

PRUDENTIAL HONG KONG LIMITED

REPORT OF DIRECTORS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2025

PRUDENTIAL HONG KONG LIMITED

CONTENTS	Page
REPORT OF DIRECTORS	1
INDEPENDENT AUDITOR'S REPORT	5
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	7
STATEMENT OF FINANCIAL POSITION	8
STATEMENT OF CHANGES IN EQUITY	10
STATEMENT OF CASH FLOWS	11
NOTES TO THE FINANCIAL STATEMENTS	12 - 84

PRUDENTIAL HONG KONG LIMITED

REPORT OF DIRECTORS

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

Principal activity

The principal activity of the Company is the underwriting of life insurance business.

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 9.

Interim dividends of 160.07 HK cents per share and 212.27 HK cents per share (2024: 220.80 HK cents per share) of an aggregate of HK\$5,909,699,769 and HK\$7,836,626,502 (2024: HK\$8,040,460,389) were paid on 23 June 2025 and 2 July 2025 respectively. The directors did not recommend the payment of a final dividend during the year.

Share capital and reserves

Details of the movements in share capital and reserves are set out in the statement of changes in equity on page 10 and Note 22 to the financial statements.

Directors

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

Lilian Lup Yin Ng	(resigned as director on 17 February 2025)
Angel Yin Yee Ng	(appointed as director on 14 February 2025)
Lawrence Chi Kong Lam	
Stephen Paul Bickell	
Alan Shen Fong Tan*	(resigned as director on 31 October 2025)
Kenneth Patrick Chung*	
Leong Hin Gan*	(appointed as director on 23 September 2025)
Margaret Wing Han Kwan*	

* 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 continue in office for the following year.

PRUDENTIAL HONG KONG LIMITED

REPORT OF DIRECTORS (CONTINUED)

Controllers

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

Lawrence Chi Kong Lam
Anil Wadhwani
Prudential plc
Prudential Corporation Asia Limited

Directors' and controllers' interests in transactions, arrangements or contracts

No transactions, arrangements or contracts of significance to which the Company, or any of its holding companies, subsidiary or fellow subsidiaries was a party and in which a director or controller of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

Directors' and controllers' 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 are granted to certain staff in the Group, certain of whom are directors or controllers of the Company.

During the year, Lilian Lup Yin Ng, Angel Yin Yee Ng, Lawrence Chi Kong Lam, Stephen Paul Bickell, Leong Hin Gan, and Anil Wadhwani 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 companies, subsidiary or a fellow subsidiary a party to any arrangements to enable the directors and controllers of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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.

PRUDENTIAL HONG KONG LIMITED

REPORT OF DIRECTORS (CONTINUED)

Donations

Charitable and other donations made by the Company during the year amounted to HK\$12,757,147 (2024: HK\$2,093,976).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Company are set out in Note 13 to the financial statements.

Management contracts

The following material contracts with related parties existed during the financial year:

- Intra-group services agreement with Prudential General Insurance Hong Kong Limited (“PGHK”), whereby the Company provides certain managerial and operational support services to PGHK. The Company also provides administrative services for medical businesses to PGHK;
- Services agreement with Prudential Corporation Holdings Limited (“PCHL”), whereby PCHL provides various functional services and support to the Company;
- Services agreements with Prudential Services Asia Sdn Bhd (“PSA”), whereby PSA provides information technology services and operational support to the Company;
- Information technology services agreements with Prudential Services Singapore Pte Ltd;
- Provision of Pulse platform by Pulse Ecosystems Pte. Ltd;
- Service agreement with Eastspring Investments (Hong Kong) Limited;
- Investment management agreements with Eastspring Investments Limited (“Easpring”), whereby Eastspring undertakes to provide certain investment management services;
- Investment advisory agreement with Prudential Investment Management Private Limited and BOCI-Prudential Asset Management Limited;
- Custodian agreement with BOCI-Prudential Trustee Limited;
- Group Medical insurance policy from PGHK; and
- Group Life insurance policy to PGHK, Prudential Services Limited and Prudential Holdings Limited.

PRUDENTIAL 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 'S. Bickell', is written over a horizontal line.

Stephen Paul Bickell
Chairman

Hong Kong, 23 April 2026

Independent auditor's report
To the sole member of Prudential Hong Kong Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Prudential Hong Kong Limited (the "Company") set out on pages 7 to 84, 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 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
23 April 2026

PRUDENTIAL 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	5	29,895,793	27,319,077
Insurance service expenses	8	(21,108,162)	(20,245,799)
Net expenses from reinsurance contracts held		(1,534,637)	(1,867,926)
Insurance service result		7,252,994	5,205,352
Investment returns	6	70,827,399	(8,335,150)
Net finance (expenses) / income from insurance contracts	7	(65,004,495)	14,698,314
Net finance expenses from reinsurance contracts held	7	(1,246,585)	(3,062,660)
Movement in investment contract liabilities		(524,266)	(252,215)
Net investment result		4,052,053	3,048,289
Other income	5	350,028	305,354
Other expenditure	8	(227,275)	(215,693)
Other finance costs	8	(167,811)	(179,799)
Profit before tax		11,259,989	8,163,503
Income tax expense	11	(1,147,175)	(1,784,000)
Profit and total comprehensive income for the year		10,112,814	6,379,503

Details of dividends paid to equity shareholder of the Company during the year are set out in Note 12.

The notes on pages 12 to 84 are an integral part of these financial statements.

PRUDENTIAL HONG KONG LIMITED

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

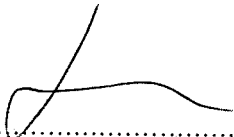
	Note	As at 31 December 2025 HK\$'000	As at 31 December 2024 HK\$'000
Assets			
Property, plant and equipment	13	1,080,583	1,035,718
Investment in a subsidiary	14	237,410	237,410
Insurance contract assets	18	1,022,518	674,961
Reinsurance contract assets	18	15,344,548	16,606,394
Current income tax assets		58,203	-
Other receivables	15	12,604,923	11,015,413
Financial assets at fair value through profit or loss	16		
- Loans		2,677,722	2,831,297
- Equities		73,148,706	57,180,534
- Collective investment schemes		268,675,829	270,917,275
- Debt securities		331,744,827	245,241,604
- Derivative assets		1,387,427	291,542
Financial assets at amortised cost	16	12,938	14,110
Bank deposits, cash and cash equivalents	17	5,013,291	4,095,147
Total assets		713,008,925	610,141,405
Liabilities			
Insurance contract liabilities	18	667,610,573	566,249,698
Reinsurance contract liabilities	18	621,776	731,919
Liabilities under investment contracts	19	3,736,838	2,798,524
Lease liabilities	20	474,693	536,848
Other payables and liabilities	21	10,238,075	5,747,661
Derivative liabilities	16	8,404,885	8,189,369
Current income tax liabilities		-	334,960
Total liabilities		691,086,840	584,588,979
Net assets		21,922,085	25,552,426

PRUDENTIAL HONG KONG LIMITED

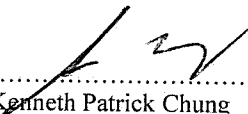
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2025

	Note	As at 31 December 2025 HK\$'000	As at 31 December 2024 HK\$'000
Equity			
Share capital	22	3,691,855	3,691,855
Capital contribution reserves		175,833	172,662
Foreign currency translation reserve		(542)	(542)
Retained earnings		18,054,939	21,688,451
Total equity		21,922,085	25,552,426

The financial statements on pages 7 to 84 were approved and authorised for issue by the Board of Directors on 23 April 2026 and were signed on its behalf.


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


.....
Stephen Paul Bickell
Director


.....
Kenneth Patrick Chung
Director

The notes on pages 12 to 84 are an integral part of these financial statements.

PRUDENTIAL HONG KONG LIMITED

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

		Share capital	Capital contribution reserves	Foreign currency translation reserve	Retained earnings	Total
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2024		3,641,480	139,461	(509)	23,349,408	27,129,840
Profit and total comprehensive income for the year		-	-	-	6,379,503	6,379,503
Issue of share capital	22(b)	50,375	-	-	-	50,375
Dividends	12	-	-	-	(8,040,460)	(8,040,460)
Share-based compensation		-	94,145	-	-	94,145
Settlement of share-based compensation		-	(60,944)	-	-	(60,944)
Foreign currency translation adjustments		-	-	(33)	-	(33)
Balance at 31 December 2024 and 1 January 2025		3,691,855	172,662	(542)	21,688,451	25,552,426
Profit and total comprehensive income for the year		-	-	-	10,112,814	10,112,814
Issue of share capital	22(b)	-	-	-	-	-
Dividends	12	-	-	-	(13,746,326)	(13,746,326)
Share-based compensation		-	58,534	-	-	58,534
Settlement of share-based compensation		-	(55,363)	-	-	(55,363)
Foreign currency translation adjustments		-	-	-	-	-
Balance at 31 December 2025		3,691,855	175,833	(542)	18,054,939	21,922,085

The notes on pages 12 to 84 are an integral part of these financial statements.

PRUDENTIAL HONG KONG LIMITED

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

	Note	2025 HK\$'000	2024 HK\$'000
Operating activities			
Profit before tax		11,259,989	8,163,503
Adjustments for non-cash items and changes in operating assets and liabilities:			
- Interest income and dividend income	6	(19,407,402)	(16,947,966)
- Finance costs	8	167,811	179,799
- Provision of equity-settled share-based payment expenses		3,171	33,201
- Foreign exchange (gain) / loss		(37,492)	37,913
- Depreciation / impairment of property, plant and equipment	13	432,847	392,405
- Increase in insurance contract assets		(347,557)	(308,652)
- Decrease / (increase) in reinsurance contract assets		1,261,846	(692,078)
- Decrease in receivables due from fellow subsidiaries		5,557	7,031
- Increase in other receivables and prepayments		(484,740)	(6,659,416)
- (Increase) / decrease in financial assets less derivative liabilities		(100,955,571)	9,576,469
- Decrease / (increase) in deposits with original maturities of more than three months		24,208	(3,460)
- Increase in insurance contracts liabilities		101,360,875	16,527,044
- Decrease in reinsurance contract liabilities		(110,143)	(4,567,699)
- Increase in investment contracts liabilities		938,314	663,414
- (Decrease) / increase in payables due to fellow subsidiaries		(23,296)	105,737
- Increase / (decrease) in other payables and accrued expenses		4,368,172	(11,809,754)
Operating cash items			
- Interest receipts		9,031,245	7,427,172
- Dividend receipts		9,265,830	9,314,936
- Tax paid		(1,540,338)	(1,581,562)
Net cash generated from operating activities		15,213,326	9,858,037
Investing activities			
Purchases of property, plant and equipment	13	(300,516)	(321,269)
Payment for investment in a subsidiary		-	(50,642)
Net cash flows used in investing activities		(300,516)	(371,911)
Financing activities			
Capital element of lease rentals paid		(240,266)	(210,400)
Interest element of lease rentals paid		(21,358)	(24,570)
Issue of share capital		-	50,375
Dividends paid	12	(13,746,326)	(8,040,460)
Net cash flows used in financing activities		(14,007,950)	(8,225,055)
Net increase in cash and cash equivalents		904,860	1,261,071
Effect of exchange rate changes on cash and cash equivalents		37,492	(37,946)
Cash and cash equivalents at 1 January		4,035,350	2,812,225
Cash and cash equivalents at 31 December	17	4,977,702	4,035,350

The notes on pages 12 to 84 are an integral part of these financial statements.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Prudential 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 writing of life insurance business in Hong Kong and Macau.

These financial statements have been approved for issue by the Board of Directors on 23 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 HKFRS Accounting Standards (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standard (“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 equities, collective investment schemes, debt securities, derivative assets, derivative liabilities and certain loans and 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.

As the Company is a holding company that is a wholly owned subsidiary of another body corporate, it satisfies the exemption criteria set out in section 379(3)(a) of the Companies Ordinance (Cap. 622), and is therefore not required to prepare consolidated financial statements. The Company also satisfies the exemption criteria set out in paragraph 4(a) of HKFRS 10, *Consolidated financial statements*, as Prudential plc, the Company’s ultimate parent, produces consolidated financial statements in accordance with IFRSs which are available for public use. Prudential plc is incorporated in England and Wales and its consolidated financial statements are available from <https://www.prudentialplc.com/>.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.2 Basis of preparation (Continued)

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.

2.3 Changes in accounting policies

(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>
HKFRS 19 and its amendments	<i>Subsidiaries without Public Accountability Disclosures²</i>
Amendments to HKFRS 9 and HKFRS 7	<i>Amendments to the Classification and Measurement of Financial Instruments¹</i>
Amendments to HKFRS 9 and HKFRS 7	<i>Contracts Referencing Nature-dependent Electricity¹</i>
Amendments to HKAS 21	<i>Translation to a Hyperinflationary Presentation Currency²</i>
Annual Improvements to HKFRS	<i>Amendments to HKFRS 1, HKFRS 7, HKFRS 9, HKFRS</i>
Accounting Standards — Volume 11	<i>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 HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts

(i) Classification

Contracts under which the Company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder are classified as insurance contracts. Insurance risk is a risk other than financial risk transferred from the holder of a contract to the issuer, in this case the Company. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risks.

Insurance risk is significant if, and only if, an insured event could cause the Company to pay significant additional benefits upon claim when compared to the benefit offered if the claim event has not occurred (e.g. surrender value). Once a contract is classified as an insurance contract, it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

Contracts under which the transfer of insurance risk to the Company from policyholder is not significant are classified as investment contracts.

Contracts with a discretionary participating feature ("DPF")

Both insurance and investment contracts may contain a DPF. This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the Company; and
- That are generally based on:
 - (a) The performance of a specified pool of contracts or a specified type of contract;
 - (b) Realised and/or unrealised investment returns on a specified pool of assets held by the Company; or
 - (c) The profit or loss of the Company, fund or other entity that issues the contract.

The terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the Company may exercise its discretion as to the quantum and timing of their payment to contract holders.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

(ii) Separating components

At inception, the Company is required to separate distinct investment components, distinct services other than insurance contract services and embedded derivatives from an insurance contract and account for them as if they were stand-alone contracts.

A contract has an investment component if there is an amount (which could be zero) that the contract requires the entity to repay to the policyholder in all circumstances that have commercial substance. The surrender value, net of policy loans (where these exists), is accounted as the investment component of a contract. Participating and non-participating (such as whole-life and endowment) contracts have explicit surrender values. There are a relatively small number of products that do not have a surrender value, and the investment components of these contracts are determined on a case-by-case basis. An investment is distinct if and only if (a) the insurance and investment components are not highly interrelated and (b) a contract with equivalent terms is, or could be, sold separately in the same market or jurisdiction.

The non-distinct investment components are excluded from insurance revenue and insurance service expenses.

Asset management services for investments held under an insurance contract are not separated.

(iii) Grouping of contracts

Insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into annual cohorts (i.e. by year of issue) and each annual cohort into three groups based on the profitability of insurance contracts and reinsurance contracts held.

The insurance contracts portfolios are divided into:

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

The reinsurance contracts held portfolios are divided into:

- any contracts on which there is a net gain on initial recognition;
- any contracts that have no significant possibility of a net gain arising subsequent to initial recognition; and
- any remaining contracts in the portfolio.

When determining ‘similar risks’ the Company does not divide risks within a contract, e.g. riders sold under a single contract would not be split by risk type. The Company have therefore identified the board categories of risks referred to as “dominant” risks, namely protection, investment and to a less material extend longevity. Each ring-fenced fund is considered to be managed separately.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

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

The contract boundary is assessed at inception and then reassessed only when there are changes in features or circumstances that alter the commercial substance of the contract or changes the products within a portfolio. The reassessment of the contract boundary for any changes is performed at the end of each reporting period.

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

For life contracts with renewal periods, the Company assesses whether premiums and related cash flows that arise from the renewed contract are within the contract boundary. The pricing of the renewals are established by the Company by considering all the risks covered for the policyholder by the Company, that the Company would consider when underwriting equivalent contracts on the renewal dates for the remaining service.

Similar considerations to those applying to underlying insurance contracts apply in determining the contract boundary of groups of reinsurance contracts held.

(v) Initial recognition and measurement

Under HKFRS 17 insurance contracts are measured under the General Measurement Model (“GMM”), Variable Fee Approach (“VFA”) or Premium Allocation Approach (“PAA”). The Company predominantly uses the VFA and GMM, depending on the specific characteristics of the insurance contracts. The Company makes very limited use of the PAA for some small portfolios of short duration contracts. Reinsurance contracts held are measured under the GMM.

Initial recognition – insurance contracts

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

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

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

(v) Initial recognition and measurement (Continued)

Initial recognition – reinsurance contracts held

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

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

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

Initial measurements - insurance contracts

The Company measures a group of insurance contracts as the total of:

- Fulfilment cash flows
- A CSM representing the unearned profit the Company will recognise as it provides insurance contract services under the insurance contracts in the group

Fulfilment cash flows comprise unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks, plus a risk adjustment for non-financial risk.

The Company's objective in estimating future cash flows is to determine the expected value, or the probability-weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort. The Company estimates future cash flows considering a range of scenarios which have commercial substance and give a good representation of possible outcomes. The cash flows from each scenario are probability-weighted and discounted using current assumptions.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

(v) Initial recognition and measurement (Continued)

Initial measurements - insurance contracts (Continued)

When estimating future cash flows, the Company includes all cash flows that are within the contract boundary including:

- Premiums and related cash flows
- Claims and benefits, including reported claims not yet paid, incurred claims not yet reported and expected future claims
- Payments to policyholders resulting from embedded surrender value options
- An allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs
- Claims handling costs
- Policy administration and maintenance costs, including recurring commissions that are expected to be paid to intermediaries
- An allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts
- Transaction-based taxes

The Company incorporates, 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. The Company estimates the probabilities and amounts of future payments under existing contracts based on information obtained, including:

- Information about claims already reported by policyholders.
- Other information about the known or estimated characteristics of the insurance contracts
- Historical data about the Company's own experience, supplemented when necessary, with data from other sources. Historical data is adjusted to reflect current conditions.
- Current pricing information, when available.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

(v) Initial recognition and measurement (Continued)

Initial measurements - reinsurance contracts held

The measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued, with the exception of the following:

- Measurement of the cash flows include an allowance on a probability-weighted basis for the effect of any non-performance by the reinsurers, including the effects of collateral and losses from disputes
- The Company determines the risk adjustment for non-financial risk so that it represents the amount of risk being transferred to the reinsurer
- The Company recognises both day 1 gains and day 1 losses at initial recognition in the statement of financial position as a CSM and releases this to profit or loss as the reinsurer renders services, except for any portion of a day 1 loss that relates to events before initial recognition

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

The Company calculates the loss-recovery component by multiplying the loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held. Where only some contracts in the onerous underlying group are covered by the group of reinsurance contracts held, the Company uses a systematic and rational method to determine the portion of losses recognised on the underlying group of insurance contracts to insurance contracts covered by the group of reinsurance contracts held.

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

Where the Company enters into reinsurance contracts held which provide coverage relating to events that occurred before the purchase of the reinsurance, such cost of reinsurance is recognised in profit or loss on initial recognition.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

(vi) Subsequent measurement

Insurance contracts

The CSM at the end of the reporting period represents the profit in the group of insurance contracts that has not yet been recognised in profit or loss, because it relates to future service to be provided.

For a group of insurance contracts measured under the GMM, the carrying amount of the CSM at the end of the reporting period equals the carrying amount at the beginning of the reporting period adjusted, as follows:

- The effect of any new contracts added to the group
- Interest accreted on the carrying amount of the CSM during the reporting period, measured at the discount rates at initial recognition
- The changes in fulfilment cash flows relating to future service, except to the extent that:
 - Such increases in the fulfilment cash flows exceed the carrying amount of the CSM, giving rise to a loss; or
 - Such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage
- The effect of any currency exchange differences on the CSM
- The amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the CSM remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period.

For a group of insurance contracts measured under the VFA, the carrying amount of the CSM at the end of the reporting period equals the carrying amount at the beginning of the reporting period adjusted, as follows:

- The effect of any new contracts added to the group
- The change in the amount of the Company's share of the fair value of the underlying items and changes in fulfilment cash flows arising from both operating and economic assumption changes and variances that relate to future services, except to the extent that:
 - The Company has applied the risk mitigation option to exclude from the CSM changes in the effect of financial risk on the amount of its share of the underlying items or fulfilment cash flows;
 - Such increases in the fulfilment cash flows exceed the carrying amount of the CSM, giving rise to a loss; or
 - Such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage
- The effect of any currency exchange differences on the CSM
- The amount recognised as insurance revenue because of the transfer of insurance contract services in the period, determined by the allocation of the CSM remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period.

The locked-in discount rate is the weighted average of the rates applicable at the date of initial recognition of contracts that joined a group over a 12-month period. The discount rate used for accretion of interest on the CSM is determined using the bottom-up approach at inception.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

(vi) Subsequent measurement (Continued)

Insurance contracts (Continued)

The changes in fulfilment cash flows relating to future service that adjust the CSM comprise of:

- Experience adjustments that arise from the difference between the premium receipts (and any related cash flows such as insurance acquisition cash flows and insurance premium taxes) and the estimate, at the beginning of the period, of the amounts expected. Differences related to premiums received (or due) related to current or past services are recognised immediately in profit or loss while differences related to premiums received (or due) for future services are adjusted against the CSM
- Changes in estimates of the present value of future cash flows in the liability for remaining coverage, except those relating to the time value of money and changes in financial risk (recognised in the statement of profit or loss and other comprehensive income rather than adjusting the CSM)
- Differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period. Those differences are determined by comparing (i) the actual investment component that becomes payable in the period with (ii) the payment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable. The same applies to a policyholder loan that becomes repayable.
- Changes in the risk adjustment for non-financial risk that relate to future service.

Except for changes in the risk adjustment, adjustments to the CSM noted above are measured at discount rates that reflect the characteristics of the cash flows of the group of insurance contracts at initial recognition.

Where, during the coverage period, a group of insurance contracts becomes 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(x).

The Company measures the carrying amount of a group of insurance contracts at the end of each reporting period as the sum of: (i) the liability for remaining coverage comprising fulfilment cash flows related to future service allocated to the group at that date and the CSM of the group at that date; and (ii) the liability for incurred claims for the Company comprising the fulfilment cash flows related to past service allocated to the group at that date.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

(vi) Subsequent measurement (Continued)

Reinsurance contracts held

The measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued, with the exception of the following:

- Changes in the fulfilment cash flows are recognised in profit or loss if the related changes arising from the underlying ceded contracts have been recognised in profit or loss. Alternatively, changes in the fulfilment cash flows adjust the CSM.
- Changes in the fulfilment cash flows that result from changes in the risk of non-performance by the issuer of a reinsurance contract held do not adjust the contractual service margin as they do not relate to future service.

Any change in the fulfilment cash flows of a retroactive reinsurance contract held due to the changes of the liability for incurred claims of the underlying contracts is taken to profit and loss and not the contractual service margin of the reinsurance contract held.

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

Where the Company has established a loss-recovery component, the Company adjusts the loss-recovery component to reflect changes in the loss component of an onerous group of underlying insurance contracts.

A loss-recovery component reverses consistent with reversal of the loss component of underlying groups of contracts issued, even when a reversal of the loss-recovery component is not a change in the fulfilment cash flows of the group of reinsurance contracts held. Reversals of the loss-recovery component that are not changes in the fulfilment cashflows of the group of reinsurance contracts held adjust the CSM.

(vii) Derecognition and modification

The Company derecognises a contract when the specified obligations in the contract expire or are discharged or cancelled. The Company also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. The following modifications will require the Company to change the accounting of the respective insurance contracts significantly:

- Had the modified terms included at contract inception, the Company would have concluded that the modified contract (a) is not within the scope of HKFRS 17; (b) result in different separable components; (c) results in a different contract boundary; or (d) belongs to a different group of contracts
- Modification results in a change to contract accounting from VFA to GMM or vice versa

If a contract modification does not result in derecognition, then the Company generally treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

(viii) Insurance acquisition cash flows

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

Where insurance acquisition cash flows have been paid or incurred before the related group of insurance contracts is recognised in the statement of financial position, a separate asset for insurance acquisition cash flows is recognised for each related group.

The asset for insurance acquisition cash flow is derecognised from the statement of financial position when the insurance acquisition cash flows are included in the initial measurement of the CSM of the related group of insurance contracts. The Company expects to derecognise all assets for insurance acquisition cash flows within one year.

(ix) Risk mitigation option

HKFRS 17 allows the option in certain circumstances to not recognise a change in the CSM to reflect some or all of the changes in the effect of the time value of money and financial risk on:

- the amount of the entity's share of the underlying items if the entity mitigates the effect of financial risk on that amount using derivatives or reinsurance contracts held; and
- the fulfilment cash flows if the entity mitigates the effect of financial risk on those fulfilment cash flows using derivatives, non-derivative financial instruments measured at fair value through profit or loss, or reinsurance contracts held.

(x) 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 amounts 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 has made an accounting policy choice to disaggregate the finance component of the risk adjustment and present it under insurance finance income or expenses instead of insurance service results.

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

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

(x) Presentation (Continued)

Insurance revenue

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

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

Loss components

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

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

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

(x) Presentation (Continued)

Loss-recovery components

As described in Note 2.4(v) and (vi) above, when the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses.

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

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

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

Insurance service expenses

Insurance service expenses arising from insurance contracts are recognised in profit or loss generally as they are incurred. They exclude repayments of investment components and comprise:

- incurred claims and other insurance service expenses;
- amortisation of insurance acquisition cash flows;
- losses on onerous contracts and reversals of such losses;
- adjustments to the liabilities for incurred claims that do not arise from the effects of the time value of money, financial risk and changes therein, which are recognised in insurance finance income or expense; and
- impairment losses on assets for insurance acquisition cash flows and reversals of such impairment losses.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

(x) Presentation (Continued)

Insurance finance income or expenses

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

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

The Company systematically allocates expected total insurance finance income or expenses over the duration of the group of contracts to profit or loss using discount rates determined on initial recognition of the group of contracts.

Net income or expense from reinsurance contracts held

Net expenses from reinsurance contracts held mainly comprise an allocation of reinsurance premiums paid less amounts recovered from reinsurers.

The Company recognises an allocation of reinsurance premiums paid as reinsurance expenses within net expenses from reinsurance contracts held for the coverage or other services received by the Company under groups of reinsurance contracts held. The allocation of reinsurance premiums paid relating to services received for each period represents the total of the changes in the asset for remaining coverage that relate to services for which the Company expects to pay consideration.

(xi) Transition

Transition refers to the determination of the opening balance sheet for the first year of comparative information presented under HKFRS 17 (ie at 1 January 2022). The future cash flows and risk adjustment are measured on a current basis in the same manner as they would be calculated for subsequent measurement. The key component of transition is therefore the determination of the CSM.

The standard requires HKFRS 17 to be applied retrospectively (the “Full Retrospective Approach (FRA)”) unless impracticable. If a fully retrospective approach is impracticable there is an option to choose either a Modified Retrospective Approach (MRA) or a Fair Value Approach (FVA). If reasonable and supportable information necessary to apply the modified retrospective approach is not available, the fair value approach must be applied.

The CSM of the groups of insurance contracts transitioned under FRA has been calculated as if the Company had only prepared annual financial statements before the transition date (i.e. transition CSM has been measured using a year-to-date approach).

The Company has applied the FRA on transition to all group of contracts issued on or after 1 January 2010. For groups of contracts that issued before 1 January 2010, the FVA were applied. The Company does not apply MRA on transition to any groups of contracts.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.4 Insurance and reinsurance contracts (Continued)

(xi) Transition (Continued)

(a) Full Retrospective Approach

Under the FRA, each group of insurance contracts has been identified, recognised and measured as if HKFRS 17 had always applied. The CSM was calculated at initial recognition of a group of contracts based on the facts and circumstances at that time (ie without use of hindsight). This CSM was then rolled forward to the transition date in line with the requirements of the standard.

(b) Fair Value Approach

The insurance contracts of the Company under the FVA generally represent groups of contracts that were written many years ago where suitable historical information required to apply the retrospective transition approaches is no longer practicably available.

Under the FVA, the CSM at the transition date is the difference between the fair value of the insurance contracts, determined in accordance with HKFRS 13 Fair Value Measurement, and the fulfilment cash flows at that date.

HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of groups of insurance contracts has therefore been interpreted as the compensation that a market participant would require for taking on the relevant obligation under the contracts.

The fair value has been determined using a cost of capital approach by reference to a quantum of capital required to be held in order to fulfil the contracts and a required return on that capital. Expected cash flows and the required locked-in capital are projected forward over the duration of the groups of contracts and discounted at the required rate of return. These calculations are based on the following key assumptions:

- The expected cash flows reflect the future cost that a market participant would expect to incur in fulfilling the obligations under the contracts. The fair value has been based on the same scope of cash flows as are included in the calculation of the best estimate liability. In particular, the same contract boundaries are assumed in the calculation of the fair value and best estimate liability. However, the measurement of those cash flows need not be the same.
- The required locked-in capital is the level of capital realistically required for a business to operate in the relevant jurisdiction.
- The required rate of return is compensation the Company would expect a market participant to require to enter into a transaction to transfer the liability associated with the insurance contracts at the transition date. This return has been determined using the Capital Asset Pricing Model, including allowance for both financial risk and uncertainty in non-financial risk.

A number of specific modifications are permitted under the FVA. The Company has adopted the following modifications:

- to use information at the transition date to identify groups of insurance contracts;
- to use information at the transition date to assess eligibility for the VFA;
- to use information at the transition date to identify discretionary cash flows;
- to use information at the transition date to assess whether a contract meets the definition of an investment contract with DPf; and
- to group annual cohorts of business.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.5 Investment contracts

Investment contracts with a DPF

Investment contracts with a DPF are accounted under HKFRS 17 and the accounting treatment is consistent with insurance contracts as set out in Note 2.4.

Investment contracts without a DPF

For investment contracts which do not contain a DPF, the accounting is carried out in accordance with HKFRS 9 *Financial Instruments*, to reflect the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals and taken directly to the statement of financial position as movements in the liabilities under investment contracts.

Under HKFRS Accounting Standards, investment contracts (excluding those with a DPF) accounted for as financial liabilities in accordance with HKFRS 9 which offer investment management services, require the application of HKFRS 15 Revenue from Contracts with Customers, for the revenue attaching to these services.

2.6 Revenue recognition

The accounting policies in relation to revenue from insurance contracts and investment contracts and from financial assets at fair value through profit or loss are disclosed in Note 2.4, 2.5 and 2.12, respectively.

(a) Interest income

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

(b) Dividend income

Dividend income is recognised when the right to receive payment is established.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.7 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 right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, any initial direct costs incurred and estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2.10).

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 HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.8 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 income 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 income 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 income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

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

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

2.9 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 and option plans for eligible employees and agents, and an Employee Share Purchase Plan for all employees. The Company has both equity-settled plans and cash-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 and options are recognised in the statement of profit or loss and other comprehensive income over the plans’ respective vesting periods.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.10 Property, plant and equipment

Property, plant and equipment, including right-of-use asset from properties leased for own use, 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, plant 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 costs:	Over the lease terms
Properties leased for own use:	Over the lease terms
IT & other equipment:	Over their estimated useful life
Furniture & fixtures:	4 years
Motor vehicles:	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. The processes are described in Note 2.15.

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.

2.11 Investment in a subsidiary

Subsidiary is an entity controlled by the Company. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Company has power, only substantive rights are considered.

An investment in a subsidiary is recognised at cost less accumulated impairment losses, unless the effect of discounting would be material, in which case, they are stated at amortized cost less accumulated impairment losses.

If there is objective evidence that an impairment loss has been incurred on the assets, the Company reduces the carrying amount of the investment in subsidiary accordingly and recognises that impairment loss in the statement of profit or loss and other comprehensive income. These processes are described in Note 2.15.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.12 Financial assets

(a) Initial recognition

The classification of financial instruments (including derivative instruments) at initial recognition depends on their contract terms and the business model for managing the instruments.

Financial instruments are initially recognised on the trade date measured at their fair value. Except for financial assets and financial liabilities recorded at fair value through profit or loss, transaction costs are added to this amount.

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

Financial assets in this category are those that are managed in a fair value business model, or that have been designated by management upon initial recognition, or are mandatorily required to be measured at fair value under HKFRS 9. This category includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

A financial asset (including derivative instruments) 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; or
- 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; or
- 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.

Most financial assets that are held by the Company backing the life insurance portfolio are measured by the Company on initial recognition as at fair value through profit or loss. This measurement eliminates or significantly reduces a measurement inconsistency that would otherwise arise if these financial assets were not measured at fair value and the changes in fair value were not recognised in the statement of profit or loss and other comprehensive income.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.12 Financial assets (Continued)

(c) 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.

(d) 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. If the value of equity instruments cannot be reliably measured, they are measured at cost.

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 2.15 are recognised in the statement of profit or loss and other comprehensive income when the financial assets are impaired.

(e) 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.

2.13 Repurchase agreements and securities lending

The Company is a party to various reverse repurchase / repurchase agreements under which securities are purchased from / sold to third parties with an obligation to resell / repurchase the securities. The securities are not recognised / derecognised as investments in the statement of financial position. Deposits under reverse repurchase agreements and obligations under repurchase agreements are included in cash and cash equivalents and other payables respectively in the statement of financial position.

The Company is also party to various securities lending agreements under which securities are loaned to third parties on a short-term basis. The loaned securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. To the extent cash collateral is received it is recognised on the statement of financial position.

2.14 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 recognised at cost less accumulated impairment losses, unless the effect of discounting would be material, in which case, they are stated at amortized cost less accumulated impairment losses. For the impairment of other receivables, please refer to Note 2.15.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.15 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 Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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 considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also 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 HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.15 Impairment of assets (Continued)

(c) Investment in a subsidiary

Investment in a subsidiary is assessed for impairment by comparing the net assets of the subsidiary undertakings with the carrying value of the investment.

2.16 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 statements 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.

2.17 Other payables

Other payables are recognised initially at fair value. They include accrued expenses payable to intra-group companies or third parties. Expense due is recognised as a payable at cost.

2.18 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.

2.19 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.

2.20 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 the shareholder.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policies (Continued)

2.21 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); and
 - (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).
 - (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.

2.22 Events after the reporting period

If the Company receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, it will assess whether the information affects the amounts that it recognises in its financial statements. The Company will adjust the amounts recognised in its financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in light of the new information. For non-adjusting events after the reporting period, the Company will not change the amounts recognised in its financial statements, but will disclose the nature of the non-adjusting events and an estimate of their financial effects, or a statement that such an estimate cannot be made, if applicable.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Critical 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.

(a) Estimates and judgements associated with the determination of insurance and reinsurance contracts

HKFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. It introduces a model that measures groups of contracts based on the Company's estimates of the present value of future cash flows that are expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk and a CSM. The process of determining the present value of future cashflows involves a number of estimates and judgments, including estimates of future cash flows, discount rates and amortisation of the CSM.

Estimates of future cash flows

The Company's process for estimating future cash flows incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events. As this is a prediction of the future, significant judgement is applied in determining the assumptions that underpin the estimation of future cash flows. These assumptions include, but are not limited to, operating assumptions such as morbidity, mortality, persistency and expenses, and economic assumptions such as risk-free rates and illiquidity premium. The demographic assumptions are consistent with those used in other metrics.

When estimating future cash flows, the Company takes into account current expectations of future events (other than those from future legislation or regulatory changes that have not been substantively enacted) that might affect those cash flows.

Cash flows within the boundary of a contract (the Company's accounting policy on contract boundary is set out in Note 2.4(iv)) relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount or timing. These include future premium receipts, payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

In relation to reinsurance contracts held, the probability weighted estimates of the present value of future cash flows includes the potential credit losses and losses from other disputes to reflect the non-performance risk of the reinsurers.

The sensitivity of profit or loss and equity and CSM to insurance risks is set out in Note 4.3.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgements (Continued)

(a) Estimates and judgements associated with the determination of insurance and reinsurance contracts (Continued)

Discount rates

Life insurance contract liabilities 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 all currencies except HKD where risk-free rates are based on swap rates due to the higher liquidity of the HKD swap market. 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 illiquidity premium is calculated as the yield-to-maturity on a reference portfolio of assets with similar liquidity characteristics to the insurance contracts, less the risk-free curve, and an allowance for credit risk. The illiquidity premium is then applied as a parallel shift to the full risk-free curve.

The following tables set out the range of yield curves used to discount cash flows of insurance contracts for USD and HKD. The range reflects the proportion of illiquidity premium applied by portfolio.

At 31 December 2025

	1 year	5 years	10 years	15 years	20 years
HKD (%)	2.98 - 3.34	3.08 - 3.43	3.45 - 3.81	3.69 - 4.04	3.80 - 4.16
USD (%)	3.51 - 3.80	3.77 - 4.22	4.29 - 4.60	4.78 - 5.16	5.09 - 5.70

At 31 December 2024

	1 year	5 years	10 years	15 years	20 years
HKD (%)	4.32 - 4.75	4.04 - 4.47	4.09 - 4.52	4.15 - 4.59	4.19 - 4.62
USD (%)	4.20 - 4.84	4.44 - 5.08	4.66 - 5.30	4.89 - 5.53	5.02 - 5.67

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

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgements (Continued)

(a) Estimates and judgements associated with the determination of insurance and reinsurance contracts (Continued)

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk reflects the compensation the Company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Company fulfils insurance contracts.

For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.

The risk adjustment for non-financial risk is determined by the Company using a confidence level approach. This is implemented through the use of provisions for adverse deviations (PADs) calibrated using non-financial risk distributions and correlation assumptions. The PADs are applied to best estimate assumptions and hence the risk adjustment is calculated on a contract by contract basis.

The Company's risk adjustment allows for all insurance, persistency and expense risks and operational risks specific to uncertainty in the amount and timing of insurance contract cash flows. Reinsurance counterparty default risk is excluded from the calculation. Diversification is included on a net of reinsurance basis within the Company.

By applying a confidence level technique, the Company estimates the probability distribution of the expected present value of the future cash flows from insurance contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the 75th percentile (the target confidence level) over the expected present value of the future cash flows. The confidence level is calibrated over a one-year period.

Amortisation of the contractual service margin

The proportion of CSM recognised in profit or loss at the end of each period for a group of contracts is determined as the ratio of:

- the coverage units in the period; divided by
- the sum of the coverage units in the period and the present value of expected coverage units in future periods.

The total number of coverage units in a group is the quantity of service provided determined by considering the quantity of benefits for each contract and its expected coverage period. The Group defines the quantity of benefits for insurance services as the maximum amount which a policyholder receives when an insured event takes place, for example the sum assured, the annual limit for a medical plan or the present value of a stream of payments. The quantity of benefits is updated each period. Investment related and investment-return services are assumed to be constant over time.

Where there are multiple different services in a group of contracts (for example both insurance and investment services are provided), the quantities of benefits for the different types of service are combined using weighting factors. These weighting factors are defined as the present value of expected outflows for each type of service, determined at a contract level.

The expected coverage period is the expected duration up to the contract boundary. The expected coverage period of the contracts in a group and the calculation of future coverage units allows for expected decrements (e.g. deaths and lapses) in each future period using current best estimate assumptions consistent with the best estimate liabilities ("BEL") calculation.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgements (Continued)

(a) Estimates and judgements associated with the determination of insurance and reinsurance contracts (Continued)

Amortisation of the contractual service margin (Continued)

The time value of money will be reflected in future coverage units based on the locked-in discount rate (used to accrete interest on the CSM) for contracts under the GMM, and the current discount rate for contracts under the VFA.

Determination of coverage units for groups of reinsurance contracts held follow the same principles as for groups of underlying contracts.

Further details of the related accounting policies in respect of insurance and reinsurance contracts are provided in Note 2.4.

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 of the contract exceeding the aggregate amount of premiums received and investment income. The cost of a claim can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates and, where the policy has a savings element, the performance of the assets held to support the liabilities.

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 policy which aims 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 a co-insurance, surplus, quota share, or catastrophe excess of loss basis. These reinsurance agreements effectively spread the risk out and reduce the losses to the Company. The amount of each risk retained depends on the Company's evaluation of the specific risk, subject to certain circumstances, to maximum limits based on characteristics of coverage.

Insurance risk depends on the types of business, and varies considerably. The principal risks are mortality, morbidity, longevity, lapse, surrender and expense levels.

PRUDENTIAL 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

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS or SARS) or wide spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, for example annuity, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the location of the risk insured by the Company. However, undue concentration by amounts at risk could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with discretionary participating features, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the insured party. For contracts with fixed and guaranteed benefits and fixed future premiums, there are no discretionary features to reduce the insurance risk accepted.

The risk associated with lapse and surrenders is generally mitigated by the application of surrender charges. Expense risk can generally be managed through pricing. The level of expenses in the contract will be one of the items considered when setting premium rates.

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

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. Medical selection is also included in the Company's underwriting procedures with, premiums varied to reflect the health condition and family medical history of the applicants. The Company reinsures the life insured benefit under surplus and quota share reinsurance arrangements. With the use of underwriting strategy and reinsurance arrangements, the Company limits its exposure to substandard risks and large claims.

(b) Concentration risk

The Company actively assesses and manages product concentration risk. Despite the Company's primary focus on long-term life insurance, it has a range of product offerings with different extent and nature of risk coverage, e.g. participating, critical illness, unit-linked, term life and medical. This naturally also reduces the Company's exposures to concentrations of mortality or morbidity risk.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (Continued)

4.1 Insurance risk (Continued)

(c) Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and morbidity and the variability in policyholder behaviour.

The Company uses appropriate base tables of standard mortality or reinsurance's morbidity rates according to the type of contract being written. An investigation into the actual experience of the Company is carried out every year. The best estimate of future mortality or morbidity is based on the company-specific table constructed upon the Company's historical experience and industry mortality tables, standard industry tables or reinsurance rates adjusted for the Company's overall experience.

4.2 Financial risk

The Company is exposed to financial risk through its financial assets, insurance and reinsurance contracts balances. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk. Market risk comprises mainly interest rate risk, currency risk and equity price risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces, due to the nature of its investments and liabilities, are interest rate risk, credit risk, and equity price risk.

The Company manages these positions within an asset liability management ("ALM") framework with the objective to maximise the returns for each investment fund, having regard to the nature, currency and term of the liabilities, the fund's financial strength, the desired level of risk, and any tax, statutory and regulatory constraints. The Asset and Liability Committee ("ALCO") oversees the overall asset and liabilities management process, reviews and approves the investment strategy. The Investment Committee ("IC"), a sub-committee of the ALCO, establishes investment guidelines and limits, provides recommendations to the ALCO on the investment strategy and ALM.

The Company establishes target asset portfolios for each distinct category of liabilities, which represents the investment strategies used to profitably fund its liabilities within acceptable level of risk.

PRUDENTIAL 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

(a) Interest-rate risk

Interest-rate risk has different material impacts across the assets and liabilities categorised in the Company's ALM framework.

(i) Long-term insurance (non-linked) contracts

Non-participating contracts with guaranteed premium and fixed terms have benefit payments that are fixed and premiums guaranteed at the inception of the contract. Investment is mainly on fixed income with the objective of broadly matching its duration with the liability duration. The Company's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable, that early redemption of the asset is needed to meet the payouts, or the exposure to reinvestment risk due to a longer liability duration than the asset duration. Such guaranteed benefits include a guaranteed minimum return on premiums paid by the policyholders pursuant to the terms of certain life assurance policies issued by the Company.

For contracts with DPF, bonus payments are designed to distribute, to policyholders, the profits and losses of the funds backing the contracts, namely the With-Profits Fund and Shareholder-backed Participating Fund for with-profits business and shareholder-backed participating business respectively. A major factor in the determination of bonus is the investment return on the underlying assets. For with-profits business, as defined in the Principles of Financial Management of the Scheme, 90 percent of the divisible profit is allocated to with-profits policyholders and 10 percent to shareholders. For shareholder-backed participating business, depending on product features, the proportion of divisible profits to be distributed to policyholders varies.

The type of bonus entitled by the policyholders is specified in the contract provisions. In general, policyholders may receive two types of bonuses:

- Regular bonuses: by addition to the sum assured (reversionary) or paid in cash; and
- Terminal bonuses: in addition to regular bonuses, payable on death, surrender, major diseases, maturity or when a certain level of claim payment is made.

The Company bears financial risk in relation to the guaranteed benefits payable under these contracts. These guaranteed benefits arise from both bonuses which have been declared and credited to policyholders' accounts or paid in cash, which cannot subsequently be withdrawn (except for certain products which have the feature of market value adjustment). The non-guaranteed nature of future bonus mitigates the financial risk due to the interest rate movement.

A principal tool used to manage the Company's exposure to interest rate risk is asset and liability matching. Models are used to assess the effect of a range of future scenarios on the value of financial assets and associated liabilities and the Company employs the outcomes in determining how assets and liabilities should be matched.

The Company monitors interest rate risk through periodic review of its asset and liability positions. Strategic asset allocation is done based on the asset and liability profile, management actions and the risk appetites. Asset and liability positions are modeled and reviewed regularly using simulation of asset returns, which result in asset reallocations whenever necessary. The actual mix and duration of the assets will follow the strategic asset allocation within a preset range of tolerance.

PRUDENTIAL 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)

(a) Interest-rate risk (Continued)

(ii) Long-term insurance (unit-linked) contracts

For unit-linked contracts the Company generally matches the liabilities on which the unit prices are based with assets in the portfolio. There is therefore no price, currency, credit, or interest rate risk for these contracts.

The Company's primary exposure to financial risk from these contracts is the risk of volatility in asset management fees due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based.

Within this category of contracts there are insurance contracts with minimum guaranteed death benefits that expose the Company to the risk that declines in the value of underlying investments as a result of changes in prices of financial assets may increase the Company's net exposure to death risk.

(iii) Interest rate risk exposure

Apart from the Company's insurance and reinsurance contracts assets and liabilities that are sensitive to interest rate risk, the table below summarises the interest rate exposures at the end of reporting period for interest-bearing financial assets.

<u>2025</u>	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
Loans	2,677,722	12,938	-	2,690,660
Debts securities	331,744,827	-	-	331,744,827
Bank deposits, cash and cash equivalents	-	2,140,978	2,872,313	5,013,291
Total	334,422,549	2,153,916	2,872,313	339,448,778

PRUDENTIAL 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)

(a) Interest-rate risk (Continued)

(iii) Interest rate risk exposure (Continued)

<u>2024</u>	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
Loans	2,831,297	14,110	-	2,845,407
Debts securities	245,241,604	-	-	245,241,604
Bank deposits, cash and cash equivalents	38,574	1,707,940	2,348,633	4,095,147
Total	<u>248,111,475</u>	<u>1,722,050</u>	<u>2,348,633</u>	<u>252,182,158</u>

The fair value of underlying items of the Company's participating contracts as at 31 December 2025 is HK\$631,321,826,000 (31 December 2024: HK\$536,937,266,000). The Company's participating contracts are the contracts that are measured under the VFA model comprise primarily the with-profits, shareholder-backed participating and unit-linked products. Those underlying items comprise primarily investments in debt securities, equities and collective investment schemes. The underlying items also include the related reinsurance assets and the policyholders' interest in the excess net assets of relevant participating funds.

(b) Currency risk

Premiums are received in three main currencies (Hong Kong dollar, Renminbi and US dollar) and the Company aims to hold assets that broadly match with the currency of the underlying liabilities.

The currency risk that the Company is exposed to is not significant given the matching policy and is further reduced by the fact that the Hong Kong dollar is currently pegged against the US dollar and is expected to remain so for the foreseeable future.

The Company uses currency exchange forward contracts for efficient investment portfolio management to obtain cost effective and efficient exposure to various markets and to limit volatility due to foreign currency exchange rate fluctuations arising on securities denominated in currencies other than Hong Kong dollar.

PRUDENTIAL 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 (Continued)

Changes in the fair value of currency exchange forward contracts are recognised in the statement of profit or loss and other comprehensive income. Derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flow on a net basis.

	2025		2024	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Derivative financial instruments held to manage currency profile:				
Currency exchange forward contracts	194,185	222,982	259,108	217,769

(c) Equity price risk

The Company is subject to equity price risk due to daily changes in the market values of its equity securities portfolio. This includes the direct equity shareholdings in shareholder funds, and the indirect impact from changes in the value of equities held in policyholders' funds from which management charges or a share of performance are taken.

Equity price risk is actively managed by the Company, in order to mitigate anticipated unfavourable market movements where this lies outside the risk appetite of either the Company in respect of shareholder assets or the fund in respect of policyholder assets concerned.

The actual investment performance of the equity securities portfolio is actively monitored by the Investment Committee. The Company also actively models the performance of equities through the use of stochastic models, in particular to understand the impact of equity performance on guarantees, options and bonus rates.

Furthermore, the equity securities portfolio is well diversified globally so any concentration risk is mitigated.

PRUDENTIAL 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

The Company has exposure to credit risk, which is the risk of loss to the Company resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (e.g. downgrade or spread widening). Key areas where the Company is exposed to credit risk are:

- Insurance contract issued;
- Reinsurance contract held;
- Investment assets portfolio;
- Other receivables;
- Bank 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 their relative security which is assessed from public rating information and that from internal investigations. In the case of single-pay coinsurance reinsurance arrangements, letters of credit with reputable banks are also utilized to minimize credit risk. Certain amount of business is reinsured to the Reinsurance Group of America (“RGA”). To reduce the credit risk to RGA, a Trust Deed has been put in place to mitigate the counterparty default risk.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company’s liability as 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.

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.

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. As at 31 December 2025 and 2024, the Company’s exposure to credit risk arising from insurance contracts issued is not material to the Company as premiums receivable from an individual party (policyholders and intermediaries) is not material to the Company.

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

The Company also manages the credit risk of bank deposits and cash through entering into collateralised reverse repurchase arrangements.

PRUDENTIAL 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 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:

<u>2025</u>	Loans HK\$'000	Investment in debt securities HK\$'000	Bank deposits, cash and cash equivalents HK\$'000	Reinsurance contracts assets BEL HK\$'000
AAA	-	4,147,628	-	-
AA+ to AA-	-	147,155,878	3,199,368	5,736,122
A+ to A-	-	107,045,674	1,254,046	1,976,455
Lower than A-	2,354,882	72,928,637	559,793	-
Unrated	335,778	467,010	84	-
Total	<u>2,690,660</u>	<u>331,744,827</u>	<u>5,013,291</u>	<u>7,712,577</u>

<u>2024</u>	Loans HK\$'000	Investment in debt securities HK\$'000	Bank deposits, cash and cash equivalents HK\$'000	Reinsurance contracts assets BEL HK\$'000
AAA	-	3,540,512	-	-
AA+ to AA-	-	121,942,208	2,409,582	4,865,562
A+ to A-	-	63,476,904	1,141,252	4,756,344
Lower than A-	2,435,437	56,281,980	544,229	-
Unrated	409,970	-	84	-
Total	<u>2,845,407</u>	<u>245,241,604</u>	<u>4,095,147</u>	<u>9,621,906</u>

The majority of Company's financial instruments are carried at FVTPL. Immaterial expected credit losses are recognised for the remaining financial instruments measured at amortised cost. Other assets held at amortised cost include other receivables with carrying amounts of HK\$12,604,923,000 (2024: HK\$11,015,413,000), 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 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 as well as uncertainty over asset cash flows 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;
- Cash inflows arising from interest and dividends on investments and principal repayments of maturing debt investments;
- Cash inflows from the sale of investments;
- Cash resources; and
- Short term liquidity management tools like repo and bank overdrafts.

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 or more general asset and liability matching techniques such as duration matching;
- Maintaining sufficient cash resources;
- Investing a reasonable portion of the portfolio in investments with deep and liquid markets; and
- Ongoing monitoring of the liquidity position across different scenarios, to allow sufficient time for the Company to liquidate assets if needed.

The Company manages the liquidity risks on the basis of expected maturities allowing for all decrements rather than contractual maturities.

For the table summarising the maturity profile of groups of insurance contract issued and groups of reinsurance contracts held that are liabilities of the Company based on the estimates of the present value of the future cash flows expected to be paid out in the periods presented, please refer to Note 18.4.

PRUDENTIAL 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 (Continued)

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

Contractual maturity of financial liabilities:

<i>Contractual maturity (undiscounted)</i>						
<u>At 31 December 2025</u>	Carrying amount	No stated maturity / repayable on demand	Within 1 year	1 – 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities under investment contracts	3,736,838	3,736,838	-	-	-	3,736,838
Lease liabilities	474,693	-	240,127	256,787	-	496,914
Other payables and liabilities	10,238,075	1,638,676	8,490,594	108,805	-	10,238,075
Derivative liabilities	8,404,885	-	5,414,715	2,990,170	-	8,404,885
	<u>22,854,491</u>	<u>5,375,514</u>	<u>14,145,436</u>	<u>3,355,762</u>	<u>-</u>	<u>22,876,712</u>
<i>Contractual maturity (undiscounted)</i>						
<u>At 31 December 2024</u>	Carrying amount	No stated maturity / repayable on demand	Within 1 year	1 – 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities under investment contracts	2,798,524	2,798,524	-	-	-	2,798,524
Lease liabilities	536,848	-	233,379	337,000	-	570,379
Other payables and liabilities	5,747,661	1,518,819	4,128,838	100,004	-	5,747,661
Derivative liabilities	8,189,369	-	4,913,550	3,275,819	-	8,189,369
	<u>17,272,402</u>	<u>4,317,343</u>	<u>9,275,767</u>	<u>3,712,823</u>	<u>-</u>	<u>17,305,933</u>

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (Continued)

4.3 Sensitivities to insurance and market risks

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.

Sensitivity Factor	Description of sensitivity factor applied
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 4.5% and 6%). The test allows consistently for similar changes to investment returns and movements in the market value of assets backing fixed interest securities.
Equity price	The impact of a change in equity price by + 10% and – 20%
Assurance mortality or morbidity	The impact of a change in mortality or morbidity rates for assurance contracts by + 5% and – 5%
Lapse	The impact of a change in lapse rates for assurance contracts by + 10% and – 10%
Expenses	The impact of a change in expenses by + 10% and – 10%

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (Continued)

4.3 Sensitivities to insurance and market risks (Continued)

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

Insurance risk

2025

HK\$'m	Change in assumptions	Impact on profit before tax and equity gross of reinsurance	Impact on profit before tax and equity net of reinsurance	Impact on CSM gross of reinsurance	Impact on CSM net of reinsurance
Mortality/morbidity rates	+5%	(56)	(177)	(1,614)	897
Lapse rates	+10%	(579)	(241)	(4,490)	(5,521)
Expenses	+10%	(160)	(153)	(1,064)	(1,071)
Mortality/morbidity rates	-5%	51	179	1,646	(899)
Lapse rates	-10%	608	232	5,029	6,168
Expenses	-10%	153	146	1,072	1,080

2024

HK\$'m	Change in assumptions	Impact on profit before tax and equity gross of reinsurance	Impact on profit before tax and equity net of reinsurance	Impact on CSM gross of reinsurance	Impact on CSM net of reinsurance
Mortality/morbidity rates	+5%	(15)	(140)	(1,127)	1,299
Lapse rates	+10%	(469)	(268)	(3,821)	(4,938)
Expenses	+10%	(184)	(176)	(936)	(945)
Mortality/morbidity rates	-5%	13	142	1,147	(1,312)
Lapse rates	-10%	498	274	4,308	5,545
Expenses	-10%	182	173	941	949

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (Continued)

4.3 Sensitivities to insurance and market risks (Continued)

Interest rate risk

2025

HK\$'m	Change in interest rate	Impact on profit before tax and equity	Impact on CSM liability
Financial assets	+100 bps	(65,348)	N/A
Net contract liabilities	+100 bps	63,008	N/A
CSM	+100 bps	N/A	(8,333)
Financial assets	-50 bps	38,470	N/A
Net contract liabilities	-50 bps	(37,275)	N/A
CSM	-50 bps	N/A	4,428

2024

HK\$'m	Change in interest rate	Impact on profit before tax and equity	Impact on CSM liability
Financial assets	+100 bps	(59,369)	N/A
Net contract liabilities	+100 bps	56,999	N/A
CSM	+100 bps	N/A	(6,109)
Financial assets	-50 bps	34,767	N/A
Net contract liabilities	-50 bps	(33,553)	N/A
CSM	-50 bps	N/A	2,984

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (Continued)

4.3 Sensitivities to insurance and market risks (Continued)

Equity / property risk

2025

HK\$'m	Change in equity/property prices	Impact on profit before tax and equity	Impact on CSM liability
Financial assets	+10%	28,480	N/A
Net contract liabilities	+10%	(28,040)	N/A
CSM	+10%	N/A	2,542
Financial assets	-20%	(58,415)	N/A
Net contract liabilities	-20%	57,381	N/A
CSM	-20%	N/A	(5,389)

2024

HK\$'m	Change in equity/property prices	Impact on profit before tax and equity	Impact on CSM liability
Financial assets	+10%	22,850	N/A
Net contract liabilities	+10%	(22,333)	N/A
CSM	+10%	N/A	2,264
Financial assets	-20%	(45,700)	N/A
Net contract liabilities	-20%	44,509	N/A
CSM	-20%	N/A	(4,586)

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (Continued)

4.3 Sensitivities to insurance and market risks (Continued)

Limitations of sensitivity analysis

The above table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is correlation between the assumptions. 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.

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.

4.4 Fair values

Financial instruments measured 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 HKFRS 13, *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.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (Continued)

4.4 Fair values (Continued)

	2025			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<u>Financial assets:</u>				
Loans	-	2,677,722	-	2,677,722
Equities	62,827,854	312,109	10,008,743	73,148,706
Collective investment schemes	226,838,673	25,160,063	16,677,093	268,675,829
Debt securities	318,389,428	12,888,389	467,010	331,744,827
Derivative assets	931,858	455,569	-	1,387,427
	608,987,813	41,493,852	27,152,846	677,634,511
Certificate of deposits	-	-	-	-
	608,987,813	41,493,852	27,152,846	677,634,511
<u>Financial liabilities:</u>				
Liabilities under investment contracts	-	3,736,838	-	3,736,838
Derivative liabilities	3,209,390	5,195,495	-	8,404,885
	3,209,390	8,932,333	-	12,141,723
	2024			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<u>Financial assets:</u>				
Loans	-	2,831,297	-	2,831,297
Equities	50,198,971	-	6,981,563	57,180,534
Collective investment schemes	239,277,737	24,545,542	7,093,996	270,917,275
Debt securities	234,100,741	11,140,863	-	245,241,604
Derivative assets	32,434	259,108	-	291,542
	523,609,883	38,776,810	14,075,559	576,462,252
Certificate of deposits	-	38,574	-	38,574
	523,609,883	38,815,384	14,075,559	576,500,826
<u>Financial liabilities:</u>				
Liabilities under investment contracts	-	2,798,524	-	2,798,524
Derivative liabilities	3,608,675	4,580,694	-	8,189,369
	3,608,675	7,379,218	-	10,987,893

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (Continued)

4.4 Fair values (Continued)

During the year ended 31 December 2025, the transfer from Level 1 to Level 2 is HK\$938,785,000 (2024: HK\$879,638,000) and the transfer from Level 2 to Level 1 is HK\$2,144,071,000 (2024: HK\$1,343,149,000). The transfer into Level 3 during the year ended 31 December 2025 is nil (2024: nil). 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.

Valuation approach for Level 2 fair valued assets and liabilities

A significant portion of the Company's Level 2 assets are held in corporate bonds, structured entities and non-national government securities. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Management of insurance and financial risk (Continued)

4.4 Fair values (Continued)

Information about Level 3 fair value measurements

The fair values of the infrastructure equity fund, infrastructure debt fund and shopping centre funds are derived using unobservable inputs based on third-party pricing information, such as net asset value of the invested entities. A higher net asset value of the invested entities will result in a higher fair value measurement.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2025 and 31 December 2024:

	Equities at fair value through profit or loss HK\$'000	Collective investment schemes at fair value through profit or loss HK\$'000	Debt securities at fair value through profit or loss HK\$'000	Total HK\$'000
At 1 January 2024	5,062,167	8,739,526	-	13,801,693
Additions	1,459,488	287,940	-	1,747,428
Gains / (losses) recognised in the statement of profit or loss	459,908	(1,529,789)	38,923	(1,030,958)
Proceeds from sales	-	(403,681)	(38,923)	(442,604)
At 31 December 2024	6,981,563	7,093,996	-	14,075,559
At 1 January 2025	6,981,563	7,093,996	-	14,075,559
Additions	2,355,853	10,213,526	467,050	13,036,429
Gains / (losses) recognised in the statement of profit or loss	671,327	(155,200)	(40)	516,087
Proceeds from sales	-	(475,229)	-	(475,229)
At 31 December 2025	10,008,743	16,677,093	467,010	27,152,846

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Total revenue

	2025 HK\$'000	2024 HK\$'000
Contracts not measured under the PAA		
Amounts relating to changes in liabilities of remaining coverage		
Release of contractual service margin for services provided	7,740,617	6,560,857
Change in risk adjustment for non-financial risk	605,498	534,491
Expected claims and other directly attributable expenses	10,594,700	9,604,826
Others	(664,881)	(268,433)
Recovery of insurance acquisition cash flows	11,575,180	10,852,705
	<u>29,851,114</u>	<u>27,284,446</u>
Contracts measured under the PAA	<u>44,679</u>	<u>34,631</u>
Insurance revenue	<u>29,895,793</u>	<u>27,319,077</u>
Contracts under Fair Value Approach	3,455,385	3,668,173
Other contracts	<u>26,440,408</u>	<u>23,650,904</u>

Other income consists of a fund management fee income of HK\$115,322,000 (2024: HK\$110,374,000), where the revenue is recognised from contracts with customers.

6 Investment returns

	2025 HK\$'000	2024 HK\$'000
Interest revenue on financial assets		
Financial assets measured at fair value through profit or loss	9,831,236	7,309,512
Financial assets measured at amortised cost	218,011	328,525
Total interest revenue on financial assets	<u>10,049,247</u>	<u>7,638,037</u>
Other investment returns		
Dividend income	9,358,155	9,309,929
Net gains / (losses) on debt securities	7,200,364	(19,146,288)
Net losses on loans and bank deposits	(60,261)	(36,677)
Net gains on equity securities	44,092,351	11,581,491
Net fair value movement on derivatives	516,441	(17,536,748)
Net foreign exchange losses	(328,898)	(144,894)
Total other investment returns	<u>60,778,152</u>	<u>(15,973,187)</u>
	<u>70,827,399</u>	<u>(8,335,150)</u>

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7 Net insurance and reinsurance finance income / (expenses)

	2025 HK\$'000	2024 HK\$'000
Interest accreted	206,619	6,095
Changes in fair value of underlying assets and other adjustments relating to VFA contracts	(64,207,695)	12,315,249
Effect of changes in interest rates and other financial assumptions	(97,052)	(48,106)
Effect of measuring changes in estimates at current rates and adjusting the CSM at locked-in rates	(175,454)	(64,654)
Other finance (expenses) / income from insurance contracts	(730,913)	2,489,730
Net finance (expenses) / income from insurance contracts	(65,004,495)	14,698,314
Interest accreted	777,252	619,881
Effect of changes in interest rates and other financial assumptions	(2,294,032)	(3,381,590)
Effect of measuring changes in estimates at current rates and adjusting the CSM at locked-in rates	245,812	(439,511)
Other finance income from reinsurance contracts	24,383	138,560
Net finance expenses from reinsurance contracts held	(1,246,585)	(3,062,660)

8 Total expenses incurred

	2025 HK\$'000	2024 HK\$'000
Auditors' remuneration	21,857	22,211
Depreciation, amortisation and impairment charges	432,847	392,405
Employee benefit expense		
- Wages and salaries	1,566,305	1,317,125
- Contributions to defined contribution plans	69,282	56,654
- Other benefits	145,813	135,885
Finance costs	167,811	179,799
Other expenses	19,476,649	18,500,031
Total expenses incurred in the period	21,880,564	20,604,110
Expenses attributed to insurance acquisition cash flows	18,331,109	17,388,651
Other directly attributable expenses	3,154,369	2,819,967
Non-attributable expenses recognised in profit or loss	395,086	395,492

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 Share-based payments

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

Share award plan

The Prudential Global Long-Term Incentive Plan, the Prudential Agency Long Term Incentive Plan and the Restricted Share Plan are the incentive plans created for eligible employees and agents, respectively. Under the plan, discretionary awards are made in the form of restricted Prudential plc shares. Certain awards will vest after one, two or three years subject to the employee or agent being in service at the time of vesting. Vesting of awards may be subject to performance conditions.

The Deferred Bonus Plan is granted to key employees in the form of Prudential plc shares. There are no performance conditions attached to the deferred bonus plans and awards vest in full subject to the individual being employed by the Company at the end of the vesting period.

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

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.

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

	2025	2024
	Number of awards	Number of awards
Beginning of year	1,887,841	1,210,367
Granted	895,837	1,368,635
Exercised	(687,461)	(605,412)
Forfeited	(154,234)	(85,749)
End of year	<u>1,941,983</u>	<u>1,887,841</u>

The weighted average share price of Prudential plc for 2025 was £8.98 (2024: £6.90).

The total share-based payment expense recognised in 2025 is HK\$92,814,000 (2024: HK\$68,511,000) of which HK\$58,534,000 (2024: HK\$63,342,000) is accounted for as equity-settled and HK\$34,280,000 (2024: HK\$5,169,000) is accounted for as cash-settled.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 Directors' emoluments

Directors' emoluments 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 and section 26(p) of Part 5 of the Schedule 3 to the Insurance Ordinance ("IO") are as follows:

	2025 HK\$'000	2024 HK\$'000
Directors' fees	2,236	2,160
Salaries, allowances and benefit in kind	4,526	4,573
Discretionary bonus	15,577	10,759
Retirement scheme contributions	661	661
	<u>23,000</u>	<u>18,153</u>

The aggregate amount of the emoluments paid to the three highest paid directors was HK\$22,204,000 (2024: HK\$17,432,000).

11 Income tax expense

	2025 HK\$'000	2024 HK\$'000
Current tax - Hong Kong profits tax:		
Provision for the year	610,950	673,391
Over-provision in respect of prior years	(6,852)	(5,996)
	<u>604,098</u>	<u>667,395</u>
Current tax - Overseas withholding and capital gain taxes	543,077	1,116,605
	<u>1,147,175</u>	<u>1,784,000</u>

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11 Income tax expense (Continued)

Reconciliation of effective tax rate

	2025 HK\$'000	2024 HK\$'000
Profit before tax	11,259,989	8,163,503
Income tax using domestic corporate tax rate	1,857,898	1,346,978
Non-deductible expenses	1,295	-
Tax exempted revenues	(135)	(237)
Tax effect of assessment under Section 23 (1)(a) of Inland Revenue Ordinance	(1,248,108)	(673,350)
Overseas withholding and capital gain taxes	543,077	1,116,605
Over-provision in respect of prior years	(6,852)	(5,996)
Tax charge at the effective tax rate of 10% (2024: 22%)	1,147,175	1,784,000
Applicable tax rate	16.50%	16.50%

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.

12 Dividends

	2025 HK\$'000	2024 HK\$'000
First interim dividend declared and paid of 160.07 HK cents (2024: 220.80 HK cents) per ordinary share	5,909,700	8,040,460
Second interim dividend declared and paid of 212.27 HK cents (2024: nil HK cents) per ordinary share	7,836,626	-
	13,746,326	8,040,460

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

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13 Property, plant and equipment

	Properties leased for own use HK\$'000	Furniture and fixtures HK\$'000	IT and other equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<u>At 1 January 2024</u>					
Cost	1,315,565	645,282	1,097,435	1,456	3,059,738
Accumulated depreciation	(1,099,576)	(584,338)	(786,655)	(1,456)	(2,472,025)
Net book amount	215,989	60,944	310,780	-	587,713
<u>Year ended 31 December 2024</u>					
Opening net book amount	215,989	60,944	310,780	-	587,713
Additions during the year	93,374	67,535	253,734	-	414,643
Lease modification and reassessment	425,767	-	-	-	425,767
Depreciation charge during the year	(225,867)	(44,569)	(121,969)	-	(392,405)
Closing net book amount	509,263	83,910	442,545	-	1,035,718
<u>At 1 January 2025</u>					
Cost	1,851,865	590,779	1,333,156	1,456	3,777,256
Accumulated depreciation	(1,342,602)	(506,869)	(890,611)	(1,456)	(2,741,538)
Net book amount	509,263	83,910	442,545	-	1,035,718
<u>Year ended 31 December 2025</u>					
Opening net book amount	509,263	83,910	442,545	-	1,035,718
Additions during the year	80,878	39,486	261,030	-	381,394
Lease modification and reassessment	96,318	-	-	-	96,318
Depreciation charge during the year	(234,388)	(51,713)	(146,746)	-	(432,847)
Closing net book amount	452,071	71,683	556,829	-	1,080,583
<u>At 31 December 2025</u>					
Cost	2,022,422	630,265	1,594,054	1,456	4,248,197
Accumulated depreciation	(1,570,351)	(558,582)	(1,037,225)	(1,456)	(3,167,614)
Net book amount	452,071	71,683	556,829	-	1,080,583

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14 Investment in a subsidiary

Investment in subsidiary is held for its long-term contribution to the Company's performance and so all amounts are expected to be realised more than 12 months after the end of the reporting period.

The Company's interest in subsidiary is as follows:

Name of subsidiary	Place of incorporation	Principal activity	Particulars of issued and paid up capital	Company's interest %	
				2025	2024
Prudential Myanmar Life Insurance Limited	Myanmar	Underwriting of life insurance business	30,473,000 ordinary shares (2024: 30,473,000 ordinary shares)	100%	100%

15 Other receivables

	2025 HK\$'000	2024 HK\$'000
Investment income receivables	3,019,165	1,908,838
Receivables due from fellow subsidiaries	11,763	17,320
Other receivables and prepayments	9,573,995	9,089,255
Total	12,604,923	11,015,413
Expected to be settled within 12 months	12,533,003	10,941,046
Expected to be settled after 12 months	71,920	74,367

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 amounts 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.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16 Financial instruments

	2025			2024		
	Fair value through profit or loss HK\$'000	Loans and receivables HK\$'000	Total HK\$'000	Fair value through profit or loss HK\$'000	Loans and receivables HK\$'000	Total HK\$'000
Loans						
- Secured	2,677,722	12,938	2,690,660	2,831,297	14,110	2,845,407
Subtotal	2,677,722	12,938	2,690,660	2,831,297	14,110	2,845,407
Equities	73,148,706	-	73,148,706	57,180,534	-	57,180,534
Collective investment schemes	268,675,829	-	268,675,829	270,917,275	-	270,917,275
Debt securities						
- Government bonds	124,473,686	-	124,473,686	113,198,158	-	113,198,158
- Corporate bonds	207,271,141	-	207,271,141	132,043,446	-	132,043,446
Subtotal	331,744,827	-	331,744,827	245,241,604	-	245,241,604
Derivative financial instruments						
- Currency exchange forward contracts	(28,797)	-	(28,797)	41,339	-	41,339
- Index futures	147,380	-	147,380	(220,155)	-	(220,155)
- Interest rate and bond futures	(1,979,601)	-	(1,979,601)	(3,356,086)	-	(3,356,086)
- Bond forward contracts	(4,711,128)	-	(4,711,128)	(4,362,925)	-	(4,362,925)
- Equity options	(445,312)	-	(445,312)	-	-	-
Subtotal	(7,017,458)	-	(7,017,458)	(7,897,827)	-	(7,897,827)
Total	669,229,626	12,938	669,242,564	568,272,883	14,110	568,286,993
Expected to be settled within 12 months	365,978,987	4,635	365,983,622	341,340,490	3,243	341,343,733
Expected to be settled after 12 months	303,250,639	8,303	303,258,942	226,932,393	10,867	226,943,260
	669,229,626	12,938	669,242,564	568,272,883	14,110	568,286,993

Included in financial assets at fair value through profit or loss on the Company's statement of financial position are investment in collective investment schemes (see Note 4.2.1(c)) in which they have been designed so that voting or similar rights are not the dominant factor in deciding who controls these schemes. These collective investment schemes provide the Company with a variety of investment opportunities through managed investment strategies.

Owing to the passive nature of the collective investment schemes, the maximum exposure to loss from these interests is limited to the associated equity price risk (see Note 4.2.1(c)). The maximum exposure to loss, which represents the maximum loss that the Company could be required to report as a result of its involvement with these collective investment schemes regardless of the probability of the loss being incurred, is equivalent to the carrying amount of this investment.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17 Bank deposits, cash and cash equivalents

(a) Bank deposits with original maturities of more than three months:

	2025 HK\$'000	2024 HK\$'000
Certificate of deposits with original maturities of more than three months	-	38,574
Fixed deposits with original maturities of more than three months	35,589	21,223
	<u>35,589</u>	<u>21,223</u>
	<u><u>35,589</u></u>	<u><u>59,797</u></u>

(b) Cash and cash equivalents:

	2025 HK\$'000	2024 HK\$'000
Cash at bank and in hand	2,510,061	2,044,850
Deposits under reverse repurchase agreements	1,910,000	1,458,400
Fixed deposits with original maturities of three months or less	557,641	532,100
	<u>4,977,702</u>	<u>4,035,350</u>
	<u><u>4,977,702</u></u>	<u><u>4,035,350</u></u>

As at 31 December 2025, the Company held securities collaterals of HK\$1,921,543,000 (2024: HK\$1,471,101,000) for deposits under reverse repurchase agreements.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances

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:

	Year ended 31 December 2025			
	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening assets	887,678	(133,523)	(79,194)	674,961
Opening liabilities	(560,738,054)	(2,099,604)	(3,412,040)	(566,249,698)
Net opening balance	(559,850,376)	(2,233,127)	(3,491,234)	(565,574,737)
Insurance revenue	29,895,793	-	-	29,895,793
Insurance service expenses	(11,575,180)	382,331	(9,915,313)	(21,108,162)
- Incurred claims and other expenses	-	78,817	(10,054,101)	(9,975,284)
- Amortisation of insurance acquisition cash flows	(11,575,180)	-	-	(11,575,180)
- Losses on onerous contracts and reversals of those losses	-	303,514	-	303,514
- Changes to liabilities for incurred claims	-	-	138,788	138,788
Investment components	8,504,245	-	(8,504,245)	-
Insurance service result	26,824,858	382,331	(18,419,558)	8,787,631
Insurance finance expenses	(64,202,137)	(71,382)	(64)	(64,273,583)
Effect of movements in exchange rates	(719,793)	(3,424)	(7,695)	(730,912)
Total changes in the statement of profit or loss	(38,097,072)	307,525	(18,427,317)	(56,216,864)
Cash flows				
- Premiums received	(79,688,502)	-	-	(79,688,502)
- Insurance acquisition cash flows	17,155,701	-	-	17,155,701
- Claims and other expenses paid	-	-	17,736,347	17,736,347
Total cash flows	(62,532,801)	-	17,736,347	(44,796,454)
Net closing balance	(660,480,249)	(1,925,602)	(4,182,204)	(666,588,055)
Closing assets	1,355,851	(188,220)	(145,113)	1,022,518
Closing liabilities	(661,836,100)	(1,737,382)	(4,037,091)	(667,610,573)
Net closing balance	(660,480,249)	(1,925,602)	(4,182,204)	(666,588,055)

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances (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)

	Year ended 31 December 2024			
	Liabilities for remaining coverage Excluding loss component HK\$'000	Loss component HK\$'000	Liabilities for incurred claims HK\$'000	Total HK\$'000
Opening assets	442,927	(27,539)	(49,079)	366,309
Opening liabilities	(544,609,760)	(1,731,813)	(3,381,081)	(549,722,654)
Net opening balance	(544,166,833)	(1,759,352)	(3,430,160)	(549,356,345)
Insurance revenue	27,319,077	-	-	27,319,077
Insurance service expenses	(10,852,705)	(371,428)	(9,021,666)	(20,245,799)
- Incurred claims and other expenses	-	66,758	(9,073,234)	(9,006,476)
- Amortisation of insurance acquisition cash flows	(10,852,705)	-	-	(10,852,705)
- Losses on onerous contracts and reversals of those losses	-	(438,186)	-	(438,186)
- Changes to liabilities for incurred claims	-	-	51,568	51,568
Investment components	5,747,604	-	(5,747,604)	-
Insurance service result	22,213,976	(371,428)	(14,769,270)	7,073,278
Insurance finance expenses	12,306,927	(98,311)	(31)	12,208,585
Effect of movements in exchange rates	2,478,410	(4,036)	15,355	2,489,729
Total changes in the statement of profit or loss	36,999,313	(473,775)	(14,753,946)	21,771,592
Cash flows				
- Premiums received	(69,076,980)	-	-	(69,076,980)
- Insurance acquisition cash flows	16,394,124	-	-	16,394,124
- Claims and other expenses paid	-	-	14,692,872	14,692,872
Total cash flows	(52,682,856)	-	14,692,872	(37,989,984)
Net closing balance	(559,850,376)	(2,233,127)	(3,491,234)	(565,574,737)
Closing assets	887,678	(133,523)	(79,194)	674,961
Closing liabilities	(560,738,054)	(2,099,604)	(3,412,040)	(566,249,698)
Net closing balance	(559,850,376)	(2,233,127)	(3,491,234)	(565,574,737)

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances (Continued)

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

(b) Analysis by measurement component of insurance contracts

An analysis of movements in insurance contract balances by measurement component is set out below:

	Year ended 31 December 2025			
	Estimates of the present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Contractual service margin HK\$'000	Total HK\$'000
Opening assets	3,208,339	(330,943)	(2,202,435)	674,961
Opening liabilities	(497,652,758)	(5,057,464)	(63,539,476)	(566,249,698)
Net opening balance	(494,444,419)	(5,388,407)	(65,741,911)	(565,574,737)
Changes that relate to current services				
- Contractual service margin recognised for services provided	-	-	7,740,617	7,740,617
- Risk adjustment recognised for the risk expired	-	603,526	-	603,526
- Experience adjustments	1,185	-	-	1,185
Changes that relate to future services				
- Contracts initially recognised in the period	9,309,343	(1,120,555)	(8,190,702)	(1,914)
- Changes in estimates that adjust the contractual service margin	14,568,067	(431,029)	(14,137,038)	-
- Changes in estimates that do not adjust the contractual service margin	331,673	(26,244)	-	305,429
Changes that relate to past services	138,788	-	-	138,788
Insurance finance expenses	(63,906,908)	(95,403)	(271,272)	(64,273,583)
Effect of movements in exchange rates	(697,077)	(8,570)	(25,265)	(730,912)
Total changes in the statement of profit or loss	(40,254,929)	(1,078,275)	(14,883,660)	(56,216,864)
Cash flows	(44,796,454)	-	-	(44,796,454)
Net closing balance	(579,495,802)	(6,466,682)	(80,625,571)	(666,588,055)
Closing assets	5,246,845	(522,681)	(3,701,646)	1,022,518
Closing liabilities	(584,742,647)	(5,944,001)	(76,923,925)	(667,610,573)
Net closing balance	(579,495,802)	(6,466,682)	(80,625,571)	(666,588,055)

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances (Continued)

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

(b) Analysis by measurement component of insurance contracts (Continued)

	Year ended 31 December 2024			
	Estimates of the present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Contractual service margin HK\$'000	Total HK\$'000
Opening assets	2,187,976	(316,547)	(1,505,120)	366,309
Opening liabilities	(483,044,289)	(5,720,608)	(60,957,757)	(549,722,654)
Net opening balance	(480,856,313)	(6,037,155)	(62,462,877)	(549,356,345)
Changes that relate to current services				
- Contractual service margin recognised for services provided	-	-	6,560,857	6,560,857
- Risk adjustment recognised for the risk expired	-	531,382	-	531,382
- Experience adjustments	367,654	-	-	367,654
Changes that relate to future services				
- Contracts initially recognised in the period	8,574,492	(1,077,426)	(7,497,872)	(806)
- Changes in estimates that adjust the contractual service margin	1,206,817	1,177,340	(2,384,157)	-
- Changes in estimates that do not adjust the contractual service margin	(414,050)	(23,327)	-	(437,377)
Changes that relate to past services	51,568	-	-	51,568
Insurance finance expenses	12,433,630	14,576	(239,621)	12,208,585
Effect of movements in exchange rates	2,181,767	26,203	281,759	2,489,729
Total changes in the statement of profit or loss	24,401,878	648,748	(3,279,034)	21,771,592
Cash flows	(37,989,984)	-	-	(37,989,984)
Net closing balance	(494,444,419)	(5,388,407)	(65,741,911)	(565,574,737)
Closing assets	3,208,339	(330,943)	(2,202,435)	674,961
Closing liabilities	(497,652,758)	(5,057,464)	(63,539,476)	(566,249,698)
Net closing balance	(494,444,419)	(5,388,407)	(65,741,911)	(565,574,737)

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances (Continued)

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

(c) 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:

	Year ended 31 December 2025			
	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening assets	12,430,631	405,787	3,769,976	16,606,394
Opening liabilities	(817,282)	4,535	80,828	(731,919)
Net opening balance	11,613,349	410,322	3,850,804	15,874,475
Net income/expenses from reinsurance contracts	(7,052,270)	(67,781)	5,585,414	(1,534,637)
Investment components	1,423,089	-	(1,423,089)	-
Net income or expense from reinsurance contracts held	(5,629,181)	(67,781)	4,162,325	(1,534,637)
Reinsurance finance income	(1,270,969)	-	-	(1,270,969)
Effect of changes in non-performance risk of reinsurers	1,845	-	-	1,845
Effect of movements in exchange rates	21,453	540	546	22,539
Total changes in the statement of profit or loss	(6,876,852)	(67,241)	4,162,871	(2,781,222)
Cash flows				
Premiums paid	7,096,413	-	-	7,096,413
Amounts recovered	-	-	(5,466,894)	(5,466,894)
Total cash flows	7,096,413	-	(5,466,894)	1,629,519
Net closing balance	11,832,910	343,081	2,546,781	14,722,772
Closing assets	12,456,009	339,583	2,548,956	15,344,548
Closing liabilities	(623,099)	3,498	(2,175)	(621,776)
Net closing balance	11,832,910	343,081	2,546,781	14,722,772

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances (Continued)

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

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

	Year ended 31 December 2024			
	Liabilities for remaining coverage Excluding loss component HK\$'000	Loss component HK\$'000	Liabilities for incurred claims HK\$'000	Total HK\$'000
Opening assets	13,227,526	954,432	1,732,358	15,914,316
Opening liabilities	(5,354,682)	(893)	55,957	(5,299,618)
Net opening balance	7,872,844	953,539	1,788,315	10,614,698
Net income/expenses from reinsurance contracts	(3,826,839)	(542,604)	2,501,517	(1,867,926)
Investment components	(1,198,383)	-	1,198,383	-
Net income or expense from reinsurance contracts held	(5,025,222)	(542,604)	3,699,900	(1,867,926)
Reinsurance finance income	(3,201,219)	-	-	(3,201,219)
Effect of changes in non-performance risk of reinsurers	187,223	-	-	187,223
Effect of movements in exchange rates	(46,473)	(613)	(1,578)	(48,664)
Total changes in the statement of profit or loss	(8,085,691)	(543,217)	3,698,322	(4,930,586)
Cash flows				
Premiums paid	11,826,196	-	-	11,826,196
Amounts recovered	-	-	(1,635,833)	(1,635,833)
Total cash flows	11,826,196	-	(1,635,833)	10,190,363
Net closing balance	11,613,349	410,322	3,850,804	15,874,475
Closing assets	12,430,631	405,787	3,769,976	16,606,394
Closing liabilities	(817,282)	4,535	80,828	(731,919)
Net closing balance	11,613,349	410,322	3,850,804	15,874,475

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances (Continued)

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

(d) Analysis by measurement component of reinsurance contracts held

An analysis of movements in reinsurance contract balances by measurement component is set out below:

	Year ended 31 December 2025			
	Estimates of the present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Contractual service margin HK\$'000	Total HK\$'000
Opening assets	9,621,906	620,151	6,364,337	16,606,394
Opening liabilities	(172,084)	30,727	(590,562)	(731,919)
Net opening balance	9,449,822	650,878	5,773,775	15,874,475
Changes that relate to current services				
- Contractual service margin recognised for services provided	-	-	(1,022,889)	(1,022,889)
- Risk adjustment recognised for the risk expired	-	(115,514)	-	(115,514)
- Experience adjustments	(426,450)	-	-	(426,450)
Changes that relate to future services				
- Contracts initially recognised in the period	(790,049)	91,230	698,990	171
- Changes in estimates that adjust the contractual service margin	(704,728)	310,164	394,564	-
- Changes in estimates that do not adjust the contractual service margin	(65,669)	-	-	(65,669)
Changes that relate to past services	95,714	-	-	95,714
Net income or expense from reinsurance contracts held	(1,891,182)	285,880	70,665	(1,534,637)
Reinsurance finance income	(1,726,673)	161,853	293,851	(1,270,969)
Effect of changes in non-performance risk of reinsurers	1,845	-	-	1,845
Effect of movements in exchange rates	6,901	705	14,933	22,539
Total changes in the statement of profit or loss	(3,609,109)	448,438	379,449	(2,781,222)
Cash flows	1,629,519	-	-	1,629,519
Net closing balance	7,470,232	1,099,316	6,153,224	14,722,772
Closing assets	7,712,577	1,066,872	6,565,099	15,344,548
Closing liabilities	(242,345)	32,444	(411,875)	(621,776)
Net closing balance	7,470,232	1,099,316	6,153,224	14,722,772

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances (Continued)

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

(d) Analysis by measurement component of reinsurance contracts held (Continued)

	Year ended 31 December 2024			
	Estimates of the present value of future cash flows HK\$'000	Risk adjustment HK\$'000	Contractual service margin HK\$'000	Total HK\$'000
Opening assets	6,210,118	(642,303)	10,346,501	15,914,316
Opening liabilities	(5,880,418)	(15,860)	596,660	(5,299,618)
Net opening balance	329,700	(658,163)	10,943,161	10,614,698
Changes that relate to current services				
- Contractual service margin recognised for services provided	-	-	(1,092,318)	(1,092,318)
- Risk adjustment recognised for the risk expired	-	(120,625)	-	(120,625)
- Experience adjustments	(274,832)	-	-	(274,832)
Changes that relate to future services				
- Contracts initially recognised in the period	(765,391)	24,055	741,336	-
- Changes in estimates that adjust the contractual service margin	3,656,763	1,430,584	(5,087,347)	-
- Changes in estimates that do not adjust the contractual service margin	(508,666)	-	-	(508,666)
Changes that relate to past services	128,515	-	-	128,515
Net income or expense from reinsurance contracts held	2,236,389	1,334,014	(5,438,329)	(1,867,926)
Reinsurance finance income	(3,472,607)	(20,910)	292,298	(3,201,219)
Effect of changes in non-performance risk of reinsurers	187,223	-	-	187,223
Effect of movements in exchange rates	(21,246)	(4,063)	(23,355)	(48,664)
Total changes in the statement of profit or loss	(1,070,241)	1,309,041	(5,169,386)	(4,930,586)
Cash flows	10,190,363	-	-	10,190,363
Net closing balance	9,449,822	650,878	5,773,775	15,874,475
Closing assets	9,621,906	620,151	6,364,337	16,606,394
Closing liabilities	(172,084)	30,727	(590,562)	(731,919)
Net closing balance	9,449,822	650,878	5,773,775	15,874,475

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances (Continued)

18.2 Analysis of the contractual service margin by transition approach

An analysis of the contractual service margin by transition approach is set out below:

	Year ended 31 December 2025		
	Contracts under FVA	Other contracts	Total
	HK\$'000	HK\$'000	HK\$'000
Net opening balance	7,632,132	58,109,779	65,741,911
Changes that relate to current services			
- Contractual service margin recognised for services provided	(751,655)	(6,988,962)	(7,740,617)
Changes that relate to future services			
- Contracts initially recognised in the period	-	8,190,702	8,190,702
- Changes in estimates that adjust the contractual service margin	957,969	13,179,069	14,137,038
Insurance finance expenses	20,145	251,127	271,272
Effect of movements in exchange rates	(87,035)	112,300	25,265
Net closing balance	7,771,556	72,854,015	80,625,571

	Year ended 31 December 2024		
	Contracts under FVA	Other contracts	Total
	HK\$'000	HK\$'000	HK\$'000
Net opening balance	7,905,436	54,557,441	62,462,877
Changes that relate to current services			
- Contractual service margin recognised for services provided	(747,013)	(5,813,844)	(6,560,857)
Changes that relate to future services			
- Contracts initially recognised in the period	-	7,497,872	7,497,872
- Changes in estimates that adjust the contractual service margin	173,776	2,210,381	2,384,157
Insurance finance expenses	18,842	220,779	239,621
Effect of movements in exchange rates	281,091	(562,850)	(281,759)
Net closing balance	7,632,132	58,109,779	65,741,911

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances (Continued)

18.3 Expected recognition of the contractual service margin

The following tables illustrate when the Company expects to recognise the remaining contractual service margin in profit or loss after the reporting date.

2025	Total	1 year or less	After 1-2 years	After 2-3 years	After 3-4 years	After 4-5 years	After 5-10 years	After 10-15 years	After 15-20 years	After 20 years
HK\$'000										
Insurance contracts	80,625,571	7,486,876	6,896,072	6,212,849	5,573,940	5,074,722	18,207,025	11,523,094	7,216,201	12,434,792
Reinsurance contracts	(6,153,224)	(711,694)	(613,164)	(535,663)	(490,524)	(452,932)	(1,434,443)	(748,527)	(459,048)	(707,229)
	<u>74,472,347</u>	<u>6,775,182</u>	<u>6,282,908</u>	<u>5,677,186</u>	<u>5,083,416</u>	<u>4,621,790</u>	<u>16,772,582</u>	<u>10,774,567</u>	<u>6,757,153</u>	<u>11,727,563</u>
2024	Total	1 year or less	After 1-2 years	After 2-3 years	After 3-4 years	After 4-5 years	After 5-10 years	After 10-15 years	After 15-20 years	After 20 years
HK\$'000										
Insurance contracts	65,741,911	6,349,745	5,881,260	5,417,618	4,804,421	4,282,472	15,151,685	9,514,578	5,641,841	8,698,291
Reinsurance contracts	(5,773,775)	(618,411)	(557,644)	(500,693)	(441,372)	(407,318)	(1,392,660)	(751,604)	(430,728)	(673,345)
	<u>59,968,136</u>	<u>5,731,334</u>	<u>5,323,616</u>	<u>4,916,925</u>	<u>4,363,049</u>	<u>3,875,154</u>	<u>13,759,025</u>	<u>8,762,974</u>	<u>5,211,113</u>	<u>8,024,946</u>

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances (Continued)

18.4 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	After 1-2 years	After 2-3 years	After 3-4 years	After 4-5 years	After 5-10 years	After 10-15 years	After 15-20 years	After 20 years	No stated maturity
2025											
HK\$'000											
Insurance contracts	584,742,647	(15,643,180)	(17,368,945)	(3,913,964)	9,146,289	16,286,510	93,768,888	114,669,722	93,139,615	264,824,204	29,833,508
Reinsurance contracts	(242,345)	(63,855)	(19,780)	(18,085)	(16,515)	(15,148)	(56,283)	(28,363)	(13,072)	(11,244)	-
	<u>584,500,302</u>	<u>(15,707,035)</u>	<u>(17,388,725)</u>	<u>(3,932,049)</u>	<u>9,129,774</u>	<u>16,271,362</u>	<u>93,712,605</u>	<u>114,641,359</u>	<u>93,126,543</u>	<u>264,812,960</u>	<u>29,833,508</u>
2024											
HK\$'000											
Insurance contracts	497,652,758	(25,027,776)	(22,768,973)	(16,466,679)	2,811,235	8,369,220	63,588,706	95,765,079	89,129,374	274,731,841	27,520,731
Reinsurance contracts	(172,084)	8,517	(19,614)	(18,278)	(16,727)	(15,155)	(57,838)	(30,489)	(13,940)	(8,560)	-
	<u>497,480,674</u>	<u>(25,019,259)</u>	<u>(22,788,587)</u>	<u>(16,484,957)</u>	<u>2,794,508</u>	<u>8,354,065</u>	<u>63,530,868</u>	<u>95,734,590</u>	<u>89,115,434</u>	<u>274,723,281</u>	<u>27,520,731</u>

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances (Continued)

18.5 Effect of insurance and reinsurance contracts initially recognised in the year

The following tables summarise the effect on the measurement components arising from the initial recognition of insurance and reinsurance contracts in the year.

Insurance contracts

	Year ended 31 December 2025		
	Profitable contracts issued	Onerous contracts issued	Total
	HK\$'000	HK\$'000	HK\$'000
Estimate of present value of expected future cash outflows, excluding insurance acquisition cash flows	69,837,812	3,893	69,841,705
Estimates of insurance acquisition cash flows	19,266,391	3,375	19,269,766
Estimates of present value of expected future cash inflows	(98,415,233)	(5,581)	(98,420,814)
Risk adjustment for non-financial risk	1,120,328	227	1,120,555
CSM	8,190,702	-	8,190,702
Losses on onerous contracts at initial recognition	-	1,914	1,914
	Year ended 31 December 2024		
	Profitable contracts issued	Onerous contracts issued	Total
	HK\$'000	HK\$'000	HK\$'000
Estimate of present value of expected future cash outflows, excluding insurance acquisition cash flows	65,939,467	1,670	65,941,137
Estimates of insurance acquisition cash flows	17,517,875	1,766	17,519,641
Estimates of present value of expected future cash inflows	(92,032,564)	(2,706)	(92,035,270)
Risk adjustment for non-financial risk	1,077,350	76	1,077,426
CSM	7,497,872	-	7,497,872
Losses on onerous contracts at initial recognition	-	806	806

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 Insurance and reinsurance contract balances (Continued)

18.5 Effect of insurance and reinsurance contracts initially recognised in the year (Continued)

The following tables summarise the effect on the measurement components arising from the initial recognition of insurance and reinsurance contracts in the year.

Reinsurance contracts

	2025 HK\$'000	2024 HK\$'000
Estimates of present value of expected future cash outflows	6,228,301	7,954,962
Estimate of present value of expected future cash inflows	(5,438,252)	(7,189,571)
Risk adjustment for non-financial risk	(91,230)	(24,055)
CSM	(698,990)	(741,336)
Profit or loss recognised on initial recognition	(171)	-

19 Liabilities under investment contracts

	2025 HK\$'000	2024 HK\$'000
Balance at 1 January	2,798,524	2,135,110
Net increase	938,314	663,414
Balance at 31 December	3,736,838	2,798,524

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20 Lease liabilities

The following table shows the remaining contractual maturities of the Company's lease liabilities at the end of the financial year:

	2025		2024	
	Present value of the lease payments HK\$'000	Total lease payments HK\$'000	Present value of the lease payments HK\$'000	Total lease payments HK\$'000
Lease liabilities arising from:				
Within 1 year	224,815	240,127	214,034	233,379
After 1 year but within 2 years	196,687	202,656	173,190	183,960
After 2 years but within 5 years	53,191	54,131	149,624	153,040
	249,878	256,787	322,814	337,000
	474,693	496,914	536,848	570,379
Less: total future interest expenses		(22,221)		(33,531)
Present value of lease liabilities		474,693		536,848

21 Other payables and liabilities

	2025 HK\$'000	2024 HK\$'000
Payables due to fellow subsidiaries	150,244	173,540
Other payables and accrued expenses	10,087,831	5,574,121
	10,238,075	5,747,661
Expected to be settled within 12 months	10,129,270	5,647,657
Expected to be settled after 12 months	108,805	100,004

As at 31 December 2025, the Company had pledged securities collaterals of HK\$5,480,656,000 (2024: HK\$1,768,963,000) for the obligations under repurchase agreements.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22 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 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	3,691,855	3,691,855	3,641,480	3,641,480
Shares issued	-	-	50,375	50,375
At 31 December	3,691,855	3,691,855	3,691,855	3,691,855

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.

On 23 August 2024, the Company issued 50,375,000 shares of HK\$1 each to its immediate holding company, Prudential Corporation Asia Limited, with a total consideration of US\$6,500,000 (equivalent to HK\$50,375,000).

23 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 HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24 Commitments

The Company has provided certain commitments to third parties under investment agreements for private funds. Capital commitments contracted for at the end of the year but not provided in the financial statements were as follows:

	2025 HK\$'000	2024 HK\$'000
Investment in financial assets:		
- Equities and collective investment schemes	23,029,141	16,592,615

25 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 Insurance Authority ("IA") is the primary insurance regulator in Hong Kong, which requires that the Company meet the capital requirements of the Insurance Ordinance ("IO") at all times. The IO sets minimum capital requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong.

On 8 April 2022, the Company's application of early adoption of Risk-based Capital ("RBC") basis as the valuation methodology was approved by the IA, which granted relaxation of the Rules in the application to the Company pursuant to section 130(1) of the IO with effect from 1 January 2022. The RBC regime became effective across the industry on 1 July 2024 following the commencement of the Insurance (Amendment) Ordinance 2023. Under the Hong Kong RBC, the Company is required to ensure that the amount of capital base is not less than the prescribed capital amount as determined by the IO.

The Company has embedded in its asset-liability management framework the necessary tests to regularly monitor its continuous 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 and prior period.

PRUDENTIAL HONG KONG LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26 Contingent assets

The Company's former immediate holding company, Prudential Assurance Company Limited ("PAC"), is the lead litigant in a group action against HM Revenue and Customs ("HMRC") about the correct historic tax treatment applying to dividends received from overseas portfolio investments of its with-profits funds. PAC has so far been successful in its litigation and in April 2016 the Court of Appeal upheld an earlier High Court decision in its favour. The UK Supreme Court was heard HMRC's appeal in February 2018. Under the terms of the agreement governing the domestication of the Company in 2014, the Company is entitled to a proportionate share of any tax refund and interest ultimately paid to PAC. The payment will be made to the in-force sub-fund established within the with-profits funds of the Company, following the final determination of the amount payable to PAC. As of 31 December 2025, the amount is expected to be approximately HK\$115,000,000 (2024: HK\$115,000,000) and no asset is recognised in respect of this claim.

27 Material related-party transactions

(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 10, is as follows:

	2025 HK\$'000	2024 HK\$'000
Short-term employee benefits	74,649	68,722
Post-employment benefits	4,155	3,392
Other long-term benefits	8	-
Termination benefits	-	-
Equity compensation benefits	19,513	7,970
	<u>108,325</u>	<u>80,084</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
Purchases of services - fellow subsidiaries	1,523,357	1,433,302
Sale of services - fellow subsidiaries	91,748	83,094
	<u>1,615,105</u>	<u>1,516,396</u>

The outstanding balances arising from above transactions at the end of the reporting period (including balances attributable to insurance and reinsurance contracts under HKFRS 17, which are presented within the insurance and reinsurance contract balances) are as follows:

	2025 HK\$'000	2024 HK\$'000
Amounts due from fellow subsidiaries	11,892	17,320
Amounts due to fellow subsidiaries	(629,165)	(706,946)
	<u>(617,273)</u>	<u>(689,626)</u>