



**PRUDENTIAL**

Always Listening. Always Understanding.

**ANNUAL  
REPORT  
2013**

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(Prudential Singapore)
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**ALWAYS  
LISTENING  
ALWAYS  
UNDERSTANDING**

Prudential Singapore, an indirect wholly-owned subsidiary of UK-based Prudential plc, is one of the top life insurance companies in Singapore.

Our focus is to bring well-rounded financial solutions to customers through our multi-channel distribution network, with product offerings in Protection, Savings and Investment. We are one of the market leaders in Protection, Savings and Investment-linked plans with over S\$25 billion funds under management as at 31 December 2013. With a rich history that has spanned more than 80 years, Prudential Singapore now has a dedicated team of approximately 3,600 financial consultants and over 800 employees. We are committed to serving the financial and protection needs of more than 780,000 policyholders with over 1.9 million policies.

Prudential Singapore is the first life insurer in Singapore to be named Asia's Life Insurance Company of the Year in 2000. For ten consecutive years until 2013, we have been awarded the Gold Award in Reader's Digest Trusted Brands. We also achieved the May Day Model Partnership Award in 2009. In 2010, we emerged as one of the top insurers in Singapore in the Customer Satisfaction Index, which is a national barometer that tracks 104 companies from eight sectors. Since 2007, we have been conferred the People Developer Award by SPRING Singapore for our efforts in training and developing employees and in 2013, we were presented with Asia's Employer of the Year Brand Award by the Branding Institute and the World HRD Congress. In February 2014, Prudential Singapore was awarded AA rating by leading credit rating agency Standard & Poor's.



# A SUCCESSFUL YEAR OF EXCEPTIONAL RESULTS

It is with great pleasure that I announce Prudential Singapore's exceptional performance in 2013: New business sales hit a record S\$706 million, up 18% versus last year and Regular Premium sales grew a strong 15% to S\$594 million.

We owe this success to several key factors - our emphasis on continuous innovation in developing products and services to meet customers' changing needs, our ability to identify opportunities and growth segments in the market, and our desire to ensure sustainable and recurrent success.

Our focus is on catering to the protection needs of our customers, and offering products that are robust and value for money. We are proud to announce that we have some of the most competitive Shield products in the market, and our PruShield customer base also grew by close to 14% this year. Providing affordable health protection coverage for Singaporeans is important as we participate in and support the Government's Medishield Life initiative.

We also continue to achieve success with our High Net Worth segment which we have focused on since 2010. High Net Worth New Business Sales in 2013 was 63% above 2012, and an impressive 9.5 times higher than 2010. The comprehensive suite of Vantage protection, savings and investment-linked plans that we have developed is successfully catering to the needs of customers, with PruTerm Vantage, PruUniversal Vantage and PruSelect Vantage products leading the growth. Furthermore, our partnership with Mercer Investments will enable our PruVantage customers to benefit from the investment expertise of a leading global provider of investment consulting services.

Our multi-channel distribution network has proven to be consistently successful and this year was no different with outstanding performances delivered by both the Agency and our Partnerships Distribution channels. Prudential Singapore's agency force of 3,600 financial consultants remains one of the largest and most productive in Singapore. And with the strong relationships that we enjoy with our strategic partners, we are able to develop the Partnerships segment further.

Innovation is a key aspect of our business philosophy as we strive to stay relevant to the evolving needs of our customers. In addition to unique products and services that effectively cater to our affluent customers, we also developed a comprehensive range of protection, savings and investment-linked plans to meet the changing lifestyles of Singaporeans.

Corporate Social Responsibility remains a priority for our organisation and we continue to focus our efforts on children and education, as well as meeting the needs of the less fortunate and supporting the community in Singapore. For the past two years, we have extended money-smart values

to thousands of school children through the interactive programme, *Cha-Ching* Singapore School Tour. This is based on the animated musical series *Cha-Ching*, that was developed by Prudential, in collaboration with Turner, to teach basic financial concepts to children. In addition, we showed our support of the arts through the Prudential Signature Series, which helped to bring major Broadway musicals to the Marina Bay Sands' Theaters.

We also remained the main sponsor of the Boys' Brigade Share-a-Gift 2013 programme for the fifth consecutive year. Aside from the company's cash sponsorship of the programme, our staff and financial consultants also contributed by packing and delivering household hampers to the beneficiaries, and fulfilling the Christmas wishes of the less fortunate.

Sport was high on our agenda too and we devoted efforts to promote its growth through golf and running. We supported Prudential Causeway Trophy which is the first Singapore versus Malaysia match play golf tournament, sponsored up-and-coming golfer Quincy Quek and ran golf clinics to bring the sport to children from all walks of life. We were also an official sponsor of the Standard Chartered Marathon Singapore and we encouraged our staff and financial consultants to participate in the event.

I am also proud to announce that in February 26, 2014, the leading credit rating agency Standard & Poor's assigned the 'AA' rating to Prudential Singapore. This makes the company the highest rated life insurer in Singapore.

This award underscores the importance of the strategic and integral role that the Singapore business continues to play in the achievement of the Prudential Group's announced 2012 – 2017 goals. It also recognises the significant contribution that Prudential Singapore currently makes to the Group.

It also marks the confidence in the ability of the Singapore operations to continue to deliver, based on its track record in the following areas: Meeting the capital adequacy ratio which speaks to the financial strength of the company, its market leadership, with the highest market share, an established and effective multi-distribution network, and a strong management team.

I would like to express my sincere gratitude for your continued support. As a company, we endeavour to remain committed to helping you fulfill your protection, savings and investment needs. Thank you for continuing to place your trust in us.

**Tomas Urbanec**  
Chief Executive Officer

**THE MORE  
WE LISTEN, THE BETTER  
OUR PERFORMANCE**

### Annual Premium Equivalent New Business Premium<sup>1</sup>

**+18%** OVER 2012



### Total Funds under Management

**+7%** OVER 2012



### Capital Adequacy Ratio

**>120%**



Minimum Regulatory Requirement

<sup>1</sup> Annual Premium Equivalents (APEs) are calculated as the aggregate of regular new business amounts and one-tenth of single new business amount. New business premiums for regular premium products are shown on an annualised basis.

Innovation was again at the forefront for Prudential Singapore in 2013 with the introduction of first-to-market systems, products and services, as well as important activities.

We continued to lead the market with products that meet the evolving needs of our customers. Furthermore, our unique multi-channel distribution network which features the Agency Distribution (AD) and bancassurance channel, Partnerships Distribution (PD) continued to deliver excellent performances throughout the year.

Prudential Singapore remained dedicated to the achievement of excellence and this was evident in the levels of commitment displayed by both our tied agency force and our financial services consultants in our Partnerships Distribution division. They consistently delivered high standards of professionalism in their work and maintained their focus on delivering customer excellence. Our agency channel continued to meet and surpass their goals while our Partnerships Distribution channel reinforced the strong relationships we enjoy with our strategic Partnerships Distribution partners.

### Enhancing the Customer Experience with Technology

To stay true to our customer-centric focus, we revamped our electronic sales system with the launch of **PRUONE**. Compatible with Windows 8.1 and IE 11, this new user-friendly and efficient system is a multi-platform sales tool that offers both online and offline capabilities, and introduces new functionalities that add value to the sales process and enhance the customer experience. **PRUONE** allows for system validations for several key areas to help minimise oversight/errors and to give greater assurance. It also improves efficiency by allowing for point-of-sale documents to be emailed to clients on the spot and for policy servicing follow-ups to be done electronically. Furthermore, it allows our financial consultants to manage their activities and appointments with clients within the same integrated system.

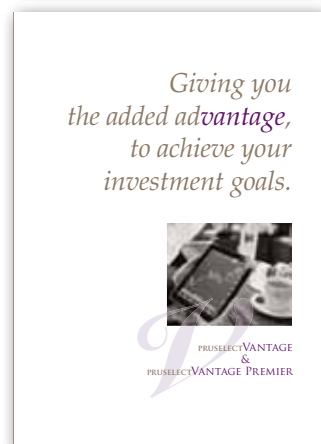


### Product Innovation

Being innovative in product development has always been a focus at Prudential Singapore and this year, we continued to demonstrate our expertise with first-to-market products and enhancements that effectively meet the varied and changing needs of customers.

Prudential Singapore continues to offer a comprehensive range of products and services to cater to the protection, savings and investment needs of this market. On the savings front, **PRUadvance saver** was launched to allow customers to potentially gain higher returns over a 12-year term as they only need to pay premiums for the first 7 years.

For those who are looking to protect their families from life's uncertainties, there is **PRUlife multiplier**, a whole-of-life plan that is designed to provide multiplied assurance with a shorter premium term. It offers up to 3 times the sum assured upon Death, Total and Permanent Disability or Terminal Illness; and up to 2.5 times sum assured for Critical Illness.



The High Net Worth segment continues to be an important area of growth for Prudential Singapore and we introduced **PRU***life vantage elite*, a single premium whole-of-life plan that is designed to provide lifetime coverage while helping to preserve wealth for future generations. It offers a Multiplier Benefit which gives a high payout of up to 260% of the sum assured upon death before the age of 70.

The Investment-Linked Insurance Product (ILP) segment remains significant to our business and we continued to innovate in this segment with **PRU***select vantage premier*, a single premium investment-linked insurance plan that helps build and diversify your portfolio with a wide range of funds and expertise tapped from Mercer Investments – a leading global provider of investment consulting services, while providing protection against Accidental Death at the same time.

### Promoting a Sports Culture and Financial Literacy among Children

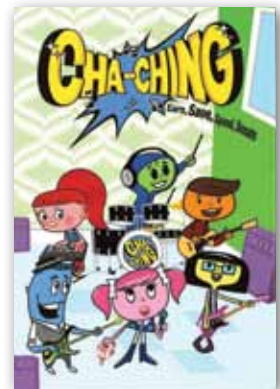
Giving back to the community continues to be high on the agenda for our organisation. For the fifth year running, Prudential Singapore continued its active participation in the Boys' Brigade Share-A-Gift charity event. Staff and members of our agency force contributed their time and effort by helping to pack more than 2,000 food hampers for the programme's beneficiaries and volunteering in the Car Flag Off and Delivery where more than 100 cars and drivers helped to deliver food hampers of household items to the beneficiaries. Additionally, we also adopted around 280 wishes of the Adopt a Wish programme and ensured that beneficiaries received gifts of their choice for Christmas.

Financial literacy for children remains a pillar of our Corporate Social Responsibility efforts and we continued to bring animated musical edutainment series *Cha-Ching* to primary school children in Singapore with the aim of introducing money-smart values to children between the ages of 7 and 12 in a fun and interactive manner.

Prudential Singapore also supported the arts in Singapore under the "Prudential Signature Series" banner. We showed our support by continuing to sponsor Broadway musicals such as *Dirty Dancing* and *Phantom of the Opera*.

This year, we also demonstrated our support of sports development; to promote golf among Singaporeans, and to make the sport more accessible to Singaporeans, we sponsored the Prudential Causeway Trophy, the first Singapore versus Malaysia professional matchplay golf tournament. As part of the golf sponsorship, we also provided golf clinics and workshops for school children, as well as appointing up-and-coming golfer Quincy Quek to be our golf ambassador.

Additionally, we were one of the Official Sponsors of the Standard Chartered Marathon Singapore for the third year running. As part of our company involvement for the event, we encouraged our staff and agency force to participate in the marathon.





STEERING US TO  
**SUCCESS**

**BOARD OF  
DIRECTORS**



**Tony Wilkey**  
Chairman



**Tomas Urbanec**  
Executive Director



**Dr Tan Ng Chee**  
Non-Executive Director



**Kevin Wong Kingcheung**  
Non-Executive Director



**Sir Alan Stanley Collins**  
Non-Executive Director

**Tony Wilkey**  
Chairman

Tony Wilkey, Chairman of the Board of Prudential Singapore since March 2011, is re-appointed as Chairman in March 2014. Currently he is Chief Executive, Insurance, for Prudential Corporation Asia with overall responsibility for Prudential's network of life insurance operations across 13 markets in Asia: Malaysia, Singapore, Hong Kong, Taiwan, China, India, Vietnam, Indonesia, Korea, Japan, Thailand, the Philippines and Cambodia.

Tony joined Prudential Corporation Asia in 2006 as Chief Operating Officer, responsible for a significant portfolio of regional functions and strategic initiatives including Operations and IT Systems, Agency Distribution, Direct Marketing, Partnerships Development (including Bancassurance) and Customer Relationship Management across Prudential's 13 markets in Asia.

He is a 28-year veteran of the insurance industry. Prior to joining Prudential, Tony was Deputy President and Chief Operating Officer of American International Assurance (AIA), based in Hong Kong, overseeing AIA's Life Companies in South East Asia.

Tony holds an MBA from Wake Forest University in USA, as well as a Bachelor of Science (Honours) from Middlesex University in UK.

**Tomas Urbanec**  
Executive Director

Tomas Urbanec is an Executive Director of the Board and Chief Executive Officer of Prudential Singapore. Before joining Prudential Singapore, he distinguished himself as a Director at Prudential Corporation Asia in 2008. Tomas brings with him both depth and breadth of experience, having been in the insurance industry for over 20 years, of which 14 years have been in Asia.

Prior to this, he was the Chief Marketing Officer at Prudential from 2009 and in August 2011, his remit was expanded to also include helming the Partnerships Distribution (PD) division. Under his leadership, he led PD to enjoy outstanding bancassurance growth with Prudential's four strategic partnerships and two open-architecture arrangements.

Tomas holds an MBA in International Finance from Case Western Reserve University, USA and a Bachelor of Science in Finance from Indiana University, USA.

**Dr Tan Ng Chee**  
Non-Executive Director

Dr Tan Ng Chee, a Non-Executive Director of Prudential Singapore since March 2009, is re-appointed as Director in March 2014. The Chairman of the Audit Committee, Dr Tan began his career in academia. In 1973, Dr Tan joined JP Morgan in New York. He joined Overseas Union Bank Limited in Singapore in 1989 as Executive Vice-President, and was appointed Chief Executive, and Chairman, of the Bank of Singapore and OUB Bullion & Futures Ltd respectively. Dr Tan was the Alternate Chairman of the Association of Banks in Singapore from 1993 to 1995.

Currently, Dr Tan is the Chairman of the Board of Intraco Limited as well as a Director of Hotung Investment Holdings Ltd. He retired as an Adjunct Professor of Law at the National University of Singapore in July 2013.

Dr Tan holds a doctorate in law from the University of Oxford, England.

**Kevin Wong Kingcheung**  
Non-Executive Director

Kevin Wong, a Non-Executive Director of Prudential Singapore since July 2006, is re-appointed as Director in March 2014. He is also a member of the Audit Committee of Prudential Singapore.

He was Group Chief Executive Officer of Keppel Land Limited from 2000 to 2012. He was also the Deputy Chairman and Director of K-REIT Asia Management Limited, the Deputy Chairman of Keppel Land China Limited, and a Board Member of the Building and Construction Authority (BCA). He is currently the Deputy Chairman of BCA Academy Advisory Panel.

Other than Singapore, Kevin has extensive experience in the real estate industry, which includes the US and UK.

Kevin holds a Bachelor's Degree in Civil Engineering with First Class Honours from Imperial College, London, and a Master's Degree from the Massachusetts Institute of Technology, USA.

**Sir Alan Stanley Collins KCVO CMG**  
Non-Executive Director

Sir Alan Collins was appointed as a Non-Executive Director of Prudential Singapore on 17 August 2012. He is also a member of the Audit Committee of Prudential Singapore.

Currently, Sir Alan serves as a Director on several companies, including Amlin plc, JPMorgan American Investment Trust plc, ICICI Bank UK plc, Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited.

Sir Alan had a distinguished career in the diplomatic service holding a number of Ambassador and High Commissioner appointments representing Britain internationally, and was the British High Commissioner to Singapore from 2003 to 2007.

Sir Alan holds a Bachelor of Science (Econ) from the London School of Economics and Political Science.

THE  
**WINNING  
TEAM**

**MANAGEMENT  
EXECUTIVE COMMITTEE**

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**Tomas Urbanec**  
Chief Executive Officer



**Goh Geok Cheng**  
Chief Financial Officer



**Theresa Nai**  
Chief Operating Officer



**Jon Sandham**  
Chief Agency Officer



**Gan Peck Yeow**  
Chief Human Resources Officer



**Lionel King**  
Chief Risk Officer

## MANAGEMENT EXECUTIVE COMMITTEE

### **Tomas Urbanec** Chief Executive Officer

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Tomas holds an MBA in International Finance from Case Western Reserve University, USA and a Bachelor of Science in Finance from Indiana University, USA.

### **Goh Geok Cheng** Chief Financial Officer

Goh Geok Cheng has been the Chief Financial Officer since January 2008. She started her career with Ernst & Young and thereafter with one of the biggest local stock broking companies in Singapore where she was in charge of the Finance Department, Payment as well as Counter Services.

At Prudential Singapore, Geok Cheng's responsibilities include overseeing Finance, Actuarial Services, Strategic Planning, Performance Management, Investment and Corporate Governance.

Geok Cheng is a Fellow of The Chartered Association of Certificate Accountants, United Kingdom as well as a Fellow of the Institute of Singapore Chartered Accountants.

### **Theresa Nai** Chief Operating Officer

Theresa Nai has been the Chief Operating Officer of Prudential Singapore since June 2009. Prior to joining Prudential Singapore, she was Vice-President and Deputy General Manager, as well as the Alternate Principle Officer of a major insurance player in Singapore.

At Prudential Singapore, Theresa is responsible for overseeing the Life Operations of the company, which covers Claims and New Business, as well as Customer Management, Technology, Legal and Property Services.

Theresa holds a Bachelor of Science from the National University of Singapore.

### **Jon Sandham** Chief Agency Officer

Jon Sandham is the Chief Agency Officer at Prudential Singapore. His remit includes the stewardship of the Agency Distribution Channel, Academy of Competence and Education, Group Business and Distribution Support Services Departments.

Jon rejoins Prudential Singapore after two years in Indonesia where he was initially President Director (CEO) of AXA Financial with responsibility for the overall management of the Agency and the design and implementation of a revised growth strategy. Effective July 2012, Jon was appointed the President Director (CEO) of AXA Mandiri, Indonesia's largest bancassurance company.

Before this assignment, Jon was the Chief Partnerships Distribution Officer at Prudential Singapore. He was responsible for driving distribution through four strategic bank and post-assurance partners.

Jon has over 28 years experience in direct sales, distribution and channel management in the UK and Asia markets, in bancassurance and tied advisor channels. Besides Indonesia and Singapore, his time in Asia includes driving the Partnerships Distribution business in Prudential Taiwan and Korea.

Jon came on board to assume his new appointment after the departure of Michael Ho, the former Executive Vice President and Chief Agency Officer.

### **Gan Peck Yeow** Chief Human Resources Officer

Gan Peck Yeow joined Prudential Singapore in January 2011 as Chief Human Resources Officer. She is responsible for developing and driving human resources strategies which directly support the achievement of business priorities and objectives. She is also responsible for building an engaged and motivated workforce, and creating a value proposition to enrich the total work experience for employees.

Prior to joining Prudential Singapore, Peck Yeow was with a major telecommunications company for 15 years, where she headed the Human Resources function.

Peck Yeow holds a Bachelor of Arts (Honours) from the National University of Singapore and an MBA from the University of Warwick, United Kingdom. She also holds a postgraduate Diploma in Human Resources from the Singapore Institute of Management. In February 2014, Peck Yeow was conferred the HR Leadership Award at the Global HR Excellence Awards.

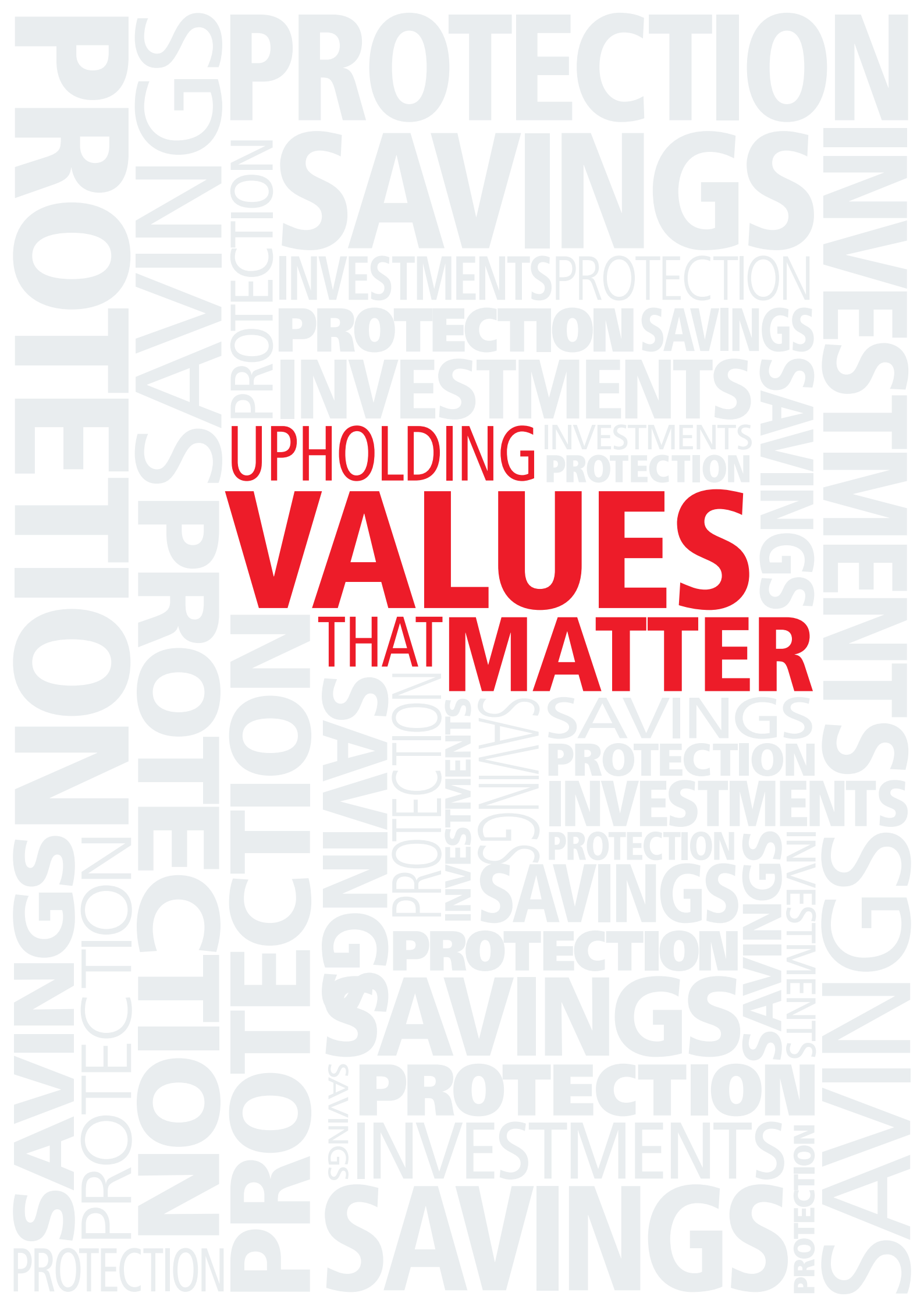
### **Lionel King** Chief Risk Officer

Lionel King joined Prudential Singapore as Chief Risk Officer in April 2012. Prior to joining Prudential Singapore, he was the Chief Financial Officer for four years at Prudential Services Asia, Malaysia, followed by three years with the UK Financial Services Authority.

At Prudential Singapore, Lionel leads the Compliance and Enterprise Risk Management division.

Lionel graduated from the Imperial College with an Electrical Engineering degree and he is also a Chartered Accountant.

UPHOLDING  
**VALUES**  
THAT MATTER



Prudential Singapore is committed to high standards of corporate governance in its business operations and dealings with all stakeholders, including policyholders. This report describes Prudential Singapore's approach to corporate governance.

## BOARD'S CONDUCT OF AFFAIRS

### Board Responsibility and Accountability

The Board oversees the affairs of Prudential Singapore, including providing oversight over the setting of the strategic goals of the company, ensuring that there are adequate resources available, establishing a framework of controls to assess and manage risks, and reviewing the business performance of the company.

### Board Committees

Prudential Singapore is an indirect wholly-owned subsidiary of Prudential plc. On its behalf, the Board at Prudential Singapore performs the role of the Nominating, Remuneration and Risk Management Committees. In addition to these Committees, the Board has also established a separate Audit Committee, which has been constituted with a written terms of reference.

### Board/Committee Meetings and Attendance

The Board meets at least four times a year to review business performance and key activities, as well as to approve policies. Ad-hoc Board meetings will be convened if warranted. Audit Committee meetings are also held four times a year and usually before the Board meetings. The table below lists the number of Board and Audit Committee meetings attended by each Director throughout 2013.

The Board has developed internal guidelines on matters which require the Board's approval, as well as matters for which the Board has to be informed on a regular basis. The types of material transactions that require Board approval include non-routine transactions that are not made in the ordinary course of business and/or any transactions exceeding pre-defined limits as approved by the Board.

## BOARD COMPOSITION

As at the date of this report, the Board comprises the Chairman, Mr Tony Wilkey, the Chief Executive Officer (CEO), Mr Tomas Urbanec, and three non-executive Directors, namely, Dr Tan Ng Chee, Mr Kevin Wong Kingcheung and Sir Alan Stanley Collins.

The Directors possess a wide spectrum of competencies in finance, business/management, real estate and property development.

The non-executive Directors are constructively involved in discussing strategic proposals, as well as in reviewing the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance. The Directors' profiles can be found in the Board of Directors section of this Annual Report.

## CHAIRMAN AND CEO

The division of responsibilities between the Chairman and CEO has been approved by the Board and is set out in the Board Governance Policy and Guidelines.

BOARD/COMMITTEE MEETINGS AND ATTENDANCE	BOARD MEETINGS (INCLUDE 1 SPECIAL MEETING)	AUDIT COMMITTEE MEETINGS
Number of meetings held in 2013	5	4
<b>Chairman</b>		
Tony Wilkey	5	—
<b>Chief Executive Officer</b>		
Tomas Urbanec (Note 1)	5	—
Kevin Holmgren (Note 2)	—	—
<b>Non-Executive Director</b>		
Dr Tan Ng Chee (Note 3)	5	4
Kevin Wong Kingcheung	5	4
Sir Alan Stanley Collins	5	4
Chin Phick Fui (Note 4)	—	—

Note 1: Appointed to the Board in January 2013

Note 2: Retired from the Board in January 2013

Note 3: Audit Committee Chairman

Note 4: Retired from the Board in March 2013

Note 5: Dr Tan Ng Chee and Kevin Wong Kingcheung are independent directors, while Sir Alan Stanley Collins is independent from management and business relationships.



Among his other responsibilities, the Chairman is tasked with the leadership and the governance of the Board as a whole. He approves the agenda of the Board, monitors the quality and timeliness of the flow of information to the Board, and promotes effective communication and constructive relationships between the Board and management.

With the assistance of members of the Management Executive Committee (Management ExCo), the CEO is responsible for the management of Prudential Singapore and the implementation of Prudential Singapore's strategies and plans, as well as oversight of the day-to-day operations of the company.

The Board has not appointed a lead independent director because the Chairman and the CEO are separate persons and Prudential Singapore is a wholly-owned subsidiary of Prudential plc.

## **BOARD MEMBERSHIP**

### **Role of the Nominating Committee**

In performing the functions of the Nominating Committee, the Board identifies candidates and reviews nominations for appointment considering the candidate's merit, as well as his/her fulfillment of pre-defined criteria. The Board also considers the re-appointment of Directors every three years, and reasons for resignations of Directors as well as the members of the Management ExCo.

On an annual basis, the Board determines whether each Director remains qualified for office taking into account various factors such as the extent of independence, fit and proper status and experience. It is Prudential Singapore's policy not to set a one-size-fits-all policy on the number of directorships which may be held by each Director. Directors may serve on a number of other Boards, provided that they are able to demonstrate satisfactory time commitment to their roles at Prudential Singapore.

### **Process for Appointment of New Directors**

In appointing new Directors, the Board evaluates the balance of skills, knowledge and experience of the Board and identifies the roles and capabilities required at any time, taking into account the environment in which Prudential Singapore operates.

### **Induction**

Newly appointed Directors are provided with induction/orientation programmes covering an overview of the company, its structure and principal activities.

All Directors are also issued the Board Governance Policy and Guidelines, which covers internal policies and guidelines observed by the Board in its oversight activities.

### **Continuous Professional Development**

Prudential Singapore has developed a continuous professional training programme which commences with a regular gap analysis on the required skill-sets based on the expected business operating environment of the year. Directors complete survey forms to provide an assessment of how effective the training programme is. Based on the 2013 survey results, the training programme provided to Directors was effective in equipping them with relevant knowledge and skills to perform their roles effectively.

Throughout their period in office, Directors are also regularly updated

on Prudential Singapore's businesses and the regulatory and industry specific environment in which Prudential Singapore operates, as well as on their duties and obligations. These updates can be in the form of written reports to the Board, presentations by internal staff or external professionals.

In addition to the regular schedule of meetings, the Board holds at least one "Away Day" on an annual basis to discuss the latest developments within the industry, including changes to regulations, corporate governance, accounting standards, risk management and control, where relevant.

## **BOARD PERFORMANCE**

Board evaluations are conducted on an annual basis. This process comprises evaluations by each Director on the Board's performance as a whole and its board committees, the contribution by the Chairman as well as self-evaluations of individual performance.

In carrying out their assessments, the Board considers key performance criteria which include qualitative measures such as the provision of oversight over the establishment of strategic directions, and the achievement of objectives where they have been set and approved by the Board.

## **ACCESS TO INFORMATION**

All Directors have direct access to the Company Secretary, who attends all Board meetings and prepares minutes of Board proceedings. Directors also have full access to members of the Management ExCo.

The Board has approved a procedure, as established in the Board Governance Policy and Guidelines, whereby Directors have the right to seek independent professional advice, to enable the Directors to fulfill their obligations.

## **REMUNERATION**

### **Development of Policies**

In performing the functions of a Remuneration Committee, the Board approves the remuneration framework for Directors and members of the Management ExCo as developed by Prudential Singapore and the Regional Head Office in Hong Kong respectively. The Board also endorses the remuneration packages for Independent Directors and members of the Management ExCo.

### **Director/Management ExCo Remuneration**

The Independent Directors are paid Directors' fees which are reviewed regularly. Considerations such as the Director's effort, time spent and responsibilities are taken into account during the review.

The remuneration policy for the members of the Management ExCo, including the CEO, is formulated to ensure that they are compensated in line with individual performance and performance of Prudential Singapore based on a balanced scorecard of key performance indicators (KPIs) which include both financial and strategic objectives. Members of the Management ExCo with control job functions such as risk management, compliance, etc., are also subject to these KPIs. Factors such as market competitiveness and industry benchmarks are taken into account.

The remuneration of members of the Management ExCo largely comprises fixed remuneration, i.e., their basic salary, variable

remuneration, which is a performance-based variable bonus and closely linked to the performance of Prudential Singapore and the individual concerned, as well as long-term incentives which provide alignment to Prudential Group's value through making share awards to key individuals on a selected basis. The long-term incentive will vest after three years subject to continued employment.

The remuneration of the CEO and members of the Management ExCo are reviewed by the Regional Head Office in Hong Kong and endorsed by the Board.

While the Regional Head Office takes into account the Implementation Standards<sup>1</sup> issued by the Financial Stability Board, its policies are intended for the broader audience of all Prudential entities across Asia. Consequently, there may be some differences between its policies and the Implementation Standards.

### Disclosure on Remuneration

After careful consideration, Prudential Singapore has decided not to disclose information on the remuneration of Directors and the members of the Management Exco. We are of the view that the disadvantages to Prudential Singapore's business interests would far outweigh the benefits of such disclosure, in view of the disparities in remuneration in the industry and the competitive pressures which are likely to result from such disclosure.

## ACCOUNTABILITY

As a private limited company, Prudential Singapore is accountable to its Regional Head Office and Group Head Office, and provides updates and reports on a regular basis. Financial updates on the performance, position and prospects are also provided to the Board on a quarterly basis, as well as on any significant events which have occurred or affected the company during the year.

## RISK MANAGEMENT AND INTERNAL CONTROLS

Overall, the Board is satisfied that the internal control and risk management systems are adequate and effective, having considered factors such as the truth and fairness of the financial statements prepared by management, the internal auditors' independent assessment of the internal control, risk management practices and management letter points highlighted by the external auditors. The Board has received assurance from the CEO and the CFO that Prudential Singapore's risk management and internal control systems are effective, the financial records have been properly maintained and the financial statements give a true and fair view of the company's operations and finances.

## Risk Management

### Principles and Objectives

Risk is defined as the uncertainty that Prudential Singapore faces in successfully implementing its strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of Prudential Singapore.

The control procedures and systems established within Prudential Singapore are designed to manage rather than eliminate the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss and focus on aligning the levels of risk-taking with the achievement of business objectives.

Material risks will only be retained where this is consistent with Prudential Singapore's risk appetite framework and its philosophy towards risk-taking. Prudential Singapore's current approach is to retain such risks where doing so contributes to value creation and Prudential Singapore is able to withstand the impact of an adverse outcome, and has the necessary capabilities, expertise, processes and controls to appropriately manage the risk.

Routine internal reporting by the business meets the standards set by the Group Risk function. Risks inherent in the business operations are reviewed as part of the annual preparation of the business plan. Clear escalation criteria and processes are in place for the timely reporting of risks and incidents by the business to the risk management and compliance functions and, where appropriate, the Board and regulators.

Prudential Singapore's risk governance framework requires that the business establish processes for identifying, evaluating and managing the key risks faced by Prudential Singapore. The framework is based on the concept of 'three lines of defence' comprising risk taking and management, risk control and oversight and independent assurance.

Primary responsibility for strategy, performance management and risk control lies with the Board, which has established the Risk Committee to assist in providing leadership, direction and oversight in respect of Prudential Singapore's significant risks.

### Risk and Capital Management

As a provider of financial services, including insurance, the management of risk lies at the heart of Prudential Singapore's business. As a result, effective risk management capabilities represent a key source of competitive advantage for Prudential Singapore.

Prudential Singapore's risk framework includes its appetite for risk exposures as well as its approach to risk management. Under this approach, Prudential Singapore continuously assesses its top risks and monitor its risk profile against approved limits. Prudential Singapore's main strategies for managing and mitigating risk include asset liability management, and implementing reinsurance programmes.

#### A. Risk Appetite

Prudential Singapore defines and monitors aggregate risk limits based on financial and non-financial stresses for its earnings volatility, liquidity and capital requirements.

**Earnings volatility:** the objectives of the limits are to ensure that:

- the volatility of earnings is consistent with the expectations of stakeholders,
- earnings are managed properly.

The two measures used to monitor the volatility of earnings are European Embedded Value (EEV) operating profit and International Financial Reporting Standards (IFRS) operating profit, although EEV and IFRS total profits are also considered.

**Liquidity:** the objective is to ensure that Prudential Singapore is able to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stressed scenarios.

**Capital requirements:** the limits aim to ensure that supervisory intervention is avoided. The measure used is the Capital Adequacy Ratio (CAR) under Singapore Risk Based Capital (RBC) requirements.

## B. Risk Exposures

Risks are categorised as shown below:

Category	Risk type	Definition
Financial risks	Insurance risk	<ul style="list-style-type: none"> <li>The risk of loss for the business or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of a number of insurance risk drivers. This includes adverse mortality, longevity, morbidity, persistency and expense experience.</li> </ul>
	Market risk	<ul style="list-style-type: none"> <li>The risk of loss for the business, or of adverse change in the financial situation, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities.</li> </ul>
	Liquidity risk	<ul style="list-style-type: none"> <li>The risk of Prudential Singapore being unable to generate sufficient cash resources or raise finance to meet financial obligations as they fall due in business as usual and stress scenarios.</li> </ul>
	Credit risk	<ul style="list-style-type: none"> <li>The risk of loss for the business or of adverse change in the financial position, 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).</li> </ul>

Non-financial risks	Operational risk	<ul style="list-style-type: none"> <li>The risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.</li> </ul>
	Business environment risk	<ul style="list-style-type: none"> <li>Exposure to forces in the external environment that could significantly change the fundamentals that drive Prudential Singapore's overall strategy.</li> </ul>
	Strategic risk	<ul style="list-style-type: none"> <li>Ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and Prudential Singapore's capabilities.</li> </ul>

The key financial and non-financial risks and uncertainties faced by Prudential Singapore, that have been considered by the Risk Committee during the year and Prudential Singapore's approaches to managing the financial risks, are described in note 4 of the Financial Statements.

### Risk Committee

In performing the role of the Board Risk Management Committee, the Board oversees the Risk Committee comprising members of the Management ExCo and a few members of senior management to ensure that there is an adequate risk management system to identify, measure, monitor, control and report risks.

The principal responsibilities of the Risk Committee are to:

- review Prudential Singapore's enterprise risk management framework, as well as the risk appetite and risk policies, including the parameters used and methodologies and processes adopted for identifying and assessing risks;
- review the material and emerging risk exposures of Prudential Singapore, including market, credit, insurance, operational, liquidity and economic and regulatory capital risks as well as regulatory and compliance matters;
- to highlight to the Board significant matters arising out of the Risk Committee's review of Prudential Singapore's risks, including any breaches of risk appetite, indications that material risks may potentially crystallize, and significant modifications to risk mitigation strategies, controls and action plans.

The Risk Committee ensures that the risk management function has adequate resources and is staffed by experienced and qualified employees. The Risk Committee reports directly to the Board. The risk management function is led by the Chief Risk Officer who also reports regularly to the Risk Committee and the Board.

During 2013, the Risk Committee met at least 4 times and approved a number of policies and other components of the enterprise risk management framework, including the risk appetite and tolerance limits, and recommended improvements to the Board.

### **Internal Controls**

Prudential Singapore has established a sound system of internal controls to safeguard its investments and assets. A review of the effectiveness of controls is carried out by auditors from GwIA Asia, with recommendations provided to the AC. In turn, the AC provides oversight over processes developed to address these recommendations in a timely manner.

The AC believes that the system of internal controls (which covers financial, operational, compliance and information technology controls) and risk management systems provides adequate assurance against material financial, operational and compliance risks for this financial year.

### **AUDIT COMMITTEE**

As of 31 December 2013, the Audit Committee (AC) comprised Dr Tan Ng Chee (Chairman), Mr Kevin Wong Kingcheung and Sir Alan Stanley Collins who are all non-executive Directors. All the AC members have significant financial management expertise and experience.

The AC provides oversight over financial reporting and internal controls, and reviews the scope and results of audits. In addition, the AC is tasked with reviewing material related party transactions and informing the Board of such transactions.

In consultation with the AC at its Regional Head Office, Prudential Singapore's AC also makes recommendations to the Board on the appointment, re-appointment, terms of engagement and remuneration of the external auditor. It also reviews the independence of external auditors.

The aggregate amount of fees, including those relating to non-audit services, paid to the external auditors for 2013 was not significant. The AC has reviewed the volume and nature of non-audit services provided by the external auditors during the year and is satisfied that their independence and objectivity have not been impaired by the provision of those services.

On an annual basis, the AC meets with the internal and external auditors without the presence of the Management ExCo.

For matters which the AC has decided should be brought to the attention of the AC at the Regional Head Office in Hong Kong and the Board, a procedure has been set in place where the Chairman of the AC will inform the Regional Audit Director of Group-wide Internal Audit Asia (GwIA Asia) within 10 days of the date of the AC. For more information on GwIA Asia, see section on Internal Audit.

The AC at the Regional Head Office has instituted an independent confidential helpline across all of Prudential's Asian entities to support the company's whistle-blowing policy. Employees of these

companies may, in confidence, raise concerns about possible improprieties, whether in financial reporting or other matters. The AC of Prudential Singapore provides oversight over arrangements for the independent investigation of such matters and for appropriate follow-up action.

### **INTERNAL AUDIT**

The internal audit function, Group-wide Internal Audit (GwIA), is a group-wide function reporting to the Group Head Office in London. In turn, the Regional Audit Director of GwIA Asia is directly responsible for the internal audit of Prudential entities throughout the whole Asian region.

The scope and role of GwIA Asia's activities encompass the examination and evaluation of the adequacy and effectiveness of the Prudential Group's system of internal controls and the quality of performance in carrying out assigned responsibilities. This includes performing an independent assessment of the risk and the adequacy of controls to ensure that the control environments are operating in a manner that commensurates with the risk appetite of the organisation.

It also includes making objective and appropriate recommendations to improve the organisation's control environment and to assist the business in achieving its strategies. GwIA Asia has unfettered access to the AC, Board and senior management of all Prudential entities, including Prudential Singapore as well as the right to seek information and explanations.

In carrying out its audits, GwIA Asia is compliant with Group Audit Standards, which adheres to the Institute of Internal Auditors' (IIA) requirements as set out in the IIA's "Code of Ethics" and "International Standards for the Professional Practice of Internal Auditing". GwIA Asia will conduct itself in accordance with standards, policies and practices as set out in the GwIA Procedures Manual, and will carry out its audit work in accordance with the GwIA Methodology.

GwIA Asia provides its services through Regional Teams located across the region, whose structure reflects its independence through direct reporting lines within GwIA, and, where required by local regulations, to the AC of the local unit, including Prudential Singapore.

Being a group-wide function, the appointment, remuneration, resignation or dismissal of the Regional Audit Director of GwIA Asia is made by the AC at the Regional Head Office in Hong Kong. On an annual basis, GwIA Asia will prepare and present audit plans to the Group and Regional Head Office Audit Committees, as well as the AC of various Prudential entities, including Prudential Singapore, for approval.

### **SHAREHOLDER COMMUNICATION**

As a private limited company, Prudential Singapore has a limited number of shareholders. Nonetheless, Prudential Singapore continues to place great significance on regular and effective communication with all its stakeholders, including policyholders.

The Annual Report, which contains the financial statements of the company, is available on our corporate website.

## **BOARD EXECUTIVE COMMITTEE**

Between its regular meetings, the Board continues to exercise its oversight of Prudential Singapore via electronic mail, a Directors' online secured portal, as well as regular teleconversations with the CEO and members of the Management ExCo. Given the ease with which the Board can be contacted for decisions on significant matters, as well as the regularity with which the Board is engaged in between meetings, a separate Board Executive Committee is not required.

## **RELATED PARTY TRANSACTIONS**

Policies on related party transactions are established at the Regional Head Office level for all Prudential entities operating in Asia. Material transactions are disclosed in the Section on Financial Statements in this Annual Report.

OUR  
**STRENGTH**  
IN NUMBERS



We are pleased to submit this annual report to the member of the Company together with the audited financial statements for the financial year ended 31 December 2013.

## **DIRECTORS**

The directors in office at the date of this report are as follows:

Tony Paul Wilkey  
Tomas Urbanec  
Dr Tan Ng Chee  
Kevin Wong Kingcheung  
Sir Alan Stanley Collins

## **DIRECTORS' INTERESTS**

The Company has obtained approval from the Accounting and Corporate Regulatory Authority for relief from the requirements of section 201(6)(g) of the Singapore Companies Act, Cap. 50. Under the relief, the Company is exempted from disclosure of directors' interest in the shares and debentures of the Company and its related corporations.

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Except for salaries, bonuses and fees and those benefits that are disclosed in Note 28 to the financial statements, since the end of the last financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member or with a company in which he has a substantial financial interest.

## **SHARE OPTIONS**

During the financial year, there were:

- (a) no options granted by the Company to any person to take up unissued shares in the Company; and
- (b) no shares issued by virtue of any exercise of option to take up unissued shares of the Company.

As at the end of the financial year, there were no unissued shares of the Company under option.

## **AUDITORS**

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors



**Tomas Urbanec**  
Director



**Tony Paul Wilkey**  
Director  
13 March 2014

## **FINANCIAL STATEMENTS**

### **STATEMENT BY DIRECTORS**

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In our opinion:

- (a) the financial statements set out on pages 26 to 68 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2013 and the results, changes in equity and cash flows of the Company for the year ended on that date in accordance with the provisions of the Act and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on 13 March 2014, authorised these financial statements for issue.

On behalf of the Board of Directors



**Tomas Urbanec**  
Director



**Tony Paul Wilkey**  
Director  
13 March 2014



# FINANCIAL STATEMENTS INDEPENDENT AUDITORS' REPORT

MEMBER OF THE COMPANY

PRUDENTIAL ASSURANCE COMPANY SINGAPORE (PTE) LIMITED

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## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Prudential Assurance Company Singapore (Pte) Limited (the Company), which comprise the balance sheet as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 26 to 68.

### Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that gives a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards.

Management has acknowledged that its responsibility includes devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit or loss accounts and balance sheets and to maintain accountability of assets.

### Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Company as at 31 December 2013 and the results, changes in equity and cash flows of the Company for the year ended on that date.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.



### KPMG LLP

Public Accountants and  
Certified Public Accountants

### Singapore

13 March 2014

**FINANCIAL STATEMENTS**  
**BALANCE SHEET**  
AS AT 31 DECEMBER 2013

	Note	2013 \$'000	2012 \$'000
<b>Assets</b>			
Property and equipment	5	52,959	37,374
Intangible assets	6	342,674	354,850
Investments and loans			
– Equity securities	7	3,737,759	3,621,682
– Debt securities	7	7,805,238	7,496,843
– Collective investment schemes	7	12,442,446	11,328,694
– Derivative financial instruments	7	38,761	192,147
– Loans and receivables	7	523,278	501,798
Reinsurer's share of insurance contract liabilities	8	93,701	93,106
Insurance and other receivables	9	190,294	135,581
Cash and cash equivalents	10	983,516	909,660
<b>Total assets</b>		<b>26,210,626</b>	<b>24,671,735</b>
<b>Liabilities</b>			
Gross insurance contract liabilities	11	22,469,890	20,802,820
Investment contracts with discretionary participating features	11	291,388	500,759
Insurance and other payables	12	1,398,589	1,361,196
Derivative financial instruments	13	94,244	35,944
Provision for tax		43,105	76,454
Deferred tax liabilities	14	840,145	763,254
<b>Total liabilities</b>		<b>25,137,361</b>	<b>23,540,427</b>
<b>Net assets</b>		<b>1,073,265</b>	<b>1,131,308</b>
<b>Equity</b>			
Share capital	15	526,557	526,557
Reserves	16	9,074	3,787
Accumulated surplus	17		
– Maintained for solvency purposes		494,799	496,098
– Available for distributions		42,835	104,866
<b>Total equity</b>		<b>1,073,265</b>	<b>1,131,308</b>

The accompanying notes form an integral part of these financial statements.

**FINANCIAL STATEMENTS**  
**STATEMENT OF COMPREHENSIVE INCOME**  
YEAR ENDED 31 DECEMBER 2013

	Note	2013 \$'000	2012 \$'000
Insurance premiums	19	3,865,774	3,157,433
Reinsurance premiums	19	(105,172)	(53,298)
Net insurance premiums	19	3,760,602	3,104,135
Fees and commission income	20	14,632	14,402
Investment income	21	762,842	2,276,357
Other operating income		569	763
<b>Net income before claims, benefits and expenses</b>		<b>4,538,645</b>	<b>5,395,657</b>
Gross claims, maturity and surrender benefits		(2,041,879)	(1,804,923)
Increase in insurance contracts (including investment contracts with discretionary participating features) liabilities during the year		(1,440,090)	(2,420,746)
Reinsurer's share of claims and benefits incurred		51,584	31,497
Net claims and benefits incurred	22	(3,430,385)	(4,194,172)
Commission and distribution costs	23	(523,073)	(448,040)
Staff costs	24	(88,927)	(74,358)
Depreciation of property and equipment	5	(8,771)	(9,309)
Other operating expenses	25	(175,874)	(155,776)
<b>Claims, benefits and expenses</b>		<b>(4,227,030)</b>	<b>(4,881,655)</b>
<b>Profit before tax</b>		<b>311,615</b>	<b>514,002</b>
Taxation expense	26	(124,945)	(100,054)
<b>Profit for the year</b>	27	<b>186,670</b>	<b>413,948</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Gain on revaluation of leasehold property	5	4,876	658
<b>Total other comprehensive income</b>		<b>4,876</b>	<b>658</b>
<b>Total comprehensive income for the year</b>		<b>191,546</b>	<b>414,606</b>

The accompanying notes form an integral part of these financial statements.

**FINANCIAL STATEMENTS**  
**STATEMENT OF CHANGES IN EQUITY**  
YEAR ENDED 31 DECEMBER 2013

	Note	Share capital \$'000	Capital contribution reserve \$'000	Revaluation reserve \$'000	Accumulated surplus		Total \$'000
					Maintained for solvency purposes \$'000	Available for distributions \$'000	
At 1 January 2012		526,557	19	2,991	411,481	188,535	1,129,583
<b>Total comprehensive income for the year</b>							
Profit for the year		–	–	–	–	413,948	413,948
<b>Other comprehensive income</b>							
Net gain on revaluation of leasehold property	5	–	–	658	–	–	658
Total comprehensive income for the year		–	–	658	–	413,948	414,606
Change in solvency requirements		–	–	–	84,617	(84,617)	–
<b>Transaction with owners, recorded directly in equity</b>							
Value of employee services received for issue of options	28	–	119	–	–	–	119
Dividends to equity holders	17	–	–	–	–	(413,000)	(413,000)
Total transactions with owners		–	–	–	–	(413,000)	(413,000)
At 31 December 2012		526,557	138	3,649	496,098	104,866	1,131,308
At 1 January 2013		526,557	138	3,649	496,098	104,866	1,131,308
<b>Total comprehensive income for the year</b>							
Profit for the year		–	–	–	–	186,670	186,670
<b>Other comprehensive income</b>							
Net gain on revaluation of leasehold property	5	–	–	4,876	–	–	4,876
Total comprehensive income for the year		–	–	4,876	–	186,670	191,546
Change in solvency requirements		–	–	–	(1,299)	1,299	–
<b>Transaction with owners, recorded directly in equity</b>							
Value of employee services received for issue of options	28	–	411	–	–	–	411
Dividends to equity holders	17	–	–	–	–	(250,000)	(250,000)
Total transactions with owners		–	–	–	–	(250,000)	(250,000)
At 31 December 2013		526,557	549	8,525	494,799	42,835	1,073,265

The accompanying notes form an integral part of these financial statements.

**FINANCIAL STATEMENTS**  
**STATEMENT OF CASH FLOWS**  
YEAR ENDED 31 DECEMBER 2013

	Note	2013 \$'000	2012 \$'000
<b>Operating activities</b>			
Profit before tax		311,615	514,002
Adjustments for:			
Amortisation of club membership		29	85
Amortisation of intangible assets	6	12,176	10,285
Depreciation of property and equipment	5	8,771	9,309
Equity settled share-based compensation expense	28	411	119
Interest, rental and other investment income		(467,135)	(427,465)
Net realised gains and fair value changes on financial assets at fair value through profit or loss	21	(299,739)	(1,864,434)
		(433,872)	(1,758,099)
Changes in operating assets and liabilities:			
Loans and receivables and insurance and other receivables		(65,785)	14,184
Reinsurer's share of insurance contract liabilities	8	(595)	(93,106)
Gross insurance contract liabilities		1,667,070	2,631,413
Investment contract liabilities		(209,371)	(107,259)
Insurance and other payables		37,393	398,542
Cash generated from operations		994,840	1,085,675
Income taxes paid		(81,968)	(40,480)
<b>Cash flows from operating activities</b>		<b>912,872</b>	<b>1,045,195</b>
<b>Investing activities</b>			
Dividends received		188,250	153,616
Interest received		271,299	275,552
Proceeds from sale of investments		9,890,608	8,700,675
Purchase of club membership		–	(52)
Purchase of investments		(10,920,981)	(9,739,868)
Purchase of property and equipment	5	(19,480)	(5,225)
Rental received		1,288	1,294
Repayment of loan from related companies		–	115,000
<b>Cash flows used in investing activities</b>		<b>(589,016)</b>	<b>(499,008)</b>
<b>Financing activity</b>			
Dividends paid	17	(250,000)	(413,000)
<b>Cash flows used in financing activity</b>		<b>(250,000)</b>	<b>(413,000)</b>
<b>Net increase in cash and cash equivalents</b>		<b>73,856</b>	<b>133,187</b>
Cash and cash equivalents at beginning of the year		909,660	776,473
<b>Cash and cash equivalents at end of the year</b>	10	<b>983,516</b>	<b>909,660</b>

The accompanying notes form an integral part of these financial statements.

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 13 March 2014.

## **1 DOMICILE AND ACTIVITIES**

Prudential Assurance Company Singapore (Pte) Limited (the "Company") is incorporated in the Republic of Singapore and has its registered office at 30 Cecil Street, #30-01 Prudential Tower, Singapore 049712.

The principal activities of the Company consist of transacting life insurance business including linked and accident and health business.

The Company's immediate holding company is Prudential Singapore Holdings Pte Limited, which is incorporated in the Republic of Singapore. The Company's intermediate and ultimate holding companies are Prudential Corporation Holdings Limited and Prudential Public Limited Company respectively. Both are incorporated in England and Wales.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **(a) Statement of compliance**

The financial statements are prepared in accordance with Singapore Financial Reporting Standards (FRS).

### **(b) Basis of preparation**

The financial statements are presented in Singapore dollars which is the Company's functional currency. All financial information has been rounded to the nearest thousand, unless otherwise stated.

The financial statements are prepared on the historical cost basis except for the following assets and liabilities which are stated at fair value: leasehold property and certain financial instruments designated at fair value through profit or loss.

The assets and liabilities of the Company which relate to the insurance business carried on in Singapore are subject to the requirements of the Insurance Act, Chapter 142 (the Insurance Act). Such assets and liabilities are accounted for in the books of the insurance funds established under the Insurance Act. Assets held in the insurance funds may be withdrawn only if the withdrawal meets the requirements stipulated in Section 17 of the Insurance Act and the Company continues to be able to meet the solvency requirement of Section 18 of the Insurance Act.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The Company invests in a number of collective investment schemes of which it holds more than 50% of the units. These investments are measured in the Company's balance sheet at fair value. In accordance with FRS 27 (revised) – Consolidated and Separate Financial Statements and Section 201 (3BA) of the Companies Act, the Company need not prepare consolidated financial statements as it is a wholly-owned subsidiary of Prudential Public Limited Company, which prepares consolidated financial statements. The financial statements of Prudential Public Limited Company are available at its registered office, Laurence Pountney Hill, London, EC4R 0HH, United Kingdom.

#### *Changes in accounting policies*

In January 2013, the Company adopted the new or amended FRS and Interpretation to FRS that are applicable to the Company and that are mandatory for application from that date. The adoption of these new or amended FRS or Interpretations to FRS did not result in substantial changes to the Company's accounting policies and had no material effect to the amounts reporting for the current or prior financial years.

#### **(i) Fair value measurement**

FRS 113 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other FRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other FRSs, including FRS 107 Financial Instruments: Disclosures.

From 1 January 2013, in accordance with the transitional provisions of FRS 113, the Company has applied the new fair value measurement guidance prospectively. Notwithstanding the above, the change had no significant impact on the measurements

of the Group's assets and liabilities. The additional disclosures necessary as a result of the adoption of this standard has been included in Note 4.

(ii) Presentation of other comprehensive income

From 1 January 2013, as a result of the amendments to FRS 1, the Company has modified the presentation of items of other comprehensive income in its statement of comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

The adoption of the amendment to FRS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Company.

*New standards and interpretations not adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

**(c) Business combination**

*Acquisitions from entities under common control*

Business combinations arising from transfers of business from entities that are under the control of the shareholder that controls the Company are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Company controlling shareholder's consolidated financial statements, except for acquired value in-force business, distribution fee and goodwill. The acquired value in-force business was adjusted subsequently to take into consideration refinements to the estimates and assumptions used in the calculation. The distribution fee was also separately recognised from goodwill. Goodwill was restated to take into consideration these changes.

Income and expenses of acquired interest are included in profit or loss from the date that common control was established.

**(d) Insurance contracts – classification**

The Company issues life insurance contracts that transfer insurance risk. These are classified as insurance contracts and investment contracts with discretionary participating features ("DPF").

Insurance contracts are those contracts under which the Company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Contracts with DPF that transfer insurance risk, but not significant insurance risk are termed investment contracts. The accounting basis and disclosure is consistent with those for life insurance par contracts.

Disclosures on the various life insurance contracts are classified into the principal components as follows:

- Life insurance par contracts (*including investment contracts with DPF*)
- Life insurance non-par contracts
- Investment-linked contracts

The Company does not unbundle any insurance contracts as its accounting policy recognises all insurance premiums, claims and benefit payments, expenses and valuation of future benefit payments, inclusive of the investment component, through the statement of comprehensive income.

(i) Life insurance par contracts (*including investment contracts with DPF*)

Insurance and investment contracts that contain DPF are classified as participating policies. The DPF feature entitles the policyholder 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 contractually 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 or fund that issues the contract.

Local statutory regulations and 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 and within which the Company may exercise its discretion as to the quantum and timing of their payment to policyholders.

The DPF is classified as a liability in the Company's balance sheet and as part of claims and benefits incurred in the statement of comprehensive income, as it does not recognise the guaranteed element separately.

(ii) Life insurance non-par contracts

These are contracts that are predominantly protection based. In addition, the Company also issues annuity and universal life contracts.

For protection based contracts, the Company usually guarantees a fixed level of benefit that is payable upon a claim event (e.g. death, disability, critical illness). In return, the policyholders will pay contractual premiums that may be guaranteed over the term of the contract.

For annuity contracts, the Company provides a stream of income on a regular basis to the policyholders as long as they are alive.

For universal life contracts, the Company provides financial protection against death and terminal illness. Unlike other non-participating policies, the policy values are based on an accumulated value in which interest is credited to and charges are deducted from it. The interest credited to this account is determined by the Company based on the portfolio investment returns, which is subject to a minimum crediting rate.

(iii) Investment-linked contracts

These are contracts that transfer only insurance risk from policyholders to the Company. Policyholders of such contracts use their premium to purchase units of available investment funds. The amount of benefits is directly linked to the performance of these investment funds. In addition, units are deducted from the unit-linked account balances for mortality and morbidity, asset management and policy administration. The investment returns derived from the variety of investment funds as elected by the policyholder accrue directly to the policyholder.

**(e) Insurance contracts – recognition and measurement**

(i) Premiums and commission

Premiums from policyholders are recognised on their respective due dates. Premiums not received on the due date are recognised as revenue with the corresponding outstanding premiums recognised in the balance sheet. The commission expense arising from these outstanding premiums is accrued in the same reporting period.

Premiums due after but received before the end of the financial year are recorded as advance premiums and are recognised as liabilities in the balance sheet.

The Company does not adopt the policy of deferring acquisition costs for its insurance contracts.

(ii) Claims and benefits incurred

Claims include maturities, annuities, surrenders, deaths and other claim events. Maturity claims are recorded on the policy maturity date. Annuity claims are recorded when the annuity becomes due for payment. Surrenders are recorded when paid, death claims and payments on other claim events are recorded when notified.

Benefits are recorded as an expense when they are incurred.

(iii) Insurance contract liabilities

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is measured using assumptions considered to be appropriate for the policies in force. The actuarial valuation basis is determined by the Appointed Actuary and complies with the Insurance Act, Cap. 142 and Insurance (Valuation and Capital) Regulations and guidance notes issued by the Singapore Actuarial Society ("SAS") "GN L01" and "GN L02".

Additional provision is made in the valuation assumptions to allow for any adverse deviation from the best estimate experience. Provision for adverse deviation ("PAD") is reviewed annually by the Appointed Actuary to assess its appropriateness and sufficiency.



#### *Insurance contract liabilities – life insurance par contracts (including investment contracts with DPF)*

For policies within the life participating fund, the insurance contract liabilities and investment contracts with DPF are calculated as the higher of the following:

- (a) the sum of the liability calculated as the discounted value of expected future payments arising from the policy, including any expected expenses to be incurred and any provision for any adverse deviation from the expected experience, less expected future receipts arising in respect of each policy of the life participating fund, including the allowance for expected payments arising from non-guaranteed benefits, using best estimate assumptions and discounting the future cash flows at the best estimate investment returns;
- (b) the minimum condition liability of the life participating fund as defined under the Insurance (Valuation and Capital) Regulations; or
- (c) the value of policy assets of the life participating fund.

#### *Insurance contract liabilities – life insurance non-par*

In respect of policies within the non-participating fund which are not universal life, the Company values the insurance contract liabilities as the discounted value of expected future payments arising from the policy, including any expected expenses to be incurred and any provision for any adverse deviation from the expected experience, less expected future receipts arising, using best estimate assumptions and discounting the future cash flows at interest rates determined in accordance to Monetary Authority of Singapore ("MAS") Notice 319 ("risk-free rate").

For universal life policies, the insurance contract liabilities are calculated as the higher of the following on an individual policy basis:

- (a) the value obtained by projecting the liabilities under the policy at the minimum guaranteed crediting rate and discounting at the risk-free rate;
- (b) the value obtained by projecting the liabilities under the policy at the current crediting rate and discounting at the best estimate investment return; or
- (c) surrender value.

#### *Insurance contract liabilities – Investment-linked contracts*

The Company values its investment-linked liabilities as the sum of the following:

- (a) the unit reserves, calculated as the value of the underlying assets backing the units relating to the policy; and
- (b) the non-unit reserves, calculated as the value of expected future payments arising from the policy (other than those relating to the unit reserves), including any expense that the insurer expects to incur in administering the policies and settling the relevant claims and any provision made for any adverse deviation from the expected experience, less expected future receipts arising from the policy (other than those relating to the unit reserves), using best estimate assumptions and discounting the future cash flows at the risk-free rate.

#### **(f) Insurance contracts – embedded derivatives**

The Company does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

Options and guarantees inherent in some insurance contracts which are closely related to the host contract issued by the Company are not separated and measured at fair value.

#### **(g) Insurance contracts – reinsurance**

Assets, liabilities, income and expense arising from reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

An asset or liability is recognised in the balance sheet representing premiums due to or payments due from reinsurers and the share of benefits and claims recoverable from reinsurers. The net amount is presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The measurement of reinsurance assets is consistent with the measurement of the underlying insurance contracts.

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

**(h) Insurance contracts – liability adequacy test**

At each reporting date, liability adequacy tests are performed on each insurance fund to assess the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of discounted contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Where a shortfall is identified, additional provision is made and the deficiency is charged to profit or loss in the statement of comprehensive income.

**(i) Investment contracts with DPF**

Contracts that transfer insignificant insurance risk are classified as investment contracts. These investment contracts contain DPF and the accounting basis and disclosure of these contracts are consistent with those of insurance contracts.

**(j) Foreign currencies**

Monetary assets and liabilities in foreign currencies are translated into Singapore dollars at rates of exchange approximate to those ruling at the reporting date. Transactions in foreign currencies are translated at rates ruling on transaction dates. Foreign currency differences arising on retranslation are recognised in profit or loss in the statement of comprehensive income.

**(k) Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and impairment losses except for leasehold property, which are stated at their revalued amounts. The revalued amount, which represents the fair value, is determined on the basis of open market value. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Revaluations are carried out by independent professional valuers regularly such that the carrying amount of this asset does not differ materially from that determined using fair values at the reporting date.

Any increase in the revaluation amount is credited to the revaluation reserve unless it offsets a previous decrease in value recognised in profit or loss in the statement of comprehensive income. A decrease in value is recognised in profit or loss in the statement of comprehensive income where it exceeds the increase previously recognised in the revaluation reserve. Upon disposal, any related revaluation surplus is recognised in profit or loss in the statement of comprehensive income.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is provided on a straight-line basis so as to write off items of property and equipment over their estimated useful lives and the annual rates used for this purpose are as follows:

Freehold property	2%
Leasehold property	1 to 2%
Office equipment	20%
Computer equipment	20% to 33 1/3%
Motor vehicles	20%
Office renovations	20%

Depreciation methods, useful lives and residual values are reviewed and adjusted as appropriate at each reporting date.

**(l) Intangible assets**

**(i) Goodwill**

Goodwill represents the excess of the fair value of the consideration transferred over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Goodwill is measured at cost less accumulated impairment losses.

**(ii) Acquired value in-force business**

Acquired value in-force business represents the present value of acquired in-force policies for insurance contracts and investment contracts with DPF as classified under FRS 104 Insurance Contracts. Acquired value in-force business is initially measured at fair value at acquisition, and subsequently measured at cost less amortisation and any accumulated impairment losses. The present value of in force business, which represents the profits that are expected to emerge from the acquired insurance business, is calculated using best estimate actuarial assumptions for interest, mortality, persistency and expenses and is amortised over the anticipated lives of the related contracts in the portfolio. The net carrying amount of insurance liabilities acquired less the value of in-force business, represents the carrying value of the insurance liabilities acquired.

Amortisation calculated is charged to profit or loss in line with the unwinding of the future cash flows over the estimated useful life of the acquired contracts. The residual values and useful lives are reviewed at each reporting date.

(iii) Others

Others represent amounts paid to third parties under certain distribution agreements. The amounts paid have finite useful lives ranging from eight to twelve years and are measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated based on sales emergence over the duration of the distribution agreements.

**(m) Financial instruments**

(i) Non-derivative financial assets

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

*Financial assets at fair value through profit or loss*

The Company's investments in equity securities, debt securities and collective investment schemes have been designated at fair value through profit or loss as these instruments are managed and their performance evaluated on a fair value basis.

Upon initial recognition, attributable transaction costs are recognised in profit or loss in the statement of comprehensive income when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss in the statement of comprehensive income. Regular way purchases and sales of investments are recognised on trade date – the date on which the Company commits to purchase or sell the asset. These investments are measured at fair value, and changes therein are recognised in the statement of comprehensive income.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are carried at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise policy loans, investment income receivables, other receivables and cash and cash equivalents. Other receivables are recognised when due.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss in the statement of comprehensive income.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and bank deposits. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts which are repayable on demand and which form an integral part of the Company's cash management.

(ii) Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Derivative financial instruments

The Company uses derivative financial instruments to facilitate efficient portfolio management. The Company does not hold derivative financial instruments for speculative purposes. Derivative financial instruments are classified as held for trading and accounted for at fair value through profit or loss.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are remeasured at fair value, with any resultant gain or loss being recognised in profit or loss in the statement of comprehensive income. The notional amounts of derivative financial instruments are not recognised in the financial statements.

(iv) Share capital

Ordinary shares are classified as equity.

**(n) Impairment**

*Impairment of financial assets*

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy or adverse changes in the payment status of borrowers.

The Company considers evidence of impairment for loans and receivables at both a specific and collective level. All individually significant loans and receivables are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are recognised in profit or loss in the statement of comprehensive income and reflected in an allowance account against loans and receivables. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss in the statement of comprehensive income.

*Impairment of non-financial assets*

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. For goodwill, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an asset or its related Cash Generating Unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss in the statement of comprehensive income.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognised in respect of prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(o) Provisions**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**(p) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In the ordinary course of business, there are many transactions and calculations for which the ultimate tax treatment is uncertain. Therefore, the Company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when the Company believes that certain positions may not be fully sustained upon review by tax authorities, despite the Company's belief that its tax return positions are supportable. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of multifaceted judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made.

**(q) Other revenue and expenditure recognition**

*Fees and commission income*

Fees and commission income comprises reinsurance commission income, distribution income and security lending fees.

Reinsurance commission income is recognised as revenue on a basis that is consistent with the recognition of the costs incurred on the acquisition of underlying insurance contracts.

Distribution income and security lending fees are recognised as revenue on an accrual basis.

*Dividend income*

Dividend income is recognised in profit or loss when the Company's right to receive payment is established.

*Interest income*

Interest income is recognised as it accrues, using the effective interest method.

*Rental income from operating leases*

Rental income receivable under operating leases is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income to be received.

*Operating leases*

Rental payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the leases. Lease incentives received are recognised in profit or loss in the statement of comprehensive income, as appropriate, as an integral part of the total lease payments made.

*Employee benefits – defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss in the statement of comprehensive income as incurred.

*Short-term employee benefits*

Short term employee benefits obligations comprising salaries, bonuses and fees are measured on an undiscounted basis and are expensed as the related service is provided.

**(r) Share-based payment**

The Company offers share-based compensation plans to its employees and non-employee advisors. The arrangements for distribution to its employees and non-employee advisors of share-based share compensation plan depend upon the particular terms and conditions of each plan.

For cash settled share-based, the compensation expense charged to profit or loss with a corresponding increase in liabilities is primarily based upon the fair value of the shares granted, taking into consideration the vesting period and vesting conditions. The Company revises its estimate of the cash-settled share-based payment likely to occur at each reporting date and adjusts the charge to profit or loss accordingly.

For equity settled plans, the grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

**(s) Key management personnel**

Key management personnel of the Company are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. The Chief Executive Officer and the senior management team are considered as key management personnel of the Company.

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

**Insurance contract liabilities** *(Including liabilities in respect of insurance products classified as investment contracts with DPF)*

The determination of insurance contract liabilities is dependent on assumptions made by the management of the Company. These estimates are reviewed and adjusted (if necessary) each year in order to establish contract liabilities which reflect best estimate assumptions. The carrying amount as at the reporting date is provided in Note 11.

**(i) Process used to determine assumptions**

At inception of the contract, the Company determines assumptions in relation to future mortality and morbidity, voluntary terminations and administration expenses. These assumptions are used for calculating the liabilities during the life of the contract.

Subsequently, as experience unfolds, the Company conducts experience studies to investigate the appropriateness of these assumptions. The initial assumptions will be adjusted according to the Company's experience.

The assumptions are required to be on a "best estimate" basis and are considered to be so, if on average, the results are expected to be worse than the assumptions in 50% of the possible scenarios and better in the other 50%. Additional provision is required in the valuation assumptions to allow for any adverse deviation from the best estimate experience.

Information regarding key assumptions used to calculate insurance contract liabilities is provided below:

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### Mortality

Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases the estimates as to the number of deaths/claims on reinsurers' mortality tables. Where appropriate, the estimates are adjusted to reflect the Company's own experience. The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty is that epidemics such as Acquired Immune Deficiency Syndrome, Severe Acute Respiratory Syndrome and wide-ranging lifestyle changes, such as changes in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Company has significant exposure to mortality risk. Also, continuing improvements in medical care and social conditions could result in improvements in longevity with the Company being exposed to longevity risk.

#### Morbidity

The incidence rates of morbidity are based on reinsurers' morbidity tables. Where appropriate, the estimates are adjusted to reflect the Company's own experience. For contracts that are exposed to increases in healthcare costs, appropriate allowance has been made to allow for future increases in such costs.

#### Persistency

An investigation into the Company's experience over the most recent 5 years is performed on an annual basis, and statistical methods are used to determine an appropriate persistency rate. Persistency rates vary by product type and policy duration. The main source of uncertainty is policyholders' behaviour, which may be affected by market and economic conditions. Changes in policyholders' behaviour could result in future termination rates being different from what the Company has experienced previously. Allowance will be made for any trends in the data to arrive at a best estimate of future persistency rates that takes into account such policyholders' behaviour.

#### Discount rate

The risk free rates below are used for discounting the insurance contract liabilities in respect of non-participating policies, non-unit reserves of investment-linked policies, as well as the minimum condition liability of life participating funds and universal life policies. The derivation of the risk free rates is in accordance with the MAS Notice 319 and guidance note issued by the Singapore Actuarial Society (SAS GNLO2). Effective from 1 January 2013, the MAS Notice 319 (Amendment) dated 14 May 2012 requires direct insurers to adopt the new long term risk-free discount rate basis in valuing Singapore dollar denominated liabilities of non-participating policies, non-unit reserves of investment-linked policies and the minimum condition liability of participating funds.

SGD denominated liabilities	2013 %	2012 %
1 year	0.31	0.26
2 years	0.36	0.26
3 years	0.68	0.32
4 years	1.00	0.38
5 years	1.31	0.44
6 years	1.60	0.63
7 years	1.90	0.82
8 years	2.19	1.01
9 years	2.48	1.20
10 years	2.77	1.39
11 years	2.85	1.81
12 years	2.94	2.24
13 years	3.02	2.66
14 years	3.10	3.08
15 years	3.19	3.50
16 years	3.25	3.50
17 years	3.31	3.50
18 years	3.38	3.50
19 years	3.44	3.50
20 years and above	3.50	3.50

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

USD denominated liabilities	2013 %	2012 %
1 year	0.13	0.15
2 years	0.39	0.25
3 years	0.79	0.36
4 years	1.29	0.55
5 years	1.79	0.73
6 years	2.17	0.97
7 years	2.55	1.21
8 years	2.77	1.42
9 years	2.99	1.63
10 years	3.21	1.84
11 years	3.26	1.91
12 years	3.32	1.98
13 years	3.37	2.04
14 years	3.43	2.11
15 years	3.48	2.18
16 years	3.54	2.25
17 years	3.59	2.32
18 years	3.65	2.39
19 years	3.70	2.45
20 years	3.76	2.52
21 years	3.83	2.61
22 years	3.91	2.70
23 years	3.98	2.78
24 years	4.06	2.87
25 years	4.14	2.95
26 years	4.21	3.04
27 years	4.29	3.13
28 years	4.36	3.21
29 years	4.44	3.30
30 years and above	4.52	3.39

The best estimate liability of each policy in the participating fund and universal life products are as defined in Note 2e(iii) and discounted using best estimate investment returns.

The best estimate investment return is derived from the expected investment return of assets backing the insurance contract liabilities. Investment returns are generally based on a long term expected market return. These assumptions are set based on a few methodologies, depending on the underlying investment and ALM strategy for the sub-fund, including an analysis of historical and trended returns by asset classes, asset yield-to-maturity, fund manager's return projection as well as the ultimate holding company's view of long-term returns. The best estimate investment returns for different sub-funds ranged from 0.37% to 10.47% (2012: 0.25% to 10.72%).

#### Renewal expense level and inflation

The current level of expenses is taken as an appropriate expense base. Expense inflation is assumed to be at 2.00% (2012: 2.00%) per annum. The Company conducts an expense study every three years, or on a more regular basis when appropriate, and utilises the results as a basis to derive expense loadings for calculating liabilities.

#### Tax

It has been assumed that current tax legislation and rates continue substantially unaltered.

#### (ii) Sensitivity analysis

The following tables present the sensitivity of the value of insurance contract liabilities disclosed in this note to movements in the variables used in the estimation of insurance contract liabilities.



## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### *Life insurance par contracts (Including investment contracts with DPF)*

Variable	Change in variable	Change in liability 2013 \$'000	Change in liability 2012 \$'000
Worsening of mortality and morbidity	+ 10%	–	–
Lowering of investment returns	- 1%	1,493,695	935,961
Worsening of base renewal expense level	+ 10%	–	–
Worsening of renewal expense inflation rate	+ 2%	–	–
Worsening of lapse rate	- 10%	–	–

Under the Insurance Act, Cap. 142, the Company is required to calculate the insurance contract liabilities in respect of the policies in the participating fund as:

- (a) the sum of the liability in respect of each policy of the fund;
- (b) the minimum condition liability of the fund; and
- (c) the value of policy assets of the fund, whichever is the highest.

The sensitivity analyses are performed on the life insurance par contract liabilities based on the above consideration with no change in bonus scale. In most instances, the policy assets remain the dominant value. As the Company can exercise its discretion to vary bonuses, the impact on profit and equity for life insurance par contracts will depend on the extent of bonus revisions under each scenario.

#### *Life insurance non-par contracts*

Variable	Change in variable	Change in liability 2013 \$'000	Change in profit/equity 2013 \$'000	Change in liability 2012 \$'000	Change in profit/equity 2012 \$'000
Worsening of mortality and morbidity	+ 10%	54,380	(45,135)	35,312	(29,309)
Lowering of investment returns	- 1%	171,093	(142,007)	123,557	(102,552)
Worsening of base renewal expense level	+ 10%	3,004	(2,493)	2,011	(1,669)
Worsening of renewal expense inflation rate	+ 2%	3,325	(2,759)	1,820	(1,511)
Worsening of lapse rate	- 10%	14,278	(11,851)	15,224	(12,636)

#### *Investment-linked contracts (non-unit reserves)*

Variable	Change in variable	Change in liability 2013 \$'000	Change in profit/equity 2013 \$'000	Change in liability 2012 \$'000	Change in profit/equity 2012 \$'000
Worsening of mortality and morbidity	+ 10%	678	(563)	651	(540)
Lowering of investment returns	- 1%	338	(280)	240	(199)
Worsening of base renewal expense level	+ 10%	1,877	(1,558)	1,818	(1,509)
Worsening of renewal expense inflation rate	+ 2%	2,874	(2,385)	2,912	(2,417)
Worsening of lapse rate	- 10%	647	(537)	590	(489)

The change in profit/equity takes into account the effect of income taxation of the change in profit.

The above analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values; change in lapses and future mortality and morbidity. The whole yield curve is assumed a parallel shift of 1% down in the investment returns (i.e. yield curve) sensitivity scenario except for long term risk-free discount rate defined in the MAS Notice 319.

#### **Goodwill**

Goodwill impairment testing requires the exercise of judgement by management as to prospective future cash flows. Further information is disclosed in Note 6.

#### **4 CAPITAL, INSURANCE AND FINANCIAL RISK MANAGEMENT**

This section describes the Company's risk exposure, its concentration and the way the Company manages them.

##### **(a) Capital management**

The Company's capital management policy is to maintain a strong capital base to meet policyholders' obligations and regulatory requirements, to create shareholder value, deliver sustainable returns to shareholders and to support future business growth.

Under Insurance (Valuation and Capital) Regulations, all insurers are required to maintain a minimum fund solvency requirement (FSR) of 100% of total risk requirement and at least 120% of capital adequacy requirement (CAR) to meet policyholders' obligations. The Insurance Act also allows MAS to prescribe different FSR or CAR to insurers with different classes of insurance business and to different types of insurers. The FSR and CAR apply a risk-based approach to capital adequacy and are determined by the sum of the aggregate of the total risk requirement of all insurance funds established and maintained by the insurer under the Insurance Act.

The total risk requirement consists of three components. They are insurance risk requirement, investment risk requirement comprising mainly asset specific and asset/liability duration mismatch charge, and concentration risk requirement. It is the Company's policy to hold capital levels in excess of the prescribed FSR and CAR. The capital adequacy ratio of the company as at 31 December 2013 is 252% (2012: 257%).

The values, assumptions and methodology used for the measurement of the solvency position are in accordance with the Insurance (Valuation and Capital) Regulations. The valuation of assets and liabilities identified as financial resources is closely aligned to those on the Company's balance sheet, except for freehold property which is measured at fair value and the exclusion of inadmissible assets as prescribed in the Insurance (Valuation and Capital) Regulations.

In addition to satisfying regulatory capital requirements, the Company conducts stress tests on the projected solvency position of the Company to ensure that the management is aware of the risks and threats to solvency that the Company faces and to plan for risk mitigation actions where necessary. The Company is also subject to the ultimate holding company's economic capital framework.

There were no changes in the Company's approach to capital management during the year.

##### **(b) Insurance risk**

The risk of loss for the business or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of a number of insurance risk drivers. This includes adverse mortality, morbidity, persistency and expense experience. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance contract liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

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 Insurance (Valuation and Capital) Regulations prescribes capital requirement to be held in respect of insurance risk as well as to maintain sufficient capital resources to cover any shortfall between the aggregate surrender value of contracts and the insurance contract liabilities.

Risks that are specific to the various types of insurance contracts are elaborated below:

###### *Life insurance par contracts (Including investment contracts with DPF)*

The amount of risk to which the Company is exposed depends on the level of guarantees inherent in the contracts. As at 31 December 2013, the minimum condition liability, which includes only guaranteed benefits, is \$6.4 billion (2012: \$6.3 billion), and is significantly below the policy assets of \$12.7 billion (2012: \$11.8 billion). The corresponding policy liability, which would include future bonuses at a level which meets policyholders' reasonable expectations, is \$11.7 billion (2012: \$10.5 billion). The policy assets in excess of the policy liabilities, amounting to \$1.0 billion, are available to meet the insurance fund's solvency requirements and any adverse deviations in the Company's operating experience.

For life insurance par contracts, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the policyholder.

#### *Life insurance non-par contracts*

The life insurance non-par contracts consist of individual term insurance, annuity, universal life, health business and group business. The major health business written is Prushield which covers hospitalisation, surgical fees and certain outpatient treatment expenses. The key risks faced by the Company in respect of non-participating contracts are mortality and morbidity risk.

#### *Investment-linked contracts (unit reserves)*

For these contracts, the insurance contract liabilities represent the fair value of the investment funds or assets linked to those contracts at the reporting date. Additional benefit may be payable upon death, total permanent disability and critical illness. The key risks faced by the Company in respect to investment-linked contracts are mortality risk and morbidity risk.

#### (i) Concentration of insurance risk

Concentrations of risk may arise where a particular event or a series of events could impact heavily upon the Company's insurance contract liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

Insurance risk for contracts is also affected by the policyholders' right to pay reduced or no future premiums, or to terminate the contract completely. As a result, the amount of insurance risk is also subject to policyholder behaviour. On the assumption that policyholders will make decisions rationally, overall insurance risk can be assumed to be aggravated by such behaviour. The Company has factored the impact of policyholders' behaviour into the assumptions used to measure insurance contract liabilities.

The Company is also exposed to geographical concentrations of risks as most of its contracts originate in Singapore.

#### (ii) Management of insurance risk

For the management of insurance risk, the Company has implemented guidelines and procedures for conducting insurance core activities which include product development, product pricing, underwriting, claims handling and reinsurance management.

The Company assesses the risks and opportunities of a product at the product development stage to ensure only products with risk consistent with the Company's risk appetite and create commensurable value to the Company are being developed.

Product pricing ensures products are appropriately priced to reflect their embedded risk exposures. It is conducted in a prudent manner with the aid of sensitivity and scenario analysis. It is the Company's philosophy to sell at a price sufficient to fund the cost it incurs to hedge or reinsure its risks, and for the risk that the Company accepts and manages, to achieve an acceptable return for the shareholders.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of the type of risk and the level of insured benefits. The Company has developed its insurance underwriting strategy according to two main areas - risk selection and risk classification.

The risk selection process determines the groups of insurance risk that are acceptable to the Company so that diversification of insurance risk types is achieved. At the same time, this is to ensure within each of these risk types, there is a sufficiently large population of risks to reduce the variability of the expected outcome.

Each group of insurance risks is classified into categories of standard and degree of substandard through underwriting. Medical selection and financial underwriting guidelines included in the Company's underwriting procedures allow the correct assignment of insurance risk to the appropriate classes. Each class has varied premium to reflect the health condition and family medical history of the applicants.

The Company has in place claims handling processes to handle claims efficiently, accurately and fairly. Claims are assessed at a level consistent with policy provision, statutory regulations and corporate governance.

The Company uses reinsurance in the normal course of business to diversify its risks and limits its net loss potential. Reinsurance arrangement for risk undertaken by the Company has limited the Company's risk exposure. The Company has a maximum retention limit for any single life insured that is set according to the reinsurance management strategy guideline approved by the Board of Directors. Catastrophic reinsurance is used to limit the company's maximum overall exposure to a single event.

#### (c) Financial risk

The investment objective for each insurance fund is to maximise the returns including capital gains, having regard to the nature and term of the liabilities, the fund's financial strength, the desired level of risk, and any tax, statutory and regulatory constraints.

Transactions in financial instruments result in the Company assuming financial risks. These include market risk, foreign currency risk, liquidity risk and credit risk. Each of these financial risks is described below, together with a summary of the ways in which the Company manages these risks.

(i) **Market risk**

Market risk is the risk of loss for the business, or of adverse change in the financial situation, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities. The unexpected change in fair value of a financial instrument could be due to adverse movements in prices, interest rates, or foreign currency exchange rates.

Price risk is the risk that the market values of financial instruments will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to the impact of changes in market interest rates on interest income from cash and cash equivalents and other fixed income instruments.

The Investment Committee of the Company reviews the investment policy for the Company on a regular basis. The investment policy establishes investment guidelines and limits, and sets controls on the asset-liability management ("ALM") process. The investment policy is approved by the Board of Directors before implementation.

Investment limits for each insurance fund are set with consideration for diversification by geographical area, markets, sectors, counterparties and currency to reduce the impact of non-systematic risks in the market.

The objective of the Company's ALM process is to meet policy liabilities with the returns from investments held by the Company, while maintaining appropriate financial strength. Additionally, the Company's ALM strategy adopted considers the following:

- (a) liability profile of in-force business and new products;
- (b) capital solvency position and bonus policy;
- (c) the Company's risk appetite limits is appropriately managed by the ALM process and ability to withstand an appropriate range of different scenarios;
- (d) investment risk is managed appropriately in relation to liability related assumptions;
- (e) assets and liabilities are managed in accordance with local regulatory requirements; and
- (f) others such as availability of matching assets, diversification, currency and duration.

The values, key assumptions and methodology in the measurement of assets and liabilities used for ALM are closely aligned to those on the Company's balance sheet, except for freehold property. In addition, best estimate insurance liabilities are also taken into consideration.

The Insurance (Valuation and Capital) Regulations prescribes capital requirements to be held in respect of concentration risk from investment assets and market risk arising from interest rate sensitivity between assets and liabilities.

Risks that are specific to the various types of insurance contracts are elaborated below:

*Life insurance par contracts (including investment contracts with DPF)*

For participating contracts, past experience has shown that surrender rates are relatively stable as compared to movements in interest rates and market values. This could be due to the nature of the contracts as early termination could result in financial losses for the policyholders.

The participating fund invests in broad range of assets, including equities and corporate bonds, to provide long-term investment return, in the form of reversionary and terminal bonuses to participating policies. Investments in these assets may be subject to market fluctuations and thus affect the Company's ability to declare bonuses as originally illustrated.

*Life insurance non-par contracts*

For non-participating contracts that are protection-based, they usually do not acquire surrender values and thus the Company's exposure to movements in interest rates and market value is limited.

For annuity contracts and universal life contracts, the duration of the liability is usually longer than the duration of the assets available in the market. As such, the Company is exposed to the risk of interest rates fluctuation.

*Investment-linked contracts*

For investment-linked contracts, the investment risk is largely passed on to the policyholders. As a result, the Company is not directly exposed to movements in interest rates and market values of the underlying assets.

The Company segregates the asset-pool it manages into different funds. Each fund represents distinct characteristics in its objectives and the nature and term of its liabilities. The investment objective for each fund is to maximise the returns including capital gains,

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having regard to the nature and term of the liabilities, the fund's financial strength, the desired level of risk, and any tax, statutory and regulatory constraints.

The Company establishes target asset portfolios for each fund, which represents the investment strategies used to profitably meet the liabilities from products written in the fund within acceptable levels of risk. Performance benchmarks are agreed for each fund and asset class where there is an appropriate and liquid benchmark available.

The Company's exposure to market risk for changes in interest rates is concentrated in its investment portfolio, and to a lesser extent, its insurance contract liabilities. Changes in investment values attributable to interest rate changes are mitigated by partially offsetting changes in the value of insurance contract liabilities. The overall objective of these asset/liability matching strategies is to limit the net changes in the value of assets and liabilities arising from interest rate movements.

Stochastic simulations are performed on the major participating sub funds to investigate into the risks of not being able to meet the liabilities and statutory solvency under various investment strategies. The amounts and timing of payments to or on behalf of policyholders for insurance contract liabilities are regularly evaluated to ensure that matching and liquidity needs of each fund are taken into account in the investment strategy adopted. The projections of these cash flows may involve subjective assumptions and such subjectivity could impact the Company's ability to achieve its ALM objectives.

The table below presents the interest rate exposure of the Company's assets and liabilities:

	Fixed rate \$'000	Floating rate \$'000	Non-interest sensitive \$'000	Total \$'000
<b>2013</b>				
<b>Assets</b>				
Equity securities	–	–	3,737,759	3,737,759
Debt securities	7,260,357	544,881	–	7,805,238
Collective investment schemes	–	–	12,442,446	12,442,446
Derivative financial instruments	–	–	38,761	38,761
Loans and receivables	434,762	–	88,516	523,278
Reinsurer's share of insurance contract liabilities	93,701	–	–	93,701
Insurance and other receivables	–	–	190,294	190,294
Cash and cash equivalents	983,516	–	–	983,516
	<b>8,772,336</b>	<b>544,881</b>	<b>16,497,776</b>	<b>25,814,993</b>
<b>Liabilities</b>				
Gross insurance contract liabilities <i>(Including investment contracts with DPF)</i>	(9,009,535)	(3,622,601)	(10,129,142)	(22,761,278)
Insurance and other payables	(1,082,084)	–	(316,505)	(1,398,589)
Derivative financial instruments	–	–	(94,244)	(94,244)
	<b>(10,091,619)</b>	<b>(3,622,601)</b>	<b>(10,539,891)</b>	<b>(24,254,111)</b>
<b>2012</b>				
<b>Assets</b>				
Equity securities	–	–	3,621,682	3,621,682
Debt securities	6,962,073	534,770	–	7,496,843
Collective investment schemes	–	–	11,328,694	11,328,694
Derivative financial instruments	–	–	192,147	192,147
Loans and receivables	419,579	–	82,219	501,798
Reinsurer's share of insurance contract liabilities	93,106	–	–	93,106
Insurance and other receivables	–	–	135,581	135,581
Cash and cash equivalents	909,660	–	–	909,660
	<b>8,384,418</b>	<b>534,770</b>	<b>15,360,323</b>	<b>24,279,511</b>
<b>Liabilities</b>				
Gross insurance contract liabilities <i>(Including investment contracts with DPF)</i>	(9,023,246)	(3,244,846)	(9,035,487)	(21,303,579)
Insurance and other payables	(941,842)	–	(419,354)	(1,361,196)
Derivative financial instruments	–	–	(35,944)	(35,944)
	<b>(9,965,088)</b>	<b>(3,244,846)</b>	<b>(9,490,785)</b>	<b>(22,700,719)</b>

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(ii) Foreign currency risk

The Company faces foreign currency risk, primarily because some of its investments in equity, debt securities and collective investment schemes are held in currencies other than Singapore dollars to improve the diversification of its portfolio, while almost all its liabilities are denominated in Singapore dollars ("SGD"). Other than SGD, the currencies in which these transactions are denominated are United States dollar ("USD"), Euro ("EUR") and Great Britain Pound ("GBP").

The Company adopts the approach of targeting a complete hedge for foreign currency risks. Assets and liabilities are expected to achieve a complete match in terms of currency. There may be circumstances where due to the duration of the liabilities or other risk factors, a perfect match is not achievable.

The Insurance (Valuation and Capital) Regulations prescribes capital requirement to be held in respect of concentration risk from foreign currency mismatch between assets and liabilities.

The following table presents the main currency exposure as of the reporting date, in Singapore dollar equivalents:

	SGD \$'000	USD \$'000	EUR \$'000	GBP \$'000	Others \$'000	Total \$'000
<b>2013</b>						
<b>Assets</b>						
Property and equipment	52,959	–	–	–	–	52,959
Intangible assets	342,674	–	–	–	–	342,674
Investments and loans						
– Equity securities	2,422,279	121,961	–	–	1,193,519	3,737,759
– Debt securities	6,629,027	1,059,669	45,197	11,203	60,142	7,805,238
– Collective investment schemes	3,692,058	7,422,832	1,071,563	245,814	10,179	12,442,446
– Derivative financial instruments	879,649	(763,274)	6,301	–	(83,915)	38,761
– Loans and receivables	472,243	50,847	–	–	188	523,278
Reinsurer's share of insurance contract liabilities	93,701	–	–	–	–	93,701
Insurance and other receivables	181,533	6,422	–	–	2,339	190,294
Cash and cash equivalents	873,068	94,595	271	1,449	14,133	983,516
	15,639,191	7,993,052	1,123,332	258,466	1,196,585	26,210,626
<b>Liabilities</b>						
Gross insurance contract liabilities (Including investment contracts with DPF)	(22,011,158)	(750,120)	–	–	–	(22,761,278)
Insurance and other payables	(1,392,171)	(6,418)	–	–	–	(1,398,589)
Derivative financial instruments	4,426,114	(4,124,332)	(209,652)	(133,503)	(52,871)	(94,244)
Provision for tax	(43,105)	–	–	–	–	(43,105)
Deferred tax liabilities	(840,145)	–	–	–	–	(840,145)
	(19,860,465)	(4,880,870)	(209,652)	(133,503)	(52,871)	(25,137,361)

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	SGD \$'000	USD \$'000	EUR \$'000	GBP \$'000	Others \$'000	Total \$'000
<b>2012</b>						
<b>Assets</b>						
Property and equipment	37,374	–	–	–	–	37,374
Intangible assets	354,850	–	–	–	–	354,850
Investments and loans						
– Equity securities	2,554,474	107,454	–	–	959,754	3,621,682
– Debt securities	6,412,466	966,562	44,449	7,063	66,303	7,496,843
– Collective investment schemes	3,344,268	6,609,393	340,946	1,024,259	9,828	11,328,694
– Derivative financial instruments	4,675,625	(4,429,797)	110,360	–	(164,041)	192,147
– Loans and receivables	453,329	48,469	–	–	–	501,798
Reinsurer's share of insurance						
– contract liabilities	93,106	–	–	–	–	93,106
Insurance and other receivables	134,898	683	–	–	–	135,581
Cash and cash equivalents	800,448	94,554	844	2,303	11,511	909,660
	18,860,838	3,397,318	496,599	1,033,625	883,355	24,671,735
<b>Liabilities</b>						
Gross insurance contract liabilities						
<i>(Including investment contracts with DPF)</i>	(20,837,735)	(465,844)	–	–	–	(21,303,579)
Insurance and other payables	(1,320,241)	(33,521)	–	(7,434)	–	(1,361,196)
Derivative financial instruments	870,959	(183,288)	(515,881)	(203,243)	(4,491)	(35,944)
Provision for tax	(76,454)	–	–	–	–	(76,454)
Deferred tax liabilities	(763,254)	–	–	–	–	(763,254)
	(22,126,725)	(682,653)	(515,881)	(210,677)	(4,491)	(23,540,427)

The main exposure to other foreign currencies includes Hong Kong Dollar, South Korean Won, Taiwanese Dollar and Indian Rupee.

#### Sensitivity analysis

The sensitivity analysis below is performed to assess the impact on profit, equity, investments and loans, and insurance contract liabilities by changes in each major type of market risk which the Company is exposed to:

Variable	Change in profit 2013 \$'000	Change in equity 2013 \$'000	Change in profit 2012 \$'000	Change in equity 2012 \$'000
Equity prices				
+ 10%	6,614	5,489	6,362	5,280
- 10%	(6,906)	(5,732)	(6,636)	(5,508)
Interest rates				
+ 10 basis points	(13,444)	(11,159)	(8,148)	(6,763)
- 10 basis points	12,081	10,027	7,883	6,542
Foreign currency				
+ 5%	3	2	3	2
- 5%	(3)	(2)	(3)	(2)

The change in profit/equity takes into account the effect of income taxation of the change in profit.

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Variable	Change in investments and loans 2013 \$'000	Change in gross insurance contract liabilities 2013 \$'000	Change in investments and loans 2012 \$'000	Change in gross insurance contract liabilities 2012 \$'000
Equity prices				
+ 10%	437,225	430,611	323,990	317,628
- 10%	(437,266)	(430,359)	(324,026)	(317,390)
Interest rates				
+ 10 basis points	(78,990)	(65,546)	(75,272)	(67,124)
- 10 basis points	79,003	66,922	75,292	67,409
Foreign currency				
+ 5%	174,441	174,439	122,905	122,902
- 5%	(174,441)	(174,439)	(122,905)	(122,902)

The above analyses are based on a change in a variable while holding all other variables and assumptions constant. In practice, this is unlikely to occur as changes in variables may be correlated and will have a significant effect in determining the ultimate fair value of the financial assets.

#### (iii) Liquidity risk

Liquidity risk is the risk of the Company being unable to generate sufficient cash resources or raise finance to meet financial obligations as they fall due in business as usual and stress scenarios. Liquidity management seeks to ensure that, even under adverse conditions, the Company has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

In practice, most of the Company's invested assets are marketable securities. This, combined with the positive net cash flow, reduces the liquidity risk.

The following table shows the Company's financial liabilities and insurance liabilities with the remaining contractual maturities:

	Unit-linked \$'000	Within one year \$'000	After one year but within five years \$'000	After five years \$'000	Total \$'000
<b>2013</b>					
Gross insurance contract liabilities					
<i>(Including investment contracts with DPF)</i>	8,430,040	738,351	2,716,839	10,876,048	22,761,278
Insurance and other payables	–	1,339,175	59,414	–	1,398,589
Derivative financial instruments	3,444	58,250	32,163	387	94,244
	8,433,484	2,135,776	2,808,416	10,876,435	24,254,111
<b>2012</b>					
Gross insurance contract liabilities					
<i>(Including investment contracts with DPF)</i>	8,223,613	584,229	2,579,301	9,916,436	21,303,579
Insurance and other payables	–	1,348,375	12,821	–	1,361,196
Derivative financial instruments	608	31,566	3,770	–	35,944
	8,224,221	1,964,170	2,595,892	9,916,436	22,700,719

The contractual maturities of policies under unit-linked business are on demand as policyholders can surrender anytime.

#### (iv) Credit risk

Credit risk is the risk of loss for the business or of adverse change in the balance sheet, 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).



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The Company is exposed to substantial credit risk through its investments and a reinsurance arrangement that was entered into during the year. At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The Company's exposure to credit risk relating to its debt securities, loans and receivables and reinsurer's share of insurance contract liabilities is summarised below:

	Credit ratings (from Standard & Poor's or equivalents)					Total \$'000
	AAA \$'000	AA+ to AA- \$'000	A+ to A- \$'000	BBB+ to BBB- \$'000	Below BBB- or not rated \$'000	
<b>2013</b>						
Debt securities						
– Government bonds	3,545,407	58,875	161,230	10,268	711,968	4,487,748
– Corporate and other bonds	281,570	204,191	850,045	868,853	1,112,831	3,317,490
Loans and receivables	–	–	–	–	523,278	523,278
Reinsurer's share of insurance contract liabilities	–	93,701	–	–	–	93,701
	3,826,977	356,767	1,011,275	879,121	2,348,077	8,422,217
<b>2012</b>						
Debt securities						
– Government bonds	3,309,269	66,607	122,328	14,033	395,665	3,907,902
– Corporate and other bonds	284,392	260,145	935,124	886,171	1,223,109	3,588,941
Loans and receivables	–	–	–	–	501,798	501,798
Reinsurer's share of insurance contract liabilities	–	93,106	–	–	–	93,106
	3,593,661	419,858	1,057,452	900,204	2,120,572	8,091,747

The Company's investment policy sets limits on investments in bonds of different credit quality. The Company also imposes limits on each investment counterparties to control concentration risks.

Cash and deposits are placed with banks and financial institutions which are regulated and rated by rating agencies. Investments and transactions involving derivative financial instruments are allowed only with counterparties that are of high credit quality.

In addition, the Company accounts for credit risk by allowing for expected losses due to asset defaults in the determination of the premium rates for the products that will be supported by these assets.

The Insurance (Valuation and Capital) Regulations prescribes capital requirement to be held in respect of concentration risk from counterparty exposure.

For receivables arising from insurance and reinsurance contracts, none of the Company's receivables due from policyholders are past due (2012: nil).

In accordance with the reinsurance management strategy, the Company maintains a panel of reinsurers that the Company is allowed to transact business with. The reinsurers must either be licensed or authorised to carry out reinsurance business in Singapore by the Monetary Authority of Singapore and are able to meet the minimum financial rating requirements before being selected. The Company monitors the aggregate exposure in terms of sum at risk reinsured to any one reinsurer according to internal risk limit.

#### (d) Estimation of fair values

##### Equity securities, debt securities and collective investment schemes

The fair values of investments are based on current bid prices or last traded price at the reporting date, obtained from the Company's custodian's external price sources such as Bloomberg. For investments which prices are not readily available, quotes are obtained from brokers or the issuing agents. At least two quotes will be obtained if available, to ensure the reasonableness of the quotes.

##### Derivative financial instruments

The fair value of derivative financial instruments is their indicative price at the reporting date as quoted by banks or brokers.

The fair value of forward exchange contracts and futures contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

The table below sets out the notional amounts and valuations of the Company's derivative financial instruments. The valuation of derivative financial instruments reflects amounts which the Company expects to pay or receive to terminate the contracts or replace the contracts at their current market rates at the reporting date.

	Notional amount (Assets) \$'000	Notional amount (Liabilities) \$'000	Positive revaluation \$'000	Negative revaluation \$'000
<b>2013</b>				
Forward exchange contracts	939,194	4,027,065	6,766	(85,545)
Futures contracts	516,509	172,276	13,685	(306)
Currency swap contracts	193,595	279,036	18,166	(8,393)
Options contracts	16,200	–	144	–
	1,665,498	4,478,377	38,761	(94,244)
<b>2012</b>				
Forward exchange contracts	4,591,695	1,935,147	155,162	(28,779)
Futures contracts	495,965	430	9,340	(5,337)
Currency swap contracts	355,147	55,514	26,664	(1,828)
Options contracts	65,964	–	981	–
	5,508,771	1,991,091	192,147	(35,944)

#### Other financial assets and liabilities

The carrying amounts of other financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

#### Fair value hierarchy

The table below analyses financial instruments carried at fair value with changes recognised in the statement of comprehensive income, by classification. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### Financial assets and financial liabilities carried at fair value

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2013</b>				
Equity securities	3,702,541	–	35,218	3,737,759
Debt securities	6,443,253	1,298,882	63,103	7,805,238
Collective investment schemes	11,981,529	460,880	37	12,442,446
Derivative financial assets	13,685	25,076	–	38,761
Derivative financial liabilities	(306)	(93,938)	–	(94,244)
	22,140,702	1,690,900	98,358	23,929,960
<b>2012</b>				
Equity securities	3,611,960	–	9,722	3,621,682
Debt securities	6,376,393	1,056,063	64,387	7,496,843
Collective investment schemes	11,328,680	–	14	11,328,694
Derivative financial assets	9,340	182,807	–	192,147
Derivative financial liabilities	(5,337)	(30,607)	–	(35,944)
	21,321,036	1,208,263	74,123	22,603,422

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Financial assets and financial liabilities not carried at fair value but for which fair values are disclosed

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2013</b>				
Loans and receivables	–	523,278	–	523,278
Other receivables	–	80,139	27,058	107,197
Other payables	–	(134,600)	–	(134,600)
	–	468,817	27,058	495,875
<b>2012</b>				
Loans and receivables	–	501,798	–	501,798
Other receivables	–	32,296	30,429	62,725
Other payables	–	(310,874)	–	(310,874)
	–	223,220	30,429	253,649

Financial assets measured at fair value based on Level 3

	Equity securities \$'000	Debt securities \$'000	Collective investment schemes \$'000	Other receivables \$'000	Total \$'000
At 1 January 2013	9,722	64,387	14	30,429	104,552
Net gains included in profit or loss for the period presented in investment income/(losses)	810	(566)	23	–	267
Purchases	24,686	–	–	–	24,686
Sales	–	(718)	–	–	(718)
Settlements	–	–	–	(3,371)	(3,371)
Transfers into Level 3	–	–	–	–	–
Transfers out of Level 3	–	–	–	–	–
At 31 December 2013	35,218	63,103	37	27,058	125,416
At 1 January 2012	–	225,673	18	35,196	260,887
Net gains included in profit or loss for the period presented in investment income/(losses)	(187)	(928)	(4)	–	(1,119)
Purchases	9,909	5,250	–	–	15,159
Sales	–	(5,933)	–	–	(5,933)
Settlements	–	(144,000)	–	(4,767)	(148,767)
Transfers into Level 3	–	–	–	–	–
Transfers out of Level 3	–	(15,675)	–	–	(15,675)
At 31 December 2012	9,722	64,387	14	30,429	104,552

The transfers into Level 3 are existing unlisted investments where the Company has managed to obtain only a single price quote. The transfers out of Level 3 are due to the availability of market observable data.

The following table shows the key valuation techniques and the key unobservable inputs used in the determination of fair value of the financial assets measured based on Level 3.

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### NOTES TO THE FINANCIAL STATEMENTS

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2013

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
The fair value is determined considering the net book value of the company, where its certain underlying assets and liabilities are discounted at risk adjusted discount rates.	Net book value of the Company, including certain risk adjusted discount rates that are not market determined.	Fair value will increase if the risk adjusted discount rates decrease.
Inputs from broker's valuation with verification by the Company using the credit status of the underlying counterparties and market interest rates.	Risk adjusted discount rates.	Fair value will increase if risk adjusted discount rates decrease.

Although the Company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have immaterial effects on profit or loss and equity.

#### Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Company's balance sheet; or
- are subject to an enforceable master netting arrangement, irrespective of whether they are offset in the balance sheet.

Financial instruments such as trade receivables and trade payables are not disclosed in the tables below unless they are offset in the balance sheet.

The Company's derivative transactions that are not transacted on an exchange are mostly entered into under International Swaps and Derivatives Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions.

The above ISDA agreements do not meet the criteria for offsetting in the balance sheet. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Company or the counterparties. In addition, the Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Financial assets and financial liabilities subject to offsetting and enforceable master netting arrangements

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

		Gross amounts of recognised financial assets/ (liabilities) offset in the balance sheet \$'000	Gross amounts of recognised financial asset/ (liabilities) offset in the balance sheet \$'000	Net amounts of financial assets/ (liabilities) presented in the balance sheet \$'000	Related amounts not offset in the balance sheet – Financial instruments \$'000	Net amount \$'000
<b>2013</b>						
<b>Financial assets</b>						
Amount due from related companies (non-insurance)	9	9,393	(9,385)	8	–	8
Other receivables	9	59,253	(13,384)	45,869	(586)	45,283
		68,646	(22,679)	45,877	(586)	45,291
<b>Financial liabilities</b>						
Amount to related companies (non-insurance)	12	(21,171)	9,385	(11,786)	–	(11,786)
Other payables and accrued expenses	12	(110,929)	13,384	(97,545)	586	(96,959)
		(132,100)	22,769	(109,331)	586	(108,745)
<b>2012</b>						
<b>Financial assets</b>						
Amount due from related companies (non-insurance)	9	6,691	(6,690)	1	–	1
Other receivables	9	42,862	(10,567)	32,295	(263)	32,032
		49,553	(17,257)	32,296	(263)	32,033
<b>Financial liabilities</b>						
Amount to related companies (non-insurance)	12	(21,870)	6,690	(15,180)	–	(15,180)
Other payables and accrued expenses	12	(286,940)	10,567	(276,373)	263	(276,110)
		(308,810)	17,257	(291,553)	263	(291,290)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the balance sheet that are disclosed in the above tables are measured in the balance sheet on the following basis:

- amount due from/(to) related companies (non-insurance) – amortised cost; and
- Receivables and payables – amortised cost.

The amounts in the above tables that are offset in the balance sheet are measured on the same basis.

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 5 PROPERTY AND EQUIPMENT

	Freehold property \$'000 Cost	Leasehold property \$'000 Valuation	Office equipment \$'000 Cost	Computer equipment \$'000 Cost	Motor vehicles \$'000 Cost	Office renovations \$'000 Cost	Total \$'000
<b>Cost/Valuation</b>							
At 1 January 2012	1,440	23,800	2,200	22,824	529	19,462	70,255
Additions	–	–	338	2,930	–	1,957	5,225
Gain on revaluation	–	658	–	–	–	–	658
Reversal of depreciation on revaluation	–	(658)	–	–	–	–	(658)
At 31 December 2012	1,440	23,800	2,538	25,754	529	21,419	75,480
Additions	–	–	860	10,754	–	7,866	19,480
Disposals	–	–	(7)	(771)	–	–	(778)
Gain on revaluation	–	4,876	–	–	–	–	4,876
Reversal of depreciation on revaluation	–	(676)	–	–	–	–	(676)
At 31 December 2013	1,440	28,000	3,391	35,737	529	29,285	98,382
<b>Accumulated depreciation</b>							
At 1 January 2012	547	–	1,278	17,356	320	9,954	29,455
Depreciation charge for the year	29	658	459	4,371	52	3,740	9,309
Reversal of depreciation on revaluation	–	(658)	–	–	–	–	(658)
At 31 December 2012	576	–	1,737	21,727	372	13,694	38,106
Depreciation charge for the year	29	676	451	3,897	52	3,666	8,771
Disposals	–	–	(7)	(771)	–	–	(778)
Reversal of depreciation on revaluation	–	(676)	–	–	–	–	(676)
At 31 December 2013	605	–	2,181	24,853	424	17,360	45,423
<b>Carrying amount</b>							
At 1 January 2012	893	23,800	922	5,468	209	9,508	40,800
At 31 December 2012	864	23,800	801	4,027	157	7,725	37,374
At 31 December 2013	835	28,000	1,210	10,884	105	11,925	52,959

An independent valuation of the leasehold property was carried out by Knight Frank Pte Ltd, a firm of independent professional valuers that has appropriate recognised professional qualifications and recent experience in the location and category of the properties being revalued, at open market values on 31 December 2013. The valuation has been made on the assumption that the property is sold in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property. It is assumed that the property are free from encumbrances, restrictions and outgoings of an onerous nature which would affect its value. The leasehold property is classified as Level 2 in fair value hierarchy.

\$4,876,000 (2012: \$658,000) of revaluation gain was credited to the revaluation reserve.

The approximate carrying amount of leasehold property would have been \$15,170,000 (2012: \$15,484,000) had the leasehold property been carried under the cost method.

For solvency purposes, the freehold property is being valued at market value at least once every three years. The last valuation date was on 31 December 2012. For solvency purposes, it has a carrying amount of \$9,800,000 (2012: \$10,000,000).

Property and equipment are non-current assets.

## 6 INTANGIBLE ASSETS

	Goodwill \$'000	Acquired value in-force business \$'000	Others \$'000	Total \$'000
<b>Cost</b>				
At 1 January 2012	231,279	29,787	133,095	394,161
At 31 December 2012	231,279	29,787	133,095	394,161
At 31 December 2013	231,279	29,787	133,095	394,161
<b>Accumulated amortisation</b>				
At 1 January 2012	–	2,978	26,048	29,026
Amortisation charge for the year	–	1,489	8,796	10,285
At 31 December 2012	–	4,467	34,844	39,311
Amortisation charge for the year	–	1,490	10,686	12,176
At 31 December 2013	–	5,957	45,530	51,487
<b>Carrying amount</b>				
At 1 January 2012	231,279	26,809	107,047	365,135
At 31 December 2012	231,279	25,320	98,251	354,850
At 31 December 2013	231,279	23,830	87,565	342,674

### Goodwill and acquired value in-force business

Goodwill is tested for impairment by comparing the CGU (the Company's in-force business) carrying amount, including any goodwill, with its recoverable amount. Management compares the aggregate of net asset value and goodwill of the acquired life business with the aggregate of the net asset value and the present value of in-force business to determine whether there is any impairment. The present value of in-force business, which represents the profits that are expected to emerge from the insurance business is calculated based on the European Embedded Value Principles issued by the CFO Forum, using best estimate actuarial assumptions for mortality, persistency and expenses as described in Note 3 and the following economic assumptions with no additional provision for any adverse deviation from the best estimate experience in the valuation assumptions:

(i) **Discount rates**

Discount rates are determined by adding a risk margin to the appropriate risk-free rate of return. The discount rates applied to the insurance funds ranged from 3.8% to 6.27% (2012: 2.82% to 5.00%).

(ii) **Investment returns**

Investment returns are generally based on a combination of current market data. The investment returns applied to different asset classes ranged from 1.83% to 8.59% (2012: 0.55% to 7.35%).

### Others

Others represent amounts paid to third parties under certain distribution agreements.

The intangible assets are all non-current assets.

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 7 INVESTMENTS AND LOANS

	Note	2013 \$'000	2012 \$'000
<b>Financial assets designated at fair value through profit or loss</b>			
<b>Equity securities</b>			
– Listed equity securities		3,702,541	3,611,960
– Unlisted equity security		35,218	9,722
		3,737,759	3,621,682
<b>Debt securities</b>			
– Government bonds		4,487,748	3,907,902
– Listed corporate and other bonds		2,854,899	2,986,008
– Unlisted corporate and other bonds		462,591	602,933
		7,805,238	7,496,843
<b>Collective investment schemes</b>		12,442,446	11,328,694
<b>Derivative financial instruments</b>	4(d)	38,761	192,147
<b>Loans and receivables</b>			
– Investment income receivables		88,516	82,219
– Policy loans		434,762	419,579
		523,278	501,798
<b>Total investments and loans</b>		24,547,482	23,141,164
Current portion		17,277,389	15,805,723
Non-current portion		7,270,093	7,335,441
		24,547,482	23,141,164

Included in the investments above are financial assets which have been lent out to third parties. The Company currently participates in a securities lending program, whereby securities are lent to the lending agent's approved borrowers in return for a fee. These transactions are conducted under terms and conditions that are usual and customary to standard securities lending arrangements.

In return for securities on loan, the Company receives cash as collateral. This is placed into a pooled fund managed by the lending agent. Cash collateral is invested in short-term time deposits.

As at 31 December 2013 and 2012, the fair value of the assets on loan and collateral under the securities lending program are as follow:

Fair value of assets on loan		Fair value of collateral		% of collateral over assets on loan	
2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 %	2012 %
8,271	9,985	8,685	10,484	105	105

Policy loans are mainly loans secured by the cash surrender values of the relevant policies. No portion of the balance was included as part of the receivables less than twelve months as it is not practicable to determine such portion with sufficient reliability given that the loans have no fixed terms of repayment.



## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 8 REINSURER'S SHARE OF INSURANCE CONTRACT LIABILITIES

	2013 \$'000	2012 \$'000
Reinsurer's share of insurance contract liabilities	93,701	93,106

The movement on reinsurer's share of insurance contract liabilities is as follows:

	2013 \$'000	2012 \$'000
At 1 January	93,106	–
Increase in reinsurer's share of insurance contract liabilities	595	93,106
At 31 December	93,701	93,106
Current portion	–	–
Non-current portion	93,701	93,106
	93,701	93,106

#### 9 INSURANCE AND OTHER RECEIVABLES

	2013 \$'000	2012 \$'000
Receivables arising from insurance and reinsurance contracts:		
– Due from policyholders	71,975	62,969
– Due from advisors	5,869	6,084
– Due from reinsurers	5,253	3,803
	83,097	72,856
Other receivables:		
– Prepayments	27,058	30,429
– Amounts due from related companies (non-insurance)	8	1
– Other receivables	45,869	32,295
– Collateral deposits placed with financial institutions	34,262	–
	107,197	62,725
	190,294	135,581
Current portion	189,878	131,362
Non-current portion	416	4,219
	190,294	135,581

Amounts due from related companies (non-insurance) are unsecured, interest free and have no fixed terms of repayment.

#### 10 CASH AND CASH EQUIVALENTS

	2013 \$'000	2012 \$'000
Cash at bank and in hand	378,204	580,414
Short-term time deposits	605,312	329,246
	983,516	909,660

The effective interest rate on short-term time deposits was 0.33% (2012: 0.37%) and the deposits have an average maturity of less than 23 days (2012: less than 86 days).

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### NOTES TO THE FINANCIAL STATEMENTS

#### 11 GROSS INSURANCE CONTRACT LIABILITIES

	Note	2013 \$'000	2012 \$'000
Long term insurance contracts:			
– Life insurance par contracts	(i)	11,527,517	10,490,206
– Life insurance non-par contracts	(ii)	2,376,258	1,974,474
– Investment-linked contracts			
– Unit reserves	(iii)	8,430,040	8,223,613
– Non-unit reserves	(iv)	26,052	21,518
		22,359,867	20,709,811
Provision for outstanding claims		110,023	93,009
<b>Total insurance contract liabilities</b>		<b>22,469,890</b>	<b>20,802,820</b>
Long term investment contracts:			
– Life investment contracts with DPF	(v)	291,388	500,759
<b>Total insurance contract liabilities (including investment contracts with DPF)</b>		<b>22,761,278</b>	<b>21,303,579</b>
Current portion		110,023	93,009
Non-current portion		22,651,255	21,210,570
		22,761,278	21,303,579

Included in the life insurance par contracts (including life investment contracts with DPF) is:

- An amount of \$667.0 million (2012: \$622.3 million) relating to accumulated capital injections made by the shareholders and assumed investment returns on the capital injections since 1988; and
- A provision for current year policyholder bonuses of \$253.7 million (2012: \$224.9 million).

#### Movements in insurance contract liabilities

##### (i) Life insurance par contracts

	2013 \$'000	2012 \$'000
At 1 January	10,490,206	9,015,719
Premiums received, net of reinsurance	1,708,506	1,456,407
Claims and surrenders	(769,358)	(697,606)
Expenses:		
– Operating	(324,682)	(275,374)
– Non-operating	(29,663)	(25,538)
Movement in deferred tax	(77,554)	(63,808)
Income:		
– Investment income	584,651	1,108,930
– Other expense	(20,858)	(5,335)
Transfer to shareholders' fund	(33,731)	(23,189)
At 31 December	11,527,517	10,490,206

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

(ii) Life insurance non-par contracts

	2013 \$'000	2012 \$'000
At 1 January	1,974,474	1,760,703
Valuation premiums	24,503	18,245
Liabilities released for payments on death and other terminations	(77,941)	(108,949)
Accretion of interest	22,621	12,743
Other movements	2,090	(3,993)
New business	476,905	277,376
Change in valuation basis:		
– Discount rate	(81,766)	28,685
– Others	35,372	(10,336)
At 31 December	2,376,258	1,974,474

As defined in the accounting policy Note 2 (e) (iii), valuation premiums are the amount of premiums received that have a direct impact of increasing the insurance contract liabilities.

(iii) Investment-linked contracts (unit reserves)

	2013 \$'000	2012 \$'000
At 1 January	8,223,613	7,290,187
Premiums received	1,080,119	960,420
Fees deducted from account balances of investment-linked contracts	(325,244)	(302,593)
Liabilities released for payments on death, surrender and other terminations	(771,417)	(712,128)
Changes in unit prices	218,492	995,509
Other movements	4,477	(7,782)
At 31 December	8,430,040	8,223,613

(iv) Investment-linked contracts (non-unit reserves)

	2013 \$'000	2012 \$'000
At 1 January	21,518	22,091
Premiums received	3,333	685
Fees deducted from account balances	795	2,377
Liabilities released for payments on death, surrender and other terminations	(735)	(3,557)
Accretion of interest	34	39
Changes in unit prices (within insurance benefits)	507	(1,246)
Other movements (within insurance benefits)	–	–
New business	414	1,056
Change in valuation basis:		
– Discount rate	153	231
– Others	33	(158)
At 31 December	26,052	21,518

(v) Life investment contracts with DPF

	2013 \$'000	2012 \$'000
At 1 January	500,759	608,018
Claims and surrenders	(208,672)	(117,037)
Investment income	11,925	19,579
Others	(12,624)	(9,801)
At 31 December	291,388	500,759

## FINANCIAL STATEMENTS

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#### 12 INSURANCE AND OTHER PAYABLES

	Note	2013 \$'000	2012 \$'000
Payables arising from insurance and reinsurance contracts:			
– Insurance contract payables		1,203,136	1,035,267
– Reinsurance payables		60,853	15,055
		1,263,989	1,050,322
Other payables:			
– Provision for agency expenses		8,980	12,718
– Share-based payment liability	28(b)	16,289	6,603
– Amount due to related companies (non-insurance)		11,786	15,180
– Other payables and accrued expenses		97,545	276,373
		134,600	310,874
		1,398,589	1,361,196
Current portion		1,339,175	1,348,375
Non-current portion		59,414	12,821
		1,398,589	1,361,196

Amounts due to related companies (non-insurance) are unsecured, interest free and repayable on demand.

Share-based payment liability relates to share-based award plans created and are designed to provide benefits to advisors, senior management and retirement needs of long serving advisors.

#### 13 FINANCIAL LIABILITIES

	Note	2013 \$'000	2012 \$'000
Derivative financial instruments	4(d)	94,244	35,944
Current portion		61,694	32,173
Non-current portion		32,550	3,771
		94,244	35,944

#### 14 DEFERRED TAX LIABILITIES

	Note	2013 \$'000	2012 \$'000
At 1 January		763,254	699,894
Net provision made during the year	26	76,891	63,360
At 31 December		840,145	763,254

Deferred tax (assets)/liabilities, determined after appropriate offsetting, are attributable to the following:

	Assets		Liabilities		Net	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Unrealised foreign exchange losses	(1,133)	(437)	–	–	(1,133)	(437)
Capital allowances for property and equipment	–	–	1,241	607	1,241	607
Tax on future distributions	–	–	840,037	763,084	840,037	763,084
Deferred tax (assets)/liabilities	(1,133)	(437)	841,278	763,691	840,145	763,254

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### NOTES TO THE FINANCIAL STATEMENTS

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

Deferred tax liabilities are non-current.

#### 15 SHARE CAPITAL

	2013 No. of shares ('000)	2012 No. of shares ('000)
<b>Fully paid ordinary shares, with no par value:</b>		
Ordinary shares (At the beginning and end of the year)	526,557	526,557

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 shares rank equally with regard to the Company's residual assets.

#### 16 RESERVES

	Note	2013 \$'000	2012 \$'000
Capital contribution reserve		549	138
Revaluation reserve	5	8,525	3,649
		9,074	3,787

The capital contribution reserve comprises the cumulative value of equity settled employee services received for the share-based payments.

The revaluation reserve relates to the revaluation of leasehold property.

#### 17 ACCUMULATED SURPLUS

Included in the accumulated surplus are amounts the Company maintains for solvency purposes, which is higher than the regulatory minimum requirement. Under the Insurance (Valuation and Capital) Regulations governing the risk-based capital framework for insurers, each insurance fund is required to maintain a minimum of 100% of regulatory risk capital, and capital adequacy of at least 120% or otherwise prescribed by MAS.

##### Dividends

The following dividends were declared and paid by the Company:

	2013 \$'000	2012 \$'000
Interim dividends (2013: \$0.47 per qualifying share; 2012: \$0.78 per qualifying share)	250,000	413,000

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**18 CLASSIFICATION AND FAIR VALUES OF FINANCIAL INSTRUMENTS**

	Note	Designated at fair value \$'000	Trading \$'000	Loans and receivables \$'000	Other financial liabilities within the scope of FRS 39 \$'000	Total carrying amount \$'000	Fair value \$'000
<b>2013</b>							
<b>Financial assets</b>							
Investments and loans							
– Equity securities	7	3,737,759	–	–	–	3,737,759	3,737,759
– Debt securities	7	7,805,238	–	–	–	7,805,238	7,805,238
– Collective investment schemes	7	12,442,446	–	–	–	12,442,446	12,442,446
– Derivative financial instruments	7	–	38,761	–	–	38,761	38,761
– Loans and receivables	7	–	–	523,278	–	523,278	523,278
Other receivables	9	–	–	107,197	–	107,197	107,197
Cash and cash equivalents	10	–	–	983,516	–	983,516	983,516
		23,985,443	38,761	1,613,991	–	25,638,195	25,638,195
<b>Financial liabilities</b>							
Other payables	12	–	–	–	(134,600)	(134,600)	(134,600)
Derivative financial instruments	13	–	(94,244)	–	–	(94,244)	(94,244)
		–	(94,244)	–	(134,600)	(228,844)	(228,844)
<b>2012</b>							
<b>Financial assets</b>							
Investments and loans							
– Equity securities	7	3,621,682	–	–	–	3,621,682	3,621,682
– Debt securities	7	7,496,843	–	–	–	7,496,843	7,496,843
– Collective investment schemes	7	11,328,694	–	–	–	11,328,694	11,328,694
– Derivative financial instruments	7	–	192,147	–	–	192,147	192,147
– Loans and receivables	7	–	–	501,798	–	501,798	501,798
Other receivables	9	–	–	62,725	–	62,725	62,725
Cash and cash equivalents	10	–	–	909,660	–	909,660	909,660
		22,447,219	192,147	1,474,183	–	24,113,549	24,113,549
<b>Financial liabilities</b>							
Other payables	12	–	–	–	(310,874)	(310,874)	(310,874)
Derivative financial instruments	13	–	(35,944)	–	–	(35,944)	(35,944)
		–	(35,944)	–	(310,874)	(346,818)	(346,818)

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### NOTES TO THE FINANCIAL STATEMENTS

#### 19 INSURANCE PREMIUMS

	Gross premiums		Premiums ceded to reinsurers		Net premiums	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Life insurance par contracts	1,710,343	1,459,657	(1,836)	(3,251)	1,708,507	1,456,406
Life insurance non-par contracts	1,075,312	737,356	(94,074)	(42,076)	981,238	695,280
Investment-linked contracts	1,080,119	960,420	(9,262)	(7,971)	1,070,857	952,449
	3,865,774	3,157,433	(105,172)	(53,298)	3,760,602	3,104,135

#### 20 FEES AND COMMISSION INCOME

	2013 \$'000	2012 \$'000
Fee income	5,345	2,744
Reinsurance commission	8,882	11,418
Profit commission	405	240
	14,632	14,402

#### 21 INVESTMENT INCOME

	2013 \$'000	2012 \$'000
Interest income		
– Debt securities	251,345	246,102
– Loans and receivables	24,865	25,465
– Cash and cash equivalents	1,598	1,129
Dividend income	188,039	153,474
Rental income	1,288	1,294
Net realised gains and fair value changes on financial assets at fair value through profit or loss	299,739	1,864,434
Exchange losses	(4,032)	(15,541)
	762,842	2,276,357
Life insurance par contracts <i>(including investment contracts with DPF)</i>	595,528	1,123,839
Life insurance non-par contracts	(51,123)	153,251
Investment-linked contracts	220,403	992,739
Investment income from insurance operations	764,808	2,269,829
Shareholders' fund	(1,966)	6,528
	762,842	2,276,357

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**22 CLAIMS AND BENEFITS INCURRED**

	2013 \$'000	2012 \$'000
<b>Long-term insurance contracts:</b>		
<b>Life insurance par contracts (including investment contracts with DPF)</b>		
Claims, maturity and surrender benefits	978,030	814,643
Increase in liabilities during the year	827,941	1,367,227
<b>Life insurance non-par contracts</b>		
Claims, maturity and surrender benefits	218,020	224,969
Increase in liabilities during the year	401,784	213,771
Reinsurer's share of increase in liabilities during the year	(595)	(93,106)
<b>Investment-linked contracts</b>		
Claims, maturity and surrender benefits	794,204	733,805
Increase in liabilities during the year	210,960	932,854
<b>Shareholders' fund claims expenses</b>		
Claims, maturity and surrender benefits	41	9
	3,430,385	4,194,172

**23 COMMISSION AND DISTRIBUTION COSTS**

	2013 \$'000	2012 \$'000
Commission expenses	433,512	373,371
Other acquisition costs	89,561	74,669
	523,073	448,040

Included in commission expenses is \$5,817,000 (2012: \$1,642,000) of the share-based compensation expenses.

**24 STAFF COSTS**

	Note	2013 \$'000	2012 \$'000
Salaries and benefits in kind		75,482	65,180
Contributions to Central Provident Fund		6,078	4,910
Share-based compensation expenses	28	7,367	4,268
		88,927	74,358

**25 OTHER OPERATING EXPENSES**

Included in other operating expenses are the following:

	2013 \$'000	2012 \$'000
Administrative expenses	15,179	12,100
Advertising and promotional expenses	12,641	11,181
Investment expenses	75,367	67,637



## FINANCIAL STATEMENTS

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## 26 TAXATION

	Note	2013 \$'000	2012 \$'000
<b>Current tax expense</b>			
Current year		40,176	85,021
Adjustment for prior periods		7,878	(48,327)
		48,054	36,694
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences	14	76,891	63,360
Total income tax expense		124,945	100,054

The Company has estimated its tax charge and tax provision relating to the life assurance business based on the current tax legislation. These estimates may be different from the ultimate actual tax liability or refund, although the Company believes that the provision is prudent and appropriate.

### Reconciliation of effective tax charge

	2013 \$'000	2012 \$'000
Profit before tax	311,615	514,002
Income tax using domestic corporation tax rate of 17% (2012: 17%)	52,975	87,380
Taxation relating to insurance funds	83,374	73,991
Non-deductible expenses	3,024	4,372
Over provision in prior years	7,878	(48,327)
Non-taxable income	(18,311)	(9,648)
Others	(3,995)	(7,714)
	124,945	100,054

## 27 PROFIT FOR THE YEAR

	2013 \$'000	2012 \$'000
Life insurance par contracts <i>(Including investment contracts with DPF)</i>	28,848	24,468
Life insurance non-par contracts	90,676	284,871
Investment-linked contracts	73,765	101,468
Shareholders' fund	(6,619)	3,141
	186,670	413,948

## 28 SHARE-BASED PAYMENT TRANSACTIONS

The Company has the following share-based payment arrangements:

### Prudential International Savings-Related Share Option Scheme (Equity settled)

Prudential Public Limited Company, the ultimate holding company of the Company, established the Prudential International Savings-Related Share Option Scheme in which employees may participate. This is a share save scheme where members of staff put a fixed amount of money into a saving plan over set periods of three or five years. At the end of those periods, they have the option to use the savings to buy Prudential Public Limited Company shares at exercise price.

## FINANCIAL STATEMENTS

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#### Share-based Compensation Plans (Cash settled)

There are 2 main groups of compensation plans which are described below.

##### (a) Incentives plans

Prudential Public Limited Company, the ultimate holding company of the Company, established these plans to reward executive directors and senior management staff for delivering sustainable long-term returns for shareholders.

The incentive plans vest subject to the employee being in employment at the time. One of the plans also vests on the basis of the Group's relative Total Shareholder Return (TSR) performance against a peer group of international insurers. These are discretionary and on a year by year basis determined by the ultimate holding company's full year financial results and the employee's contribution to the business.

##### (b) Non-employee share-based compensation plans

These are share-based compensation plans for non-employee advisors relating to the shares of its ultimate holding company, Prudential Public Limited Company. Every year, shares or cash equivalent, with minimum vesting period of three years or more, will be granted, subject to the individual continuing to be an advisor with the Company at the end of the vesting period.

(i) The number and weighted average exercise price of share options and share awards are as follows:

Options outstanding	Weighted average exercise price \$	2013 Number of options	2012 Number of options
At 1 January	11.14	162,996	291,016
– Granted	18.06	120,140	101,285
– Transfer (out)/in	12.48	(1,431)	1,431
– Vested	9.60	(10,015)	(219,488)
– Withdrawn	11.46	(14,583)	(11,248)
At 31 December	14.41	257,107	162,996

Awards outstanding	2013 Number of awards	2012 Number of awards
At 1 January	1,100,531	1,009,962
– Granted	528,730	372,302
– Vested	(125,347)	(256,020)
– Withdrawn	(126,244)	(25,713)
At 31 December	1,377,670	1,100,531

(ii) Fair value of share options and share awards

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured by the ultimate holding company based on Black Scholes option pricing model.

Fair value of share options and assumptions	Options granted on 27/4/2009	Options granted on 28/9/2010	Options granted on 16/9/2011	Options granted on 21/9/2012	Options granted on 20/9/2013	Options granted on 20/9/2013
Fair value at measurement date (\$)	3.10	6.13	5.17	4.48	6.55	7.43
Share price at grant date (\$)	8.07	13.15	11.90	16.39	23.75	23.75
Exercise price (\$)	6.31	9.60	9.15	12.48	18.06	18.06
Expected volatility	51.96%	67.65%	62.67%	34.27%	23.68%	26.23%
Expected life	5 years	3 years	3 years	3 years	3 years	5 years
Expected dividend yield	4.57%	3.42%	3.33%	3.63%	2.73%	2.73%
Risk-free interest rate	2.45%	0.89%	0.89%	0.33%	0.87%	1.68%

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The forecasted volatilities are based upon an analysis which provides a forecast essentially equivalent to an exponentially weighted average rate with the added refinement of incorporating regression towards the mean of the historical trend line. Volatility rates for intermediate points in time were obtained by interpolation.

Share options were granted under a service condition and a simulation study was used to assess the impact of the performance conditions of the ultimate holding company.

The share price of Prudential Public Limited Company listed on the London Stock Exchange on the last trading day in 2013 was GBP13.40 (2012: GBP8.655) respectively.

	2013 \$'000	2012 \$'000
Share-based compensation expense		
– Amount accounted for as cash settled	12,773	5,791
– Amount accounted for as equity settled	411	119
Carrying value at 31 December of liabilities arising from cash settled share-based payment transactions	16,289	6,603

## 29 COMMITMENTS

### (a) Capital commitments

	2013 \$'000	2012 \$'000
Contracted at the reporting date but not provided for	460	2,324

### (b) Operating lease commitments

The Company leases a number of premises under operating leases. The leases typically run for a period of three to fourteen years, with an option to renew the leases after those dates.

The Company had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2013 \$'000	2012 \$'000
Payable:		
– Within one year	23,029	19,741
– After one year but within five years	70,996	54,946
– After five years	49,538	62,057
	143,563	136,744

**30 SIGNIFICANT RELATED PARTY TRANSACTIONS**

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

**Related party transactions**

Other than disclosed elsewhere in the financial statements, significant transactions between the Company and related parties are as follows:

	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
Charges for life administration and operation services rendered by a related corporation	27,434	25,556
Charges for management services provided to immediate holding company	150	150
Charges for management services rendered by a related corporation	12,801	12,894
Interest on loans to key management personnel	1	1
Interest on loans to related companies	—	1,069
Investment management fees (net) paid to a related corporation	17,559	19,843
Outstanding loans to key management personnel	13	21
Recovery of expense from related corporations	1,128	2,377
Salaries and other short-term employee benefits to key management	6,423	4,371

The loan to key management personnel has an interest rate of 3% (2012: 3%) and is repayable monthly over 1 year (2012: 2 years). The outstanding loan to key management personnel is unsecured.