	3,168	3,213	3,925	10,357	18,428	49,469	88,104	285,941	462,605
Effect of discounting									(13,644)
Net outstanding claims									448,961

	Note	Estimates of the present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Total HK\$'000
Gross outstanding claims		514,746	38,948	553,694
Claims recoverable from reinsurers		(99,013)	(5,720)	(104,733)
Net outstanding claims		415,733	33,228	448,961
Claims recoverable from reinsurers		(99,013)	(5,720)	(104,733)
Receivables arising from reinsurance contracts		(47,589)	-	(47,589)
Total reinsurance liabilities for incurred claims	18.1 (b)	(146,602)	(5,720)	(152,322)

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (continued)

4.3 Sensitivities to insurance and market risks and claims development table (continued)

Claims development table (continued)

Gross undiscounted liability for incurred claims for 2024 – All line

Accident year	Before 2018 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2023 HK\$'000	2024 HK\$'000	Total HK\$'000
At end of accident year	2,001,414	543,280	589,833	520,942	578,018	595,316	694,462	706,750	
One year later	2,017,826	543,052	599,103	502,958	575,322	525,800	648,458		
Two years later	1,948,132	549,918	573,972	480,429	562,806	526,742			
Three years later	1,871,183	527,856	556,099	471,220	557,313				
Four years later	1,830,496	509,047	551,194	466,123					
Five years later	1,804,338	507,469	551,987						
Six years later	1,793,974	506,200							
Seven years later and thereafter	1,791,639								
Gross estimates of the undiscounted amount of the claims	1,791,639	506,200	551,987	466,123	557,313	526,742	648,458	706,750	5,755,212
Cumulative payments to date	1,787,810	504,048	546,081	458,487	537,241	483,189	567,321	463,682	5,347,859
Gross undiscounted outstanding claims	3,829	2,152	5,906	7,636	20,072	43,553	81,137	243,068	407,353
Effect of discounting									(16,240)
Gross outstanding claims									391,113

	Note	Estimates of the present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Total HK\$'000
Gross outstanding claims		361,538	29,575	391,113
Payable arising from insurance contracts and accrued expenses		65,157	-	65,157
Total gross liabilities for incurred claims	18.1 (a)	426,695	29,575	456,270

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (continued)

4.3 Sensitivities to insurance and market risks and claims development table (continued)

Claims development table (continued)

Net undiscounted liability for incurred claims for 2024 – All line

Accident year	Before 2018 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2023 HK\$'000	2024 HK\$'000	Total HK\$'000
At end of accident year	1,809,478	489,112	549,652	500,646	569,400	584,265	659,236	679,443	
One year later	1,835,337	491,786	561,843	485,186	569,097	514,624	616,114		
Two years later	1,774,465	502,095	538,329	462,998	556,869	516,203			
Three years later	1,700,390	480,780	521,246	454,093	551,737				
Four years later	1,659,819	462,737	516,394	449,293					
Five years later	1,634,387	461,162	517,185						
Six years later	1,624,263	459,692							
Seven years later and thereafter	1,622,081								
Net estimates of the undiscounted amount of the claims	1,622,081	459,692	517,185	449,293	551,737	516,203	616,114	679,443	5,411,748
Cumulative payments to date	1,619,290	457,540	511,283	441,725	531,693	473,221	539,081	445,446	5,019,279
Net undiscounted outstanding claims	2,791	2,152	5,902	7,568	20,044	42,982	77,033	233,997	392,469
Effect of discounting									(15,742)
Net outstanding claims									376,727

	Note	Estimates of the present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Total HK\$'000
Gross outstanding claims		361,538	29,575	391,113
Claims recoverable from reinsurers		(13,621)	(765)	(14,386)
Net outstanding claims		347,917	28,810	376,727
Claims recoverable from reinsurers		(13,621)	(765)	(14,386)
Receivables arising from reinsurance contracts		(27,166)	-	(27,166)
Total reinsurance liabilities for incurred claims	18.1 (b)	(40,787)	(765)	(41,552)

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (continued)

4.4 Fair value estimation

Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of reporting period across the three levels of the fair value hierarchy defined in HKFRS13, *Fair Value Measurement*, with the fair value of each financial instrument categorized in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 valuations: Fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair values measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair values measured using significant unobservable inputs.

	2025			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Debt securities - Government bonds	-	328,697	-	328,697
Certificate of deposits*	-	897,861	-	897,861

	2024			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Debt securities - Government bonds	-	345,624	-	345,624
Certificate of deposits*	-	596,361	-	596,361

* Certificate of deposits were included under bank deposits with original maturities of more than three months as at 31 December 2025 and 31 December 2024.

During the year ended 31 December 2025 and 31 December 2024, there was no transfer between Level 2, or transfer into or out of Level 3. The Company's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Insurance service expenses

	2025 HK\$'000	2024 HK\$'000
Incurred claims and other expenses (note)	1,065,711	879,902
Amortisation of insurance acquisition cash flows	343,283	330,604
Losses on onerous contracts and reversals of those losses	(4,081)	(5,158)
Changes to liabilities for incurred claims	(100,531)	(65,361)
	<u>1,304,382</u>	<u>1,139,987</u>

Note: The nature and material expense included is disclosed in note 6.

6 Material expenses included in incurred claims and other expenses

	2025 HK\$'000	2024 HK\$'000
Depreciation charge	2,016	2,086
Employee benefit expenses		
- Wages and salaries	79,323	62,898
- Contributions to defined contribution plans	3,176	3,342
- Other benefits	7,144	6,610
	<u>79,323</u>	<u>62,898</u>

7 Investment returns

	2025 HK\$'000	2024 HK\$'000
Interest revenue calculated using the effective interest method:		
- Interest income from bank deposits with original maturities of more than three months	21,600	21,912
- Interest income from cash and cash equivalents	1,200	1,136
	<u>22,800</u>	<u>23,048</u>
Other investment return on financial instruments:		
- Interest income from debt securities – Government bonds	7,903	8,475
- Interest income from debt securities – Unlisted corporate bonds	-	70
- Net unrealised (loss)/ gain on re-measurement of financial assets measured at fair value through profit or loss	(2,334)	4,029
- Net realised gain on financial assets measured at fair value through profit or loss	19,071	14,105
	<u>24,640</u>	<u>26,679</u>
	<u>47,440</u>	<u>49,727</u>

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8 Net insurance and reinsurance finance income/ (expenses)

	2025 HK\$'000	2024 HK\$'000
Interest accreted	(21,298)	(15,517)
Net finance expenses from insurance contracts	<u>(21,298)</u>	<u>(15,517)</u>
Interest accreted	1,488	1,047
Net finance income from reinsurance contracts held	<u>1,488</u>	<u>1,047</u>

9 Other expenses

	2025 HK\$'000	2024 HK\$'000
Auditor's remuneration	1,649	1,987
Investment related expenses	1,837	1,711
Other expenses	1,021	499
	<u>4,507</u>	<u>4,197</u>

10 Share-based payments

Employees of the Company participate in the following share award plans relating to Prudential plc shares, which are described below.

Share award plans

The Prudential Corporation Asia Long-Term Incentive Plan ("PCA LTIP") is the incentive plan created for senior employees. Under the plan, discretionary awards are made in the form of restricted Prudential plc shares. Awards will vest after three years subject to the employee being in service at the time of vesting without any performance conditions.

The Employee Share Purchase Plan ("ESPP") is available to all permanent employees to participate. Under ESPP, employees can purchase shares at market value. Employee accumulates purchased shares during a twelve-month accumulation period and will be awarded one matching share for each two purchases. The matching shares will vest twelve months after the accumulating period.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 Share-based payments (continued)

For the share award plans, shares are either issued by Prudential plc or purchased from the open market and then delivered to the employees by trusts established by PHL. The obligation of the share-based payments rest with PHL, a related company.

Movements in share awards outstanding under the above share-based compensation plans relating to Prudential plc shares during 2025 and 2024 were as follows:

	2025 Number of awards	2024 Number of awards
Awards outstanding		
Beginning of the year	74,230	44,457
Granted	21,883	60,399
Exercised	(22,711)	(30,626)
Forfeited	-	-
Lapsed	-	-
End of year	<u>73,402</u>	<u>74,230</u>

The weighted average fair value of the share price for award granted during the year was £8.77 (2024: £7.46).

Share awards granted are valued using the share price at the date of grant and the Company is recharged a fixed amount based on this value by PHL. The costs are recognised over the plan period.

The total share-based payment expenses (including administrative and transaction cost) recognised in 2025 was HK\$2,982,000 (2024: HK\$2,359,000).

11 Directors' remuneration

Directors' remunerations disclosed pursuant to section 383(1) of Companies Ordinance (Cap. 622) and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2025 HK\$'000	2024 HK\$'000
Directors' fee	1,252	1,209
Salaries, allowances and benefit in kind	-	-
Discretionary bonus	-	-
Retirement scheme contributions	-	-
	<u>1,252</u>	<u>1,209</u>

The aggregate amount of the emoluments paid to the three highest paid directors was HK\$1,142,000 (2024: HK\$1,209,000).

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12 Tax charge

	2025 HK\$'000	2024 HK\$'000
<u>Taxation in the profit or loss represents:</u>		
Current tax – Hong Kong Profit Tax		
Provision for the year	8,764	6,963
(Over)/ under provision in respect of prior years	(663)	697
	8,101	7,660
Deferred tax		
Origination and reversal of temporary differences	243	(6,640)
Credit in respect of a previously unrecognised temporary difference from prior years	(130)	-
Total	<u>8,214</u>	<u>1,020</u>
	2025 HK\$'000	2024 HK\$'000
<u>Reconciliation of effective tax rate:</u>		
Profit before tax	<u>103,255</u>	<u>80,896</u>
Income tax using domestic corporate tax rate	17,037	13,348
Effects of:		
Non-deductible expenses	1,921	1,261
Tax exempted revenues and allowances	(9,294)	(8,825)
Tax effect of the concessionary tax rate of 8.25% on the assessable profits derived from the Qualifying Business	(657)	(5,461)
(Over)/ under provision in prior years	(663)	697
Credit in respect of a previously unrecognised temporary difference from prior years	(130)	-
Tax charge at the effective rate of 7.96% (2024: 1.26%)	<u>8,214</u>	<u>1,020</u>
Applicable tax rate	16.5%	16.5%
	2025 HK\$'000	2024 HK\$'000
Provision for Hong Kong profits tax for the year	8,764	6,963
Provisional tax paid	(6,302)	(3,787)
	<u>2,462</u>	<u>3,176</u>

During the year, the Insurance (Amendment) Ordinance 2023 and corresponding amendments to the Inland Revenue Ordinance (Cap.112) regarding ascertainment of assessable profits for insurance business came into operation from 1 July 2024. For the year ended 31 December 2025 and 2024, the Company determines provision for current tax and deferred tax in accordance with latest requirement in the Inland Revenue Ordinance.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12 Tax charge (continued)

The Company is a specified insurer and elects to be chargeable at the concessionary tax rate of 8.25% on the assessable profits derived from the specified general insurance business and general reinsurance business (collectively, “the Qualifying Business”) in respect of the sums accrued to and received by the Company under Section 14B(1)(c) of the Inland Revenue Ordinance. For the year ended 31 December 2025 and 31 December 2024, the provision for Hong Kong profits tax was calculated at the concessionary tax rate of 8.25% on the assessable profits derived from the Qualifying Business under Section 14B(1)(c) of the Inland Revenue Ordinance. For the assessable profits derived from non-Qualifying Business, the provision for Hong Kong profits tax was calculated at the tax rate of 16.5%.

Deferred tax (assets)/ liabilities recognised in the statement of financial position and the movements during the year are as follows:

	Share-based payments HK\$'000	Depreciation allowance in excess the related depreciation HK\$'000	Balances relating to insurance contracts HK\$'000	Total HK\$'000
Deferred tax (assets)/ liabilities arising from:				
Balance at 1 January 2024	(757)	2,072	(90)	1,225
Charged/ (credited) to profit or loss	345	93	(7,078)	(6,640)
Balance at 31 December 2024	(412)	2,165	(7,168)	(5,415)
Balance at 1 January 2025	(412)	2,165	(7,168)	(5,415)
Charged/ (credited) to profit or loss	(191)	(330)	634	113
Balance at 31 December 2025	(603)	1,835	(6,534)	(5,302)

On 6 June 2025, Hong Kong enacted legislation implementing the OECD Pillar Two global minimum tax framework, with effect from 1 January 2025. The Prudential Group is within the scope of the Pillar Two rules.

Based on management’s assessment, the aggregated results of the Hong Kong companies within the Group are expected to qualify for the Transitional Country by Country Reporting Safe Harbour for the year ended 31 December 2025. Accordingly, no Hong Kong domestic minimum top up tax has been recognised in the Company’s tax charge for the year.

In accordance with the amendments to HKAS 12 ‘International Tax Reform – Pillar Two Model Rules’, the Company has applied the mandatory temporary exception from recognising and disclosing deferred tax assets and liabilities at 31 December 2025 related to Pillar Two income taxes. Any Pillar Two income taxes will be accounted for as current tax when incurred.

13 Dividends

	2025 HK\$'000	2024 HK\$'000
Interim dividend declared and paid of 16.85 HK cents (2024: 11.68 HK cents) per ordinary share	60,413	41,877

The directors do not recommend the payment of a final dividend for the year ended 31 December 2025.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

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14 Property and equipment

	Property leased for own use HK\$'000	Office renovation HK\$'000	IT & other equipment HK\$'000	Furniture and fixture HK\$'000	Total HK\$000
At 1 January 2024					
Cost	-	-	27,580	-	27,580
Accumulated depreciation	-	-	(14,908)	-	(14,908)
Net book amount	-	-	12,672	-	12,672
Year ended 31 December 2024					
Opening net book amount	-	-	12,672	-	12,672
Addition	-	-	2,626	-	2,626
Depreciation charge	-	-	(2,086)	-	(2,086)
Closing net book amount	-	-	13,212	-	13,212
At 1 January 2025					
Cost	-	-	30,206	-	30,206
Accumulated depreciation	-	-	(16,994)	-	(16,994)
Net book amount	-	-	13,212	-	13,212
Year ended 31 December 2025					
Opening net book amount	-	-	13,212	-	13,212
Addition	-	-	-	-	-
Depreciation charge	-	-	(2,016)	-	(2,016)
Closing net book amount	-	-	11,196	-	11,196
Year ended 31 December 2025					
Cost	-	-	30,206	-	30,206
Accumulated depreciation	-	-	(19,010)	-	(19,010)
Closing net book amount	-	-	11,196	-	11,196

Depreciation expenses of HK\$2,016,000 (2024: HK\$2,086,000) have been incurred.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15 Other receivables

	2025 HK\$'000	2024 HK\$'000
Interest receivables	13,133	9,779
Other receivables and prepayments (unsecured)	958	829
Total	<u>14,091</u>	<u>10,608</u>
Expected to be settled within 12 months	14,091	10,608
Expected to be settled after 12 months	-	-

There is no concentration of credit risk with respect to other receivables, as the Company has a large number of widely dispersed debtors. The carrying amount of other receivables approximated to their fair value as at 31 December 2025 and 2024. Their recoverability was assessed with reference to the credit status of the debtors, and the expected credit losses as at 31 December 2025 and 2024 were considered to be minimal.

16 Finance assets at fair value through profit or loss

	2025 HK\$'000	2024 HK\$'000
Debt securities - Government bonds	<u>328,697</u>	<u>345,624</u>

Changes in fair value of financial assets at fair value through profit or loss are recorded in investment returns in the statement of profit or loss and other comprehensive income (note 7).

17 Cash and cash equivalents

	2025 HK\$'000	2024 HK\$'000
Debt security with original maturities three months or less	52,243	-
Cash at bank – saving and current accounts	129,815	158,176
	<u>182,058</u>	<u>158,176</u>

18 Insurance and reinsurance contracts

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

	2025			2024		
	Assets HK\$'000	Liabilities HK\$'000	Net HK\$'000	Assets HK\$'000	Liabilities HK\$'000	Net HK\$'000
Insurance contracts issued	<u>548</u>	<u>(965,831)</u>	<u>(965,283)</u>	<u>520</u>	<u>(786,313)</u>	<u>(785,793)</u>
Reinsurance contracts held	<u>140,095</u>	<u>(1,126)</u>	<u>138,969</u>	<u>26,943</u>	<u>(875)</u>	<u>26,068</u>

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contracts (continued)

18.1 Analysis of movements in insurance and reinsurance contract balances

(a) Analysis by remaining coverage and incurred claims of insurance contracts

An analysis of movements in insurance contract balances by remaining coverage and incurred claims is set out below:

	2025				
	Liabilities for remaining coverage		Liabilities for incurred claims		Total
	Excluding loss component HK\$'000	Loss component HK\$'000	Estimates of the present value of future cash flows HK\$'000	Risk adjustment HK\$'000	
Opening assets at 1 January	-	-	520	-	520
Opening liabilities at 1 January	(301,743)	(27,780)	(427,215)	(29,575)	(786,313)
Net opening balance	(301,743)	(27,780)	(426,695)	(29,575)	(785,793)
Insurance revenue	1,317,062	-	-	-	1,317,062
Insurance service expenses					
- Incurred claims and other expenses	-	-	(1,041,079)	(24,632)	(1,065,711)
- Amortisation of insurance acquisition cash flows	(343,283)	-	-	-	(343,283)
- Losses on onerous contracts and reversals of those losses	-	4,081	-	-	4,081
- Changes to liabilities for incurred claims	-	-	83,604	16,927	100,531
Insurance service result	973,779	4,081	(957,475)	(7,705)	12,680
Insurance finance expenses	-	-	(19,630)	(1,668)	(21,298)
Total changes in the statement of profit or loss	973,779	4,081	(977,105)	(9,373)	(8,618)
Cash flows					
- Premiums received	(1,343,711)	-	-	-	(1,343,711)
- Insurance acquisition cash flows	361,713	-	-	-	361,713
- Claims and other expenses paid	-	-	805,317	-	805,317
Total cash flows	(981,998)	-	805,317	-	(176,681)
Other movements	-	-	5,809	-	5,809
Net increase/ (decrease) during the year	(8,219)	4,081	(165,979)	(9,373)	(179,490)
Closing assets at 31 December	-	-	548	-	548
Closing liabilities at 31 December	(309,962)	(23,699)	(593,222)	(38,948)	(965,831)
Net closing balance	(309,962)	(23,699)	(592,674)	(38,948)	(965,283)

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contracts (continued)

18.1 Analysis of movements in insurance and reinsurance contract balances (continued)

(a) Analysis by remaining coverage and incurred claims of insurance contracts (continued)

An analysis of movements in insurance contract balances by remaining coverage and incurred claims is set out below (continued):

	2024				
	Liabilities for remaining coverage		Liabilities for incurred claims		Total
	Excluding loss component HK\$'000	Loss component HK\$'000	Estimates of the present value of future cash flows HK\$'000	Risk adjustment HK\$'000	
Opening assets at 1 January	-	-	501	-	501
Opening liabilities at 1 January	(242,803)	(32,938)	(406,898)	(21,239)	(703,878)
Net opening balance	(242,803)	(32,938)	(406,397)	(21,239)	(703,377)
Insurance revenue	1,243,225	-	-	-	1,243,225
Insurance service expenses					
- Incurred claims and other expenses	-	-	(863,486)	(16,416)	(879,902)
- Amortisation of insurance acquisition cash flows	(330,604)	-	-	-	(330,604)
- Losses on onerous contracts and reversals of those losses	-	5,158	-	-	5,158
- Changes to liabilities for incurred claims	-	-	56,354	9,007	65,361
Insurance service result	912,621	5,158	(807,132)	(7,409)	103,238
Insurance finance expenses	-	-	(14,590)	(927)	(15,517)
Total changes in the statement of profit or loss	912,621	5,158	(821,722)	(8,336)	87,721
Cash flows					
- Premiums received	(1,332,356)	-	-	-	(1,332,356)
- Insurance acquisition cash flows	360,795	-	-	-	360,795
- Claims and other expenses paid	-	-	795,537	-	795,537
Total cash flows	(971,561)	-	795,537	-	(176,024)
Other movements	-	-	5,887	-	5,887
Net increase/ (decrease) during the year	(58,940)	5,158	(20,298)	(8,336)	(82,416)
Closing assets at 31 December	-	-	520	-	520
Closing liabilities at 31 December	(301,743)	(27,780)	(427,215)	(29,575)	(786,313)
Net closing balance	(301,743)	(27,780)	(426,695)	(29,575)	(785,793)

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contracts (continued)

18.1 Analysis of movements in insurance and reinsurance contract balances (continued)

(b) Analysis by remaining coverage and incurred claims of reinsurance contracts held

An analysis of movements in reinsurance contract balances by remaining coverage and incurred claims is set out below:

	2025			
	Liabilities for remaining coverage	Estimates of the present value of future cash flows	Liabilities for incurred claims	Total
	Excluding loss component		Risk adjustment	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening assets at 1 January	(15,484)	41,662	765	26,943
Opening liabilities at 1 January	-	(875)	-	(875)
Net opening balance	(15,484)	40,787	765	26,068
Net income/ (expenses) from reinsurance contracts				
- Net income or expense from reinsurance contracts held	(101,436)	159,531	4,873	62,968
Reinsurance finance income	-	1,406	82	1,488
Total changes in the statement of profit or loss	(101,436)	160,937	4,955	64,456
Cash flows				
Premiums paid	103,567	-	-	103,567
Amounts recovered	-	(55,122)	-	(55,122)
Total cash flows	103,567	(55,122)	-	48,445
Net increase during the year	2,131	105,815	4,955	112,901
Closing assets at 31 December	(13,353)	147,728	5,720	140,095
Closing liabilities at 31 December	-	(1,126)	-	(1,126)
Net closing balance	(13,353)	146,602	5,720	138,969

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contracts (continued)

18.1 Analysis of movements in insurance and reinsurance contract balances (continued)

(b) Analysis by remaining coverage and incurred claims of reinsurance contracts held (continued)

An analysis of movements in reinsurance contract balances by remaining coverage and incurred claims is set out below (continued):

	2024			
	Liabilities for remaining coverage	Liabilities for incurred claims		Total
	Excluding loss component	Estimates of the present value of future cash flows	Risk adjustment	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening assets at 1 January	(30,389)	57,634	1,026	28,271
Opening liabilities at 1 January	-	(1,363)	-	(1,363)
Net opening balance	(30,389)	56,271	1,026	26,908
Net income/ (expenses) from reinsurance contracts				
- Net income or expense from reinsurance contracts held	(96,173)	42,466	(307)	(54,014)
Reinsurance finance income	-	1,001	46	1,047
Total changes in the statement of profit or loss	(96,173)	43,467	(261)	(52,967)
Cash flows				
Premiums paid	111,078	-	-	111,078
Amounts recovered	-	(58,951)	-	(58,951)
Total cash flows	111,078	(58,951)	-	52,127
Net increase/ (decrease) during the year	14,905	(15,484)	(261)	(840)
Closing assets at 31 December	(15,484)	41,662	765	26,943
Closing liabilities at 31 December	-	(875)	-	(875)
Net closing balance	(15,484)	40,787	765	26,068

18.2 Maturity analysis of future cash flows of insurance and reinsurance contract liabilities

The following table shows the maturity profile of the expected future cash flows on a discounted basis relating to insurance and reinsurance contract liabilities, respectively. The amounts in the table below include the expected amounts payable on demand at a timing of when they are expected to occur over the outstanding duration of the existing business.

	Total	1 year or less	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	No stated maturity
2025								
HK\$'000								
Insurance contracts	965,831	676,096	138,021	78,395	42,499	20,222	10,598	-
Reinsurance contracts	1,126	788	161	91	50	24	12	-
	<u>966,957</u>	<u>676,884</u>	<u>138,182</u>	<u>78,486</u>	<u>42,549</u>	<u>20,246</u>	<u>10,610</u>	<u>-</u>
2024								
HK\$'000								
Insurance contracts	786,313	640,016	68,485	40,680	22,165	10,105	4,862	-
Reinsurance contracts	875	991	(55)	(27)	(19)	(13)	(2)	-
	<u>787,188</u>	<u>641,007</u>	<u>68,430</u>	<u>40,653</u>	<u>22,146</u>	<u>10,092</u>	<u>4,860</u>	<u>-</u>

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

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19 Other payables and liabilities

	2025 HK\$'000	2024 HK\$'000
Amounts due to fellow subsidiaries	10,955	16,492
Other payables and accrued expenses	29,070	27,427
	<u>40,025</u>	<u>43,919</u>
Expected to be settled within 12 months	40,025	43,919
Expected to be settled after 12 months	-	-
	<u>-</u>	<u>-</u>

20 Share capital and reserves

(a) Components of the Company's capital and reserves

The opening and closing balances of each component of the Company's equity and a reconciliation between these amounts are set out in the statement of changes in equity.

(b) Share capital

	2025		2024	
	No. of shares ('000)	HK\$'000	No. of shares ('000)	HK\$'000
Ordinary shares issued and fully paid: At 1 January and 31 December	<u>358,536</u>	<u>358,536</u>	<u>358,536</u>	<u>358,536</u>

In accordance with Section 135 of the Companies Ordinance (Cap. 622), the Company's shares no longer have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 Capital management

The Company's capital management objectives are:

- To comply with the capital requirements set by regulators;
- To safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders; and
- To maintain a strong capital base to support the development of its business.

The Company defines "capital" as including all components of equity. On the basis, the amount of capital employed at 31 December 2025 was HK\$578,004,000 (2024: HK\$543,376,000).

The Insurance Authority ("IA") is the primary insurance regulator in Hong Kong, which requires that the Company meet the solvency margin requirements of the Insurance Ordinance. The Insurance Ordinance sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The IA requires the Company to maintain an excess of assets over its liabilities of not less than the required minimum solvency margin.

The Hong Kong Risk-based Capital Regime became effective on 1 July 2024. The Risk-based Capital framework requires liabilities to be based on best estimate assumptions and capital requirements to be risk-based.

The Company has embedded in its asset-liability management framework the necessary tests to ensure continuous and full compliance with these requirements.

The Company actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Company. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or return capital to shareholders. No changes were made in the objectives, policies or processes during the year.

The Company has complied with all externally imposed capital requirements throughout the current period.

22 Immediate and ultimate holding company

The immediate holding company is Prudential Corporation Asia Limited ("PCAL") which was incorporated and registered in Hong Kong but does not produce financial statements available for public use. The ultimate holding company is Prudential plc which was incorporated and registered in England and Wales and produces financial statements available for public use.

PRUDENTIAL GENERAL INSURANCE HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23 Related party transactions

The following transactions were carried out with related parties during the year. Services are negotiated with related parties on an arm's length basis.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Company, including amounts paid to the Company's executive directors as disclosed in note 11, is as follows:

	2025 HK\$'000	2024 HK\$'000
Short-term employee benefits	3,827	4,705
Post-employment benefits	264	243
Termination benefits	-	390
Equity compensation benefits	-	1,008
	<u> </u>	<u> </u>

(b) Transactions with other related parties

During the year, the Company entered into the following material related party transactions:

	2025 HK\$'000	2024 HK\$'000
Purchase of services – fellow subsidiaries	79,812	72,481
Sales of services – fellow subsidiaries	125,258	128,915
	<u> </u>	<u> </u>

The outstanding balances arising from the above transactions at the end of the reporting period are as follows:

	2025 HK\$'000	2024 HK\$'000
Amounts due from a fellow subsidiary	441	14,695
Amounts due to fellow subsidiaries	7,323	14,579
	<u> </u>	<u> </u>

The outstanding balances with these related parties are unsecured, interest free and have no fixed repayment terms. Premium receivables due from fellow subsidiaries of HK\$4,073,000 (2024: HK\$16,608,000) are included in liabilities of remaining coverage of insurance contracts balance in note 18.