



# Annual Report 2016

Your relationships are precious. **Protect them.**



**PRUDENTIAL**

Always Listening. Always Understanding.



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Singapore (Pte) Limited  
  
(Prudential Singapore)

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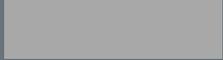
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(Prudential Singapore)



Relationships...  
are at the  
heart  
of everything  
we do



# About Prudential Singapore

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

Prudential Singapore, an indirect wholly-owned subsidiary of UK-based Prudential plc, is one of the top life insurance companies in Singapore. We have been serving the financial and protection needs of Singaporeans for 85 years. 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 S\$31.5 billion funds under management as at 31 December 2016. In 2014, we were awarded an AA Financial Strength Rating by leading credit rating agency Standard & Poor's.

Since 2007, we have been conferred the People Developer Award by SPRING Singapore for our efforts in training and developing employees and in 2013 and 2014, we were presented with Asia's Employer of the Year Brand Award by the Branding Institute and the World HRD Congress. Prudential Singapore was also awarded the NTUC Plaque of Commendation (Gold) Award in 2014, and the Singapore Human Resource Institute presented the company with the Leading HR Practices in Quality Work-Life, Physical & Mental Well-Being Award in 2014 and the Leading HR Practices in Lifelong Learning Award in 2015.

Relationships  
are what  
**drive us**  
to greater  
**heights**



**Wilfred Blackburn**  
*Chief Executive Officer*

2016 was marked by game-changing global events such as Brexit and the presidential election in the United States. In Singapore, economic and employment growth remained anaemic throughout 2016, weighed down by continued uncertainties and volatilities in the global markets.

Against a challenging macroeconomic and business environment, we managed to maintain a solid footing by leveraging the strengths of our fundamentals. Our New Business sales recorded S\$656 million in 2016, an increase of S\$8 million over 2015. More importantly, we continued to lead the industry last year with the biggest market share in the regular-premiums business. We also continued to inspire strong confidence among our customers and investors as the only life insurance company in Singapore with a double-A rating awarded by leading credit agency Standard and Poor's.

We owe our resilient performance to the hard work and enterprise of our people; the strength of our tied and exclusive distribution channels; and an unwavering commitment to meet the long-term financial needs of our customers.

**Closing the protection gap**

The Singapore population remains largely underinsured by industry standards despite its rising affluence. Recognising the protection gap in Singapore, we launched new and enhanced protection-focused insurance products such as PRUpersonal accident and PRUterm Vantage, with a view to help our customers achieve greater financial security for themselves and their loved ones.

As a result of our strong focus on protection, our total sum assured or total coverage amount for our customers, increased 26 per cent in 2016. Going forward, we will continue to place an emphasis on helping our customers close their protection gaps.

**Building on 85 years of heritage**

2016 was also our 85<sup>th</sup> anniversary in Singapore. We marked this significant milestone with an innovative and emotive relationship-focused brand campaign to celebrate the deep relationships formed over the years. We also gave back to the community which has supported us through the decades with the launch of PRUcares - a new community programme offering lower-income families in Singapore immediate financial assistance during times of crises.

As one of the leading life insurance companies in Singapore, we recognise that we have an important role to play in driving the economic growth and strengthening the social fabric of the country. To this end, we will continue to put a strong focus on supporting our people in their career development, helping our customers achieve their financial goals and giving back to the community.

**Investing in the future**

The emergence of new technologies presents both challenges as well as opportunities. At Prudential, we recognise the importance of innovation and are investing in new technologies to ensure we stay relevant to and ahead of our customers' changing needs and expectations. In 2016, we became the first in the industry to digitalise contract booklets for our customers. We also launched PRU For You, an interactive online portal where we engage our customers on a regular basis to get timely feedback on our products and services. Our long-term success and leadership will depend greatly on our ability and agility in harnessing technology to nurture new customer relationships and deepen existing ones.

Finally, I would like to express my deepest gratitude to our people and exclusive agency force for their dedication and commitment; our bank partners for their continued support; and our customers for placing their trust in us.

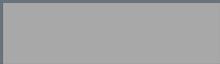
**Wilfred Blackburn**  
*Chief Executive Officer*



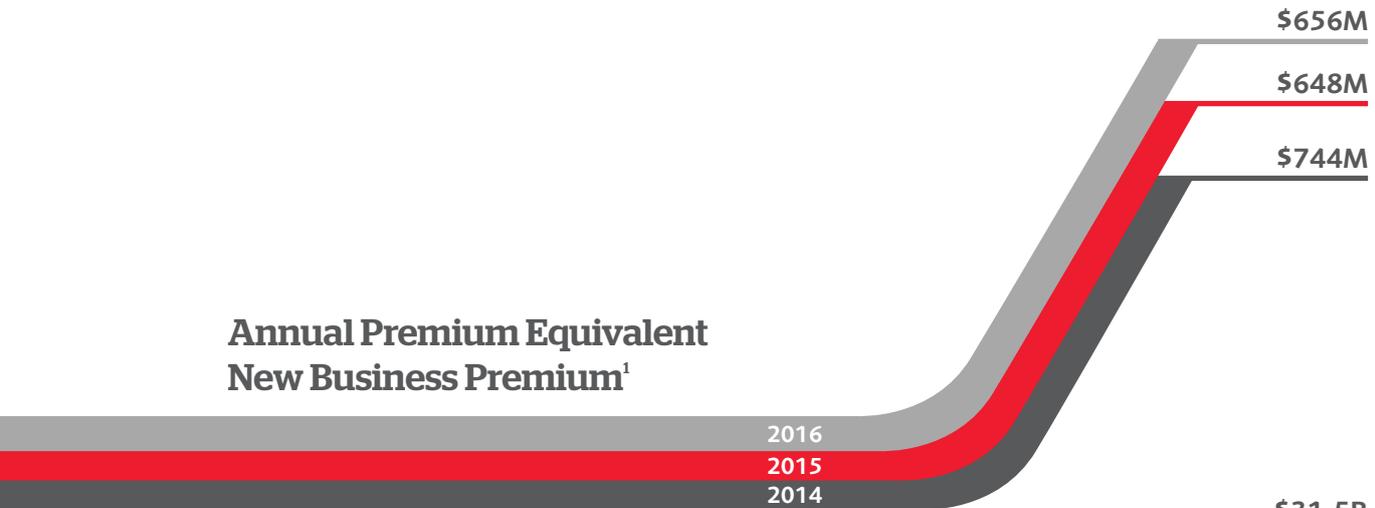
> Business Review  
(incorporating Financial  
Highlights and Year  
in Review)



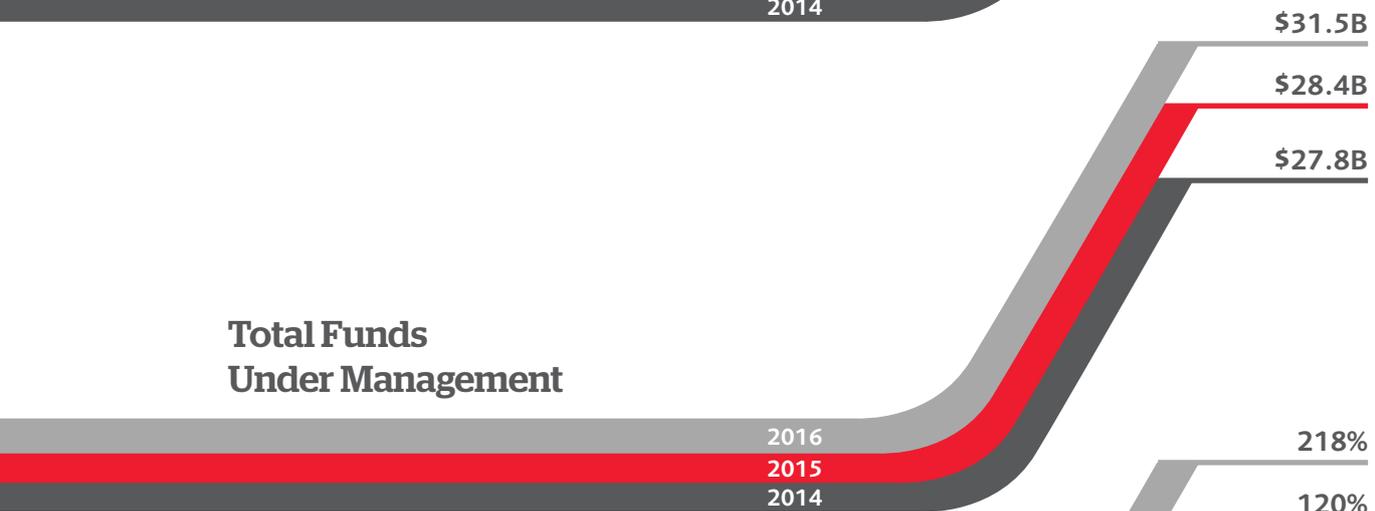
Relationships...  
**guide and**  
**shape our**  
business  
**decisions**



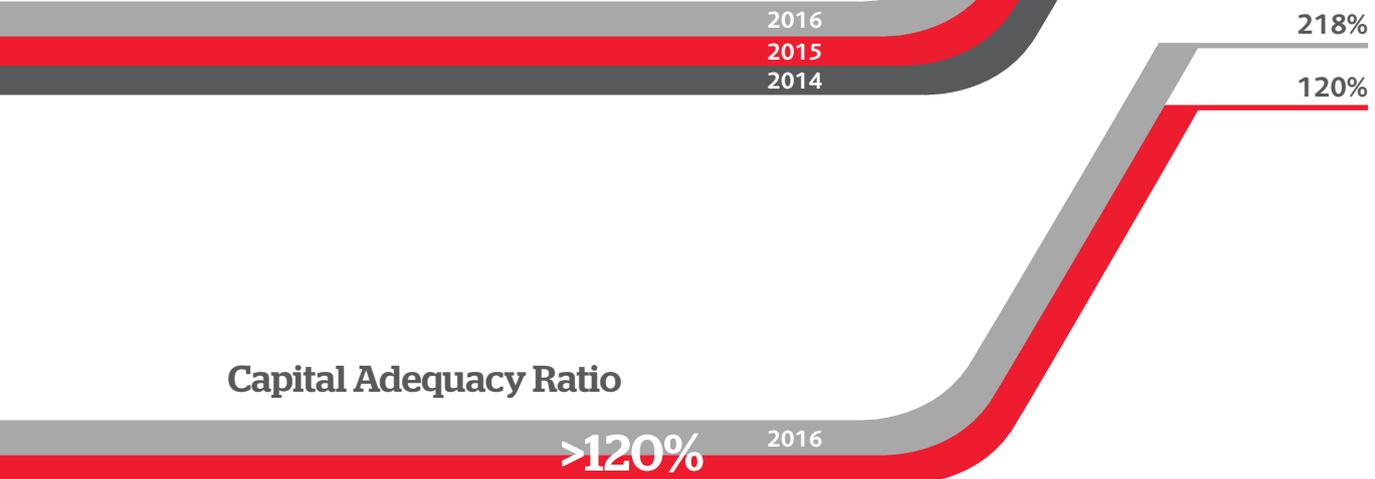
### Annual Premium Equivalent New Business Premium<sup>1</sup>



### Total Funds Under Management



### Capital Adequacy Ratio



<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.

## The Business We Do

Established in 1930, Prudential Assurance Company Singapore (Pte) Limited (Prudential Singapore) is one of the leading life insurers in Singapore. For 85 years, we have been providing protection and savings opportunities to our customers, social and economic benefits to the communities in which we operate, jobs and prospects to our employees and agency force. As the only life insurer in Singapore with a double-A rating awarded by Standard and Poor's, we possess the financial strength and stability to support our various stakeholders through economic cycles.

## Our Customers

Today, we offer financial peace of mind to nearly 850,000 people in Singapore through our agency force and bancassurance partners. We are committed to making a difference to the lives of our customers by providing them with suitable financial solutions, quality advice and excellent service through our trained agency force and bank partners.

True to our brand promise of "*Always Listening, Always Understanding*", we launched *PRU For You*, an industry-first interactive online portal for our customers. Through *PRU For You*, we

are able to engage our customers better and get timely feedback from them, with which we use to improve our products, service delivery and customer experience.

To cater to a new generation of customers who are more technologically savvy and environmentally conscious, we became the first insurance company in Singapore to offer digital contract booklets in USB wafer cards to policyholders. With approximately 10,000 hardcopy contract booklets being printed monthly, the switch away from hardcopy to digital contract booklets helps us contribute to a greener environment.

We also launched an eClaims portal for employees of our corporate customers. The portal makes it more convenient and easier for our customers to submit claims and to check payment status.

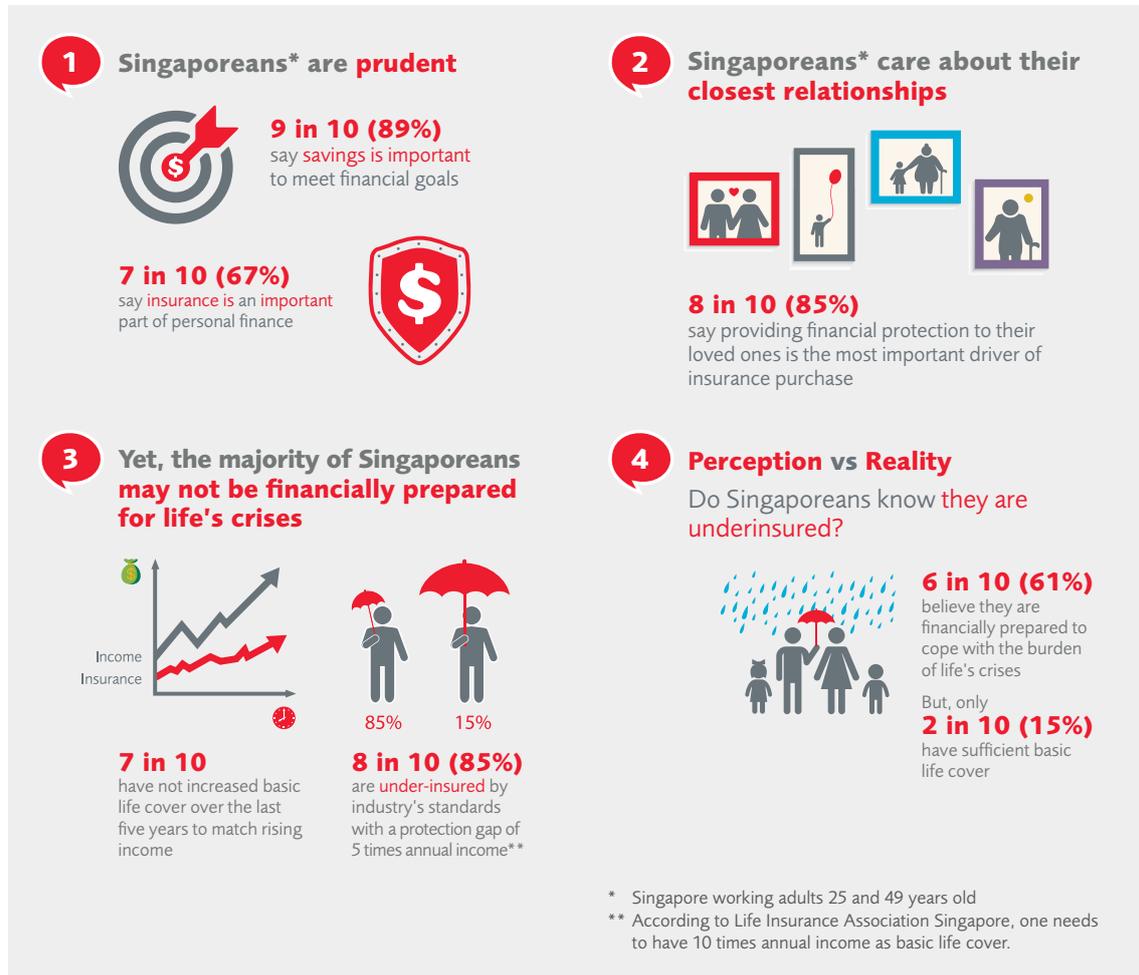
### Helping our customers close their protection gap

Recognising that the majority of Singaporeans are under-insured, we focused our efforts on helping our customers build better futures for themselves and their families by helping to fill in the protection gap.



## 2016 Prudential Protection Poll:

Understanding Singaporean's mindset on financial protection.



According to the inaugural Prudential Protection Poll conducted in July 2016, eight in 10 Singaporeans are under-insured by industry standards, with only five times their annual earnings set aside as contingency funds for unexpected personal and financial events. According to the Life Insurance Association Singapore, one should aim to have approximately 10 times his or her annual earnings as basic life cover.

To address this situation, in 2016, we launched 16 new products and made improvements to six protection-focused products to meet our customers' changing and diverse needs.

Some of our new products in 2016 include:

- **PRUpersonal accident**, a plan that provides comprehensive 24-hour worldwide coverage, affordable premiums and up to three times payout for accidents.
- **PRUsave max 10**, an endowment plan which provides a lump sum payout at maturity and helps customers fund their 10-year savings goal.
- **PRUlifetime income**, a multi-generational whole of life plan that provides financial protection against death and accidental disability.
- **PRUgolden retirement**, provides our customers with a regular stream of retirement income, giving them peace of mind and financial independence to focus on what matters most.

Terms & Conditions apply for the above products. Please refer to [www.prudential.com.sg](http://www.prudential.com.sg) for more details.

### Our Exclusive Distributors

We have a multi-channel distribution platform comprising our agency force and bancassurance partners – Standard Chartered Bank (SCB) and United Overseas Bank Group (UOB). These distributors have exclusive rights to sell Prudential's suite of products and solutions.

We continue to invest in expanding and building the capabilities of our agency force which is today the largest in Singapore. In 2016, we recruited more than a thousand financial consultants and offered

internship opportunities to 30 undergraduates keen to explore a career in the insurance industry. To ensure our agency force provides our customers with quality advice and solutions suitable for them, we invested nearly 400 hours conducting product and fair dealing trainings for our financial consultants in 2016. We have zero tolerance for conduct that goes against the Fair Dealing guidelines as we believe that long-term relationships with our customers can only be built on trust.

### Our People

As we recognise that our people are our greatest asset, we invest in fostering an environment in which our people are given the opportunities to build meaningful careers and to perform to the best of their abilities. Our Human Resources colleagues work in collaboration with the different divisions to identify the learning needs of our people and to develop training programmes around enhancing core capabilities, personal productivity, team management, creative thinking. We aim to help our people develop critical skills that are required for the organisation today and in the future.

#### Caring for our people

As part of our commitment to promote work-life balance, we offer flexi-work arrangements and organise an annual eat-with-your-family day for our people.

In 2016, we increased our maternity leave by eight weeks to a total of six months and paternity leave by seven days to a total of three weeks to give our colleagues who are parents more time to take care of their newborns.

To encourage healthy living among our colleagues, we launched an employee health portal. Through the PRU+YOU portal, our employees can monitor their health as well as access personalised wellness information to help them improve their physical and mental well-being.

### Nurturing the next generation of leaders

In 2016, we started a two-year Management Associate (MA) programme to groom the future leaders of the insurance industry. The programme allows young graduates to learn more about the industry through a six-month job rotation while pursuing a professional insurance qualification managed by the Singapore College of Insurance. Additionally, we recruited 18 Business Interns from the top education institutions in Singapore through the Prudential Business Internship (PBI) programme. These interns from National University of Singapore, Nanyang Technological University, and Singapore Management University went through an intensive and experiential 12-week journey designed to prepare them for a career in the corporate world.

We also partnered with Common Purpose, a not-for-profit social enterprise, to host 100 undergraduates in a four-day Global Leader Experiences (GLEs) programme designed to help students apply their academic learnings in the corporate world. The GLEs programme, with nearly 50,000 alumni, has been hosted by top universities and multi-national companies globally. We are proud to be selected as the Singapore host of the global programme.



## Our Community

As one of the oldest life insurance companies in Singapore, we have a responsibility to help strengthen the social fabric of the community. Our community efforts have been focused on improving health and wellbeing, as well as raising awareness of financial literacy.

### Supporting the less privileged

To commemorate our 85<sup>th</sup> anniversary, we launched *PRUcares* in September 2016 offering financial assistance and peace of mind to lower-income families in Singapore during health and personal crises.

Anchored on the principles of insurance, *PRUcares* was developed in collaboration with AWWA, a non-profit, community-based organisation. Beneficiaries of the programme get financial support in the form of cash and food vouchers in the event that they are unable to work and lose income due to illnesses, accidents or death. *PRUcares* is fully funded by Prudential Singapore and is offered at no cost to the beneficiaries. *PRUcares* comes at a time of growing awareness about the protection gap among Singaporeans. For lower-income individuals with no insurance, an ongoing concern is that they may not be able to cope financially in times of crises.



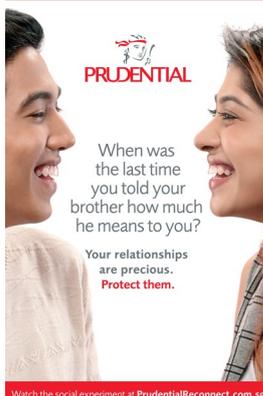
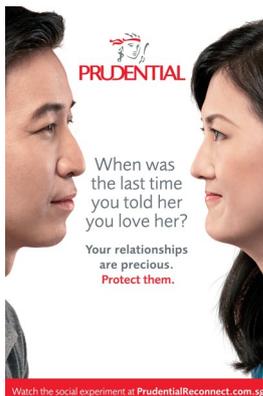
Once again, we supported *The Boys' Brigade Share-a-Gift* programme – one of the longest-running charity initiatives in Singapore. For the eighth consecutive year, our employees and agency force came together to help fulfil the wishes of the less fortunate and to deliver food hampers to lower-income families during the end-year festive period. In 2016, *The Boys' Brigade Share-a-Gift* programme brought cheer to 38,317 beneficiaries across the island.



Putting relationships at the heart of what we do

Relationships are at the heart of what we do. Our customers trust us with their financial needs because of the long-term relationships we have with them. The products and services we offer help express our customers' long-term concern for the people they care about most.

As part of our focus on relationships, we launched the Prudential Relationship Reconnect campaign in February 2016 to encourage Singaporeans to reconnect with their loved ones. The campaign videos on social media showing relationships being reconnected in four minutes of silence attracted 24 million views worldwide.



We continued to help Singaporeans strengthen their relationships in the second half of the year with the Prudential Relationship Index<sup>1</sup> - a first-of-its-kind regional study on quality of relationships across 14 countries in Asia.

The 2016 Prudential Relationship Index provides a snapshot of the health of relationships in Singapore, highlighting the areas that contribute to happiness and those that require attention. For more information on the Prudential Relationship Index, visit the Microsite: [www.prudentialrelationshipindex.com/sg](http://www.prudentialrelationshipindex.com/sg)

Towards the end of the year, we started a movement urging Singaporeans to put aside their mobile phones and to spend more quality time with their friends and families. We partnered a leading coffee chain to encourage patrons to place their mobile phones in Prudential phone holders and focus on the company with them. Over 10 days, 3,700 phones were placed aside resulting in approximately 200,000 minutes of meaningful conversations between people.

#### Championing healthy living and financial literacy

To help Singaporeans lead a healthier lifestyle, we took our partnership with Standard Chartered Marathon one step further with the launch of the Prudential Healthy Life Expo. The Prudential Healthy Life Expo had a lineup of health talks, fitness classes, games and free medical checks and was designed to encourage Singaporeans to get healthy and fit in a fun manner with families and friends. More than 50,000 people, including our employees, financial consultants and customers visited the Expo, which spanned over three days in December last year.

We also continued to champion financial literacy for children in 2016 with Cha-Ching Money Smart Kids, an animated musical edutainment series developed by Prudence Foundation to equip seven to 12 year olds with the knowledge, tools and practice they need to make informed financial decisions to reach their own personal goals and dreams. We brought the Cha-Ching concepts of Earn, Save, Spend and Donate to primary school children at the inaugural Happy Sparks, a four-day edutainment experience held at the Singapore Expo in November that welcomed close to 13,000 visitors. Children and their parents had fun learning to be smart with their money through experiential stage performances and an interactive Cha-Ching game with activities and challenges for them to try.



<sup>1</sup> The 2016 Prudential Relationship Index involved interviews with 5000 respondents in Cambodia, China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Thailand and Vietnam between 13 and 31 July 2016. In Singapore, 500 respondents took part in the study. Ipsos, a leading research firm, conducted the survey.

Relationships...  
**grow**  
**when**  
foresight  
**meets**  
**action**

## Directors' Profile



**Lilian Ng**  
*Chairman*

Lilian Ng is Chief Executive, Insurance, of Prudential Corporation Asia (PCA) and a member of its Executive Board. She was appointed as the Chairman of the Board of Directors of Prudential Singapore in August 2015.

She has overall responsibility for Prudential's network of life insurance operations across 12 markets in Asia: Malaysia, Singapore, Hong Kong, Taiwan, China, India, Vietnam, Indonesia, Korea, Thailand, the Philippines and Cambodia. Lilian is responsible for driving regional strategies and strengthening capabilities across its insurance business units.

She has been part of the Prudential family in Asia for over 20 years and has held a range of leadership roles across the company, both in a local business and at PCA, including most recently, Chief Operating Officer, Insurance, for six years.

Lillian is a Fellow of the Institute of Actuaries of Australia.



**Wilfred Blackburn**  
*Executive Director and Chief Executive Officer*

Wilfred Blackburn has been Executive Director of the Board and Chief Executive Officer (CEO) of Prudential Singapore since November 2016.

Wilfred is an industry veteran with close to three decades of diverse experience, having worked in seven countries in Asia.

Wilfred joined Prudential in 2012 and led new market initiatives prior to his appointment as CEO of Prudential Vietnam in July 2014. His work included overseeing the launch of Prudential's business operations in Cambodia and the establishment of Prudential's representative office in Myanmar and Laos.

Prior to joining Prudential, Wilfred was with Allianz, during which his roles included Regional GM, Life & Health Insurance for Asia and CEO of their joint venture companies in China, Thailand and the Philippines. Before Allianz, Wilfred worked in the United Kingdom for three life insurers and a firm of consulting actuaries.

Wilfred, a British national, qualified as a Fellow of the Institute of Actuaries (FIA) in 1995. He has an MBA from the University of Bath and a BSc (Mathematics - 1st Class Hons.) from the University of Newcastle upon Tyne (his home town) and has been a postgraduate student at both the City University (now CASS) and Harvard Business School.

## Directors' Profile



### **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 2017. The Chairman of the Audit Committee, Dr Tan began his career in academia. In 1973, Dr Tan joined J.P. Morgan in New York. He joined Overseas Union Bank Limited in Singapore in 1989 as Executive Vice-President, and was appointed Chief Executive, of the International Bank of Singapore Ltd and Chairman of OUB Bullion & Futures Ltd. Dr Tan was the Alternate Chairman of the Association of Banks in Singapore from 1993 to 1995.

Dr Tan retired as Chairman of Intraco Limited in 2015 and is currently an Independent Director of Hotung Investment Holdings. 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 has been a Non-Executive Director of Prudential Singapore since July 2006. 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 a Director of Exploit Technologies Pte Ltd and Connection Real Estate Pte Ltd.

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.

## Directors' Profile



### **Sir Alan Stanley Collins KCVO CMG**

*Non-Executive Director*

Sir Alan Collins has been a Non-Executive Director of Prudential Singapore since August 2012. He is also a member of the Audit Committee of Prudential Singapore.

Currently, Sir Alan serves as a Non-Executive Director on several company Boards, including 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 British 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) degree from the London School of Economics and Political Science.

Relationships...  
**thrive**

when  
**listening**  
starts at the top

## Management Executive Committee



**Wilfred Blackburn**  
*Chief Executive Officer*

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Prior to joining Prudential, Wilfred was with Allianz, during which his roles included Regional GM, Life & Health Insurance for Asia and CEO of their joint venture companies in China, Thailand and the Philippines. Before Allianz, Wilfred worked in the United Kingdom for three life insurers and a firm of consulting actuaries.

Wilfred, a British national, qualified as a Fellow of the Institute of Actuaries (FIA) in 1995. He has an MBA from the University of Bath and a BSc (Mathematics - 1st Class Hons.) from the University of Newcastle upon Tyne (his home town) and has been a postgraduate student at both the City University (now CASS) and Harvard Business School.



**Edwin Peh**  
*Chief Financial Officer*

Edwin Peh was appointed Chief Financial Officer of Prudential Singapore in June 2015.

Edwin oversees Finance, Actuarial, Business Planning, Distribution Compensation and Analytics.

Prior to joining Prudential, Edwin was Deputy General Manager and Chief Financial Officer of a Sino-foreign joint venture company in China. During his tenure with the foreign company, Edwin held various roles, from Regional Actuary, Business Unit Chief Financial Officer, to Corporate Actuary at Headquarters, before moving to China in 2010.

Edwin holds an MBA in Finance from the Washington University in the United States of America and a Bachelor of Commerce degree in Actuarial Studies from the Macquarie University in Australia. He is also a Fellow of the Institute of Actuaries of Australia and a CFA Charterholder.

## Management Executive Committee



**Theresa Nai**  
*Chief Operating Officer*

Theresa Nai has been the Chief Operating Officer of Prudential Singapore since June 2009.

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, Procurement and Property Services.

Prior to joining the company, she was Vice-President and Deputy General Manager, as well as the Alternate Principal Officer of a major insurance player in Singapore.

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



**Jon Sandham**  
*Chief Agency Officer*

Jon Sandham is Chief Agency Officer of Prudential Singapore. Jon rejoined Prudential Singapore in 2014 after a two year stint in Indonesia where he successfully led the design and implementation of a revised growth strategy for AXA's agency and bancassurance distribution channels. Prior to Indonesia, Jon was the Chief Partnerships Distribution Officer at Prudential Singapore. He was responsible for driving distribution through strategic bank and post-assurance partners.

Since his return to Prudential Singapore, Jon has successfully put in place an agency division organisation structure to better serve and support the agency force. He and his team have implemented initiatives to grow the agency division especially manpower as well as strengthen the relationship between the company and the agency force. Agency manpower grew 18 per cent since 2014. In anticipation of growth from foreign residents in Singapore, Jon created a position for agency international business. The international business segment has seen multiple folds in growth. His remit in agency division includes all functions relating to agency as well as employee benefit solutions department.

Jon has over 30 years of experience in direct sales, distribution and channel management in the UK and in bancassurance and tied advisor channels in Asia. Besides Indonesia and Singapore, his time in Asia includes driving the Partnerships Distribution business in Prudential Taiwan and Korea.

## Management Executive Committee



### **Sheela Parakkal**

*Chief Human Resources Officer*

Sheela Parakkal was appointed Chief Human Resources Officer of Prudential Singapore in September 2015.

Sheela champions the human capital value chain and provides leadership in developing and driving HR strategies in line with business goals. This includes formulating and working with the leaders on appropriate recruitment strategies, and managing the company's talent and succession planning.

Sheela started her career with PricewaterhouseCoopers Singapore as an auditor and qualified as a CPA before moving into a human capital role. After 17 years with PricewaterhouseCoopers Singapore, Sheela assumed the role of Group Human Resources Director at Sindicatum Sustainable Resources overseeing HR for its regional operations. In her last role, she was the Human Capital Leader for PricewaterhouseCoopers Singapore Consulting, a regional joint venture in South East Asia.

Sheela holds an MBA (Banking & Finance) from the Nanyang Technological University, Singapore and is a member of the Australian Society for Certified Practising Accountants.



### **Lionel King**

*Chief Risk Officer*

Lionel King joined Prudential Singapore as Chief Risk Officer in April 2012. He heads the Compliance and Enterprise Risk Management division of the company.

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.

His previous experience includes working in Prudential's Group Head Office from 1991 to 1999. He moved to Prudential Singapore in 2000 and spent the next four years in various roles - Finance Director, Life Operations Director and Chief Operations Director.

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

## Management Executive Committee



### Angela Hunter

*Chief Customer Officer*

Angela Hunter is Chief Customer Officer of Prudential Singapore. She oversees Strategy, Marketing, Product Development and Management, Corporate Affairs, Customer Strategy and Experience, Digital Strategy, and Accident and Health Business.

She was previously the Managing Director of GE Capital in New Zealand, the largest non-bank finance provider in the country. She concurrently held the position of Country Manager.

Prior to this she was Managing Director of Hallmark Insurance Company (part of the General Electric group) across Australia and New Zealand.

She has over 20 years of financial services experience and prior to joining GE, she spent four years at Citibank Australia. Her previous experience also includes roles at Insurance Australia Group (IAG) and telecommunications companies Vodafone and Optus.

Angela holds a Bachelor of Business from the University of Technology, Sydney. She has a Certificate IV in Financial Services with Australian and New Zealand Institute of Insurance and Finance (ANZIIF) and is a Graduate of the Australian Institute of Company Directors.



### Stephanie Simonnet

*Chief Partnerships Distribution Officer*

Stephanie Simonnet is Chief Partnerships Distribution Officer of Prudential Singapore. She is responsible for the distribution of products and services of Prudential Singapore's bank and strategic partners. With the established relationships that Prudential enjoys with the bancassurance partners, the distribution channel is a substantial contributor to the company's business.

Stephanie has spent over 20 years in Asia and her career includes extensive experience in bancassurance. She joined Prudential in Hong Kong in January 2003 where she supported the country's bancassurance partners. She managed the partnerships with Citibank for three years, regionally, before moving to Singapore.

In April 2010, she joined Prudential Singapore to implement and manage the United Overseas Bank (UOB) partnership. She was appointed Head of Partnerships Relations Management for both UOB and Standard Chartered Bank (SCB) in December 2013. In November 2014, she was promoted to her current position.

Stephanie has an Arts degree from University Le Mirail, Toulouse, France.

## Management Executive Committee



### Lena Teoh

*Chief Investment Officer*

Lena Teoh joined Prudential Singapore in January 2017.

She leads the Investment team to developing the expertise to implement Prudential Singapore's long-term investment strategies and asset allocation with the aim to maximise the value of investments in assets across the insurance platform. She will also engage distribution channels and product management teams in areas of investment related advice and business support.

Lena's career spans over 25 years in the financial services industry comprising corporate banking, investment banking and asset management for the last 20 years. She has strong experience investing in multi-class assets across Global and Asian markets as well as a deep understanding of the macro and microeconomic drivers that are crucial to making successful investments. Lena was the Managing Director with Credit Suisse Singapore till April 2016, responsible for steering the tactical asset allocation strategies for the Bank's Global and Asian-based discretionary and advisory solutions. She was the Asia Pacific Regional Chief Investment Officer for Credit Suisse's Multi Asset Class Division in Asset Management from 2006 to 2014.

Lena graduated from the National University of Singapore with a First Class Honours Degree in Biochemistry and is also a Chartered Financial Analyst.

Relationships...  
help us uphold  
**the values**

that  
define us

## 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 Board-approved 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 held and attended by each director throughout 2016.

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/Committee Meetings and Attendance	Board Meetings (includes 1 Special meeting)	Audit Committee Meetings
<b>Number of meetings held in 2016</b>	5	4
<b>Chairman</b>		
Lilian Ng	3	–
<b>Chief Executive Director</b>		
Wilfred Blackburn (Note 1)	1	–
Philip Seah Cheng Chua (Note 2)	4	–
<b>Non-Executive Officer</b>		
Dr Tan Ng Chee (Note 3)	5	4
Kevin Wong Kingcheung	5	4
Sir Alan Stanley Collins	5	4

Note 1: Appointed as Director and Chief Executive Officer with effect from 4 November 2016.

Note 2: Stepped down as Director and Chief Executive Officer with effect from 4 November 2016.

Note 3: Audit Committee Chairman. In addition, as Dr Tan Ng Chee is above 70 years of age, under Section 153 of the Companies Act and Article 97(d) of the Company's Articles of Association, he will be seeking shareholders' approval for re-appointment as a director at the 2017 AGM.

## Board Composition and Independence

The Board conducts a review and determines the independence of its directors annually. In accordance with the Corporate Governance Regulations, an independent director in Prudential Singapore is one who is independent from management and business relationships with the Company, the substantial shareholders of the Company and has not served for more than nine years on the Board. The Board is required to have at least one-third of directors who are independent directors and at least a majority of directors who are independent from management and business relationships.

As at the date of this report, the Board comprises the Chairman, Ms Lilian Ng, the Chief Executive Officer (CEO), Mr Wilfred Blackburn, and three non-executive directors, namely, Dr Tan Ng Chee, Mr Kevin Wong Kingcheung and Sir Alan Stanley Collins. There are two independent directors, namely Sir Alan Stanley Collins and Dr Tan Ng Chee. Although Mr Kevin Wong Kingcheung is a non-executive director, he is considered a non-independent director as he has served on the Board for more than nine years.

Sir Alan Stanley Collins is also a non-executive director in two Prudential related companies. However, the Board considers him as independent of the substantial shareholder after conducting an objective assessment and being satisfied that there is no conflict of interest. Sir Alan's independence from the substantial shareholder is reviewed on an annual basis. The current composition of the Board satisfies the statutory requirement of having a majority of directors who are independent from any management and business relationship with Prudential Singapore.

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.

Among her other responsibilities, the Chairman is tasked with the leadership and the governance of the Board as a whole. She 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 fulfilment of pre-defined criteria. The Board considers the re-appointment of directors every three years, and reasons for resignations of directors as well as the members of the Management ExCo. Directors who are above 70 years of age are also subject to annual re-appointment at the AGM.

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 2016 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, or 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.

<sup>1</sup> Please refer to the FSB Principles for Sound Compensation Practices: 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 monitors 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:

- a. the volatility of earnings is consistent with the expectations of stakeholders,
- b. 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
<b>Financial risks</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, longevity, morbidity, persistency and expense experience.
	Market risk	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.
	Liquidity risk	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.
	Credit risk	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).
<b>Non-financial risks</b>	Operational risk	The risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.
	Business environment risk	Exposure to forces in the external environment that could significantly change the fundamentals that drive Prudential Singapore's overall strategy.
	Strategic risk	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.

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 2016, the Risk Committee met at least 4 times and approved components of the enterprise risk management framework, including PACS' Own Risk and Solvency Assessment ("ORSA") Report, reviewed outcomes of the annual MAS stress testing exercise, and proposed changes from PACS' annual review of its risk management framework and related risk policies.

### 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 provide adequate assurance against material financial, operational and compliance risks for this financial year.

### Audit Committee

As of 31 December 2016, 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 2016 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.

Relationships...  
need **trust,**  
**transparency**  
and  
**accountability**

## Directors' Statement

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 2016.

In our opinion:

- (a) the financial statements set out on pages 42 to 109 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and the financial performance, changes in equity and cash flows of the Company for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 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 the date of this statement, authorised these financial statements for issue.

### Directors

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

Lilian Lup-Yin Ng  
Wilfred John Blackburn (Appointed on 4 November 2016)  
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' interests 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.



## 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



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**Wilfred John Blackburn**  
*Director*



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**Lilian Lup-Yin Ng**  
*Director*

15 March 2017



## Independent Auditors' Report

Member of the Company  
Prudential Assurance Company Singapore (Pte) Limited

### Report on the audit of the financial statements

#### *Opinion*

We have audited the financial statements of Prudential Assurance Company Singapore (Pte) Limited (the Company), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 42 to 109.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

#### *Basis for opinion*

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the 'Auditors' responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other information*

Management is responsible for the other information. The other information comprises the annual report, but does not include the financial statements and our auditors' report thereon.

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

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



*Responsibilities of management and directors for the financial statements*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for 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 financial statements and to maintain accountability of assets.

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

The directors' responsibilities include overseeing the Company's financial reporting process.

*Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

#### Report on other legal and regulatory requirements

##### *Opinion*

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 provisions of the Act.



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**KPMG LLP**  
*Public Accountants and  
Chartered Accountants*

**Singapore**  
*15 March 2017*

## Statement of Financial Position

As at 31 December 2016

	Note	2016 \$'000	2015 \$'000
<b>Assets</b>			
Property and equipment	6	57,043	54,344
Intangible assets	7	311,246	320,201
Investments and loans			
- Equity securities	8	4,310,146	4,208,215
- Debt securities	8	6,292,982	6,415,946
- Collective investment schemes	8	19,976,756	17,068,450
- Derivative financial instruments	8	11,342	34,018
- Loans and receivables	8	590,236	567,945
Reinsurers' share of insurance contract liabilities	9	888,315	227,335
Insurance and other receivables	10	563,980	479,086
Cash and cash equivalents	11	883,279	586,295
<b>Total assets</b>		<b>33,885,325</b>	<b>29,961,835</b>
<b>Liabilities</b>			
Gross insurance contract liabilities	12	28,137,536	25,207,895
Investment contracts with discretionary participating features	12	86,371	148,591
Insurance and other payables	13	2,696,413	2,124,742
Derivative financial instruments	14	404,610	271,811
Provision for tax		99,607	52,519
Deferred tax liabilities	15	1,138,024	988,188
<b>Total liabilities</b>		<b>32,562,561</b>	<b>28,793,746</b>
<b>Net assets</b>		<b>1,322,764</b>	<b>1,168,089</b>
<b>Equity</b>			
Share capital	16	526,557	526,557
Reserves	17	16,274	14,734
Accumulated surplus	18	779,933	626,798
<b>Total equity</b>		<b>1,322,764</b>	<b>1,168,089</b>

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

## Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2016

	Note	2016 \$'000	2015 \$'000
Insurance premiums	20	4,575,572	4,351,809
Reinsurance premiums	20	(611,267)	(306,149)
Net insurance premiums	20	3,964,305	4,045,660
Fees and commission income	21	47,933	36,505
Investment income	22	2,243,460	(250,545)
Other operating income		7,144	5,827
<b>Net income before claims, benefits and expenses</b>		<b>6,262,842</b>	<b>3,837,447</b>
Gross claims, maturity and surrender benefits		(2,634,122)	(2,515,088)
Increase in gross insurance contracts (including investment contracts with discretionary participating features) liabilities during the year		(2,859,149)	(376,020)
Reinsurers' share of contract liabilities, claims and benefits incurred		730,845	272,723
Net claims and benefits incurred	23	(4,762,426)	(2,618,385)
Commission and distribution costs	24	(524,080)	(546,626)
Staff costs	25	(101,794)	(98,883)
Depreciation of property and equipment	6	(11,807)	(7,905)
Other operating expenses	26	(212,090)	(208,663)
<b>Claims, benefits and expenses</b>		<b>(5,612,197)</b>	<b>(3,480,462)</b>
<b>Profit before tax</b>		<b>650,645</b>	<b>356,985</b>
Taxation expense	27	(247,510)	(96,745)
<b>Profit for the year</b>	28	<b>403,135</b>	<b>260,240</b>
<b>Other comprehensive income</b>			
<b>Item that will not be reclassified to profit or loss:</b>			
Gain on revaluation of leasehold property (net of tax)	6	1,479	1,532
<b>Total other comprehensive income</b>		<b>1,479</b>	<b>1,532</b>
<b>Total comprehensive income for the year</b>		<b>404,614</b>	<b>261,772</b>

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

## Statement of Changes in Equity

Year ended 31 December 2016

	Note	Share capital \$'000	Capital contribution reserve \$'000	Revaluation reserve \$'000	Accumulated surplus \$'000	Total \$'000
At 1 January 2015		526,557	740	12,244	616,558	1,156,099
<b>Total comprehensive income for the year</b>						
Profit for the year		–	–	–	260,240	260,240
<b>Other comprehensive income</b>						
Gain on revaluation of leasehold property	6	–	–	1,532	–	1,532
Total comprehensive income for the year		–	–	1,532	260,240	261,772
<b>Transactions with owner, recorded directly in equity</b>						
Value of employee services received for issue of options		–	218	–	–	218
Dividends to equity holder	18	–	–	–	(250,000)	(250,000)
Total transactions with owner		–	218	–	(250,000)	(249,782)
At 31 December 2015		526,557	958	13,776	626,798	1,168,089
At 1 January 2016		526,557	958	13,776	626,798	1,168,089
<b>Total comprehensive income for the year</b>						
Profit for the year		–	–	–	403,135	403,135
<b>Other comprehensive income</b>						
Gain on revaluation of leasehold property	6	–	–	1,479	–	1,479
Total comprehensive income for the year		–	–	1,479	403,135	404,614
<b>Transactions with owner, recorded directly in equity</b>						
Value of employee services received for issue of options		–	61	–	–	61
Dividends to equity holder	18	–	–	–	(250,000)	(250,000)
Total transactions with owner		–	61	–	(250,000)	(249,939)
At 31 December 2016		526,557	1,019	15,255	779,933	1,322,764

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

## Statement of Cash Flows

Year ended 31 December 2016

	Note	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Profit before tax		650,645	356,985
Adjustments for:			
Amortisation of club membership		24	-
Amortisation of intangible assets	7	14,197	31,776
Depreciation of property and equipment	6	11,807	7,905
Equity settled share-based compensation expense	29	605	503
Interest, rental and other investment income		(528,189)	(485,309)
Net realised (losses)/gains and fair value changes on financial assets at fair value through profit or loss	22	(1,724,766)	739,535
		(1,575,677)	651,395
Changes in operating assets and liabilities:			
Loans and receivables and insurance and other receivables		(105,479)	(138,234)
Reinsurers' share of insurance contract liabilities	9	(660,980)	(194,275)
Gross insurance contract liabilities		2,929,641	435,848
Investment contract liabilities		(62,220)	(42,612)
Insurance and other payables		581,461	471,889
Cash generated from operations		1,106,746	1,184,011
Income taxes paid		(50,587)	(75,292)
<b>Net cash from operating activities</b>		<b>1,056,159</b>	<b>1,108,719</b>
<b>Cash flows from investing activities</b>			
Dividends received		316,999	231,045
Interest received		230,989	224,657
Purchase of a corporate loan		(22,827)	-
Proceeds from sale of investments		9,649,388	8,782,148
Payment for intangible assets	7	(5,242)	(21,392)
Purchase of investments		(10,656,997)	(10,098,289)
Purchase of property and equipment	6	(13,027)	(7,028)
Rental received		1,330	1,409
<b>Net cash used in investing activities</b>		<b>(499,387)</b>	<b>(887,450)</b>
<b>Cash flow from financing activity</b>			
Dividends paid	18	(250,000)	(250,000)
<b>Net cash used in financing activity</b>		<b>(250,000)</b>	<b>(250,000)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>306,772</b>	<b>(28,731)</b>
Cash and cash equivalents at beginning of the year		572,027	600,758
<b>Cash and cash equivalents at end of the year</b>		<b>878,799</b>	<b>572,027</b>
<b>Cash and cash equivalents comprise:</b>			
Cash collateral received	11	4,480	14,268
Cash at bank		878,799	572,027
	11	883,279	586,295

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

## Notes to the 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 15 March 2017.

### 1. Domicile and Activities

Prudential Assurance Company Singapore (Pte) Limited ("the Company") is incorporated in the Republic of Singapore. The address of the Company's registered office is 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. Basis of Preparation

#### (a) Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (FRS).

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.

#### (b) Basis of measurement

The financial statements have been 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.

#### (c) Functional and presentation currency

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

#### (d) Use of estimates and judgements

The preparation of the financial statements in conformity with FRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are disclosed in Note 4.

### 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### (a) Basis of consolidation

##### (i) Business combination

*Acquisitions from entities under common control.*

Business combinations arising from transfers of interests in 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 consolidated financial statements of the Company's controlling shareholder, 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 of these changes.

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

##### (ii) Collective investment schemes

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 statement of financial position 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.

#### (b) 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 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 as investment contracts. The accounting basis and disclosure are 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 profit or loss and other 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 statement of financial position and as part of claims and benefits incurred in the statement of profit or loss and other 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 has 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.

**(c) 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 statement of financial position. 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 statement of financial position.

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 with Monetary Authority of Singapore ("MAS") Notice 319.

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.

- (iv) Insurance receivables and payables

Insurance receivables and payables are recognised when due. These include amounts due to and from insurance and reinsurance contract holders. They are measured on initial recognition at the fair value of the consideration receivable or payable. Subsequent to initial recognition, receivables and payables are measured at amortised cost, using the effective interest rate method.

The carrying amount of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets. Insurance receivables and payables are derecognised based on the same derecognition criteria as financial assets and liabilities respectively, as described in Note 3k(i) and 3k(ii).

#### (d) 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.

#### (e) 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 statement of financial position 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 statement of financial position 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.

#### (f) 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 profit or loss and other comprehensive income.

#### (g) 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.

#### (h) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the

beginning of the year, adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss in the statement of profit or loss and other comprehensive income.

### (i) Property and equipment

#### (i) Recognition and measurement

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses except for leasehold property, which is stated at revalued amount. The revalued amount, which represents the fair value, is determined based on the best price that would reasonably be expected in an orderly transaction between market participants at the measurement date. 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 which would be determined using fair value at the reporting date.

Any increase in the revalued amount is credited to the revaluation reserve

unless it offsets a previous decrease in value recognised in profit or loss in the statement of profit or loss and other comprehensive income. A decrease in value is recognised in profit or loss where it exceeds the increase previously recognised in the revaluation reserve. Upon disposal, any related revaluation surplus is transferred directly to retained earnings.

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

The gain or loss on disposal of property and equipment, except for leasehold property, calculated as the difference between the net proceeds from disposal and the carrying amount of the property and equipment, is recognised in profit or loss.

#### (ii) Depreciation

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of the items of property and equipment. Depreciation is recognised from the date that the property and equipment are installed and are ready for use. The depreciation based on estimated useful lives for the current and comparative years are as follows:

Freehold property	2%
Leasehold property	1 to 2%
Office equipment	20%
Computer equipment	10% to 33 1/3%
Motor vehicles	20%
Office renovations	20%

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

**(j) 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 and agency development expenses. The amounts paid have finite useful lives ranging from eight to twelve years and three years respectively. They are measured at cost less accumulated

amortisation and impairment losses. Amortisation is calculated as follows:

Distribution agreements:

- Sales generated over the duration of the agreements

Agency development expenses:

- Straight-line basis

**(k) 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, which is the date that 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, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. 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 is presented in the statement of financial position 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 classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

#### *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and make purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which takes into account any dividend income, are recognised in 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.

#### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured 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.

With the exception for infrastructure loans which have been designated at fair value through profit or loss to reduce accounting mismatch arising from insurance liabilities.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and bank deposits. For the purpose of the statement of cash flows, pledged deposits are excluded whilst bank overdrafts that are repayable on demand and that form an integral part of the Company's cash management are included in cash and cash equivalents.

#### (ii) Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other non-derivative financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that 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 is presented in the statement of financial position 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 classifies non-derivative financial liabilities into the other financial liabilities category. 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.

Other financial liabilities comprise other payables.

## (iii) Derivative financial instruments

The Company uses derivative financial instruments to facilitate efficient portfolio management and for risk management purposes. 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.

Derivatives are recognised initially at fair value; any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value. Changes in the fair value are recognised in profit or loss. The notional amounts of derivative financial instruments are not recognised in the financial statements.

## (iv) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

**(l) Impairment***Impairment of non-derivative financial assets*

A financial asset that is 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, adverse changes in the payment status of borrowers or economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

## (i) Loans and receivables

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 profit or loss and other comprehensive income and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. 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 profit or loss and other 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, then 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. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

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.

**(m) Provisions**

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

**(n) Tax**

Tax expenses comprise current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- taxable temporary differences arising on the initial recognition of goodwill.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred tax is measured at the

tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profit will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 judgements about future events. New information may become available that causes the Company to change its judgement 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.

### (o) 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 from operating leases is recognised in profit or loss 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, over the term of the lease.

#### *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, as appropriate, as an integral part of the total lease payments made.

#### *Employee benefits - defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

#### *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.

### (p) 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 plans depend upon the particular terms and conditions of each plan.

For cash settled share-based plans, 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 of 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 share-based 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.

#### **(q) 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.

#### **(r) 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 2016 and earlier application is permitted; however the Company has not early applied the following new or amended standards in preparing these statements.

For those new standards and amendments to standards that are expected to have an effect on the financial statements of the Company in future financial periods, the Company is assessing the transition options and the potential impact on its financial statements, and to implement these standards. The Company does not plan to adopt these standards early.

## Applicable to 2018 financial statements

### New standards

Summary of the requirements

Potential impact on the financial statements

#### Applying FRS 109 *Financial Instruments* with FRS 104 *Insurance Contracts* (Amendments to FRS 104)

The amendments introduce two approaches: an overlay approach and a deferral approach. The amended FRS 104:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when FRS 109 is applied before the new insurance contracts standard is issued (the "Overlay Approach"); and
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying FRS 109 until 2021 (the "Deferral Approach"). The entities that defer the application of FRS 109 will continue to apply the existing financial instruments standard—FRS 39.

An insurer that applies the Overlay Approach shall disclose information to enable users of financial statements to understand:

- a) how the total amount reclassified between profit or loss and other comprehensive income in the reporting period is calculated; and
- b) the effect of that reclassification on the financial statements.

An insurer that elects to apply the Temporary Exemption from FRS 109 shall disclose information to enable users of financial statements:

- a) to understand how the insurer qualified for the temporary exemption; and
- b) to compare insurers applying the temporary exemption with entities applying FRS 109.

An entity shall apply those amendments, which permit insurers that meet specified criteria to apply the Deferral Approach, for annual periods beginning on or after 1 January 2018.

An entity shall apply those amendments, which permit insurers to apply the overlay approach to designated financial assets, when it first applies FRS 109.

The new insurance accounting standard that is currently under development is expected to have a significant impact on the Company's financial statements. That standard may impact how the classification and measurement of financial instruments requirements under FRS 109 is adopted.

The Company is currently assessing the impact and has decided that it will defer the implementation of FRS 109 till the new insurance accounting standards is issued and it is able to perform a comprehensive assessment of both standards together.

## Applicable to 2019 financial statements

### New standards

Summary of the requirements

Potential impact on the financial statements

#### FRS 116 Leases

FRS 116 eliminates the lessee's classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. Applying the new model, a lessee is required to recognise right-of-use (ROU) assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

FRS 116 substantially carries forward the lessor accounting requirements in FRS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases using the FRS 17 operating lease and finance lease accounting models respectively. However, FRS 116 requires more extensive disclosures to be provided by a lessor.

When effective, FRS 116 replaces existing lease accounting guidance, including FRS 17, INT FRS 104 *Determining whether an Arrangement contains a Lease*; INT FRS 15 *Operating Leases—Incentives*; and INT FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

FRS 116 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted if FRS 115 is also applied.

The Company has performed a preliminary high-level assessment of the new standard on its existing operating lease arrangements as a lessee (refer to Note 30). Based on the preliminary assessment, the Company expects the impact to the financial statements to be immaterial to the net assets of the Company under the new standard.

The Company plans to adopt the standard when it becomes effective in 2019. The Company will perform a detailed analysis of the standard, including the transition options and practical expedients before the standard is effective.

#### 4. 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 12.

##### (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:

### ***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 the 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 the 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 five 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 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 of 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 including its amendments, and guidance note issued by the Singapore Actuarial Society (SAS GNL02).

## SGD denominated liabilities

	2016	2015
	%	%
1 year	1.17	1.03
2 years	1.42	1.14
3 years	1.58	1.43
4 years	1.74	1.71
5 years	1.90	1.99
6 years	2.03	2.14
7 years	2.15	2.28
8 years	2.28	2.43
9 years	2.41	2.58
10 years	2.54	2.72
11 years	2.58	2.78
12 years	2.63	2.84
13 years	2.67	2.90
14 years	2.72	2.96
15 years	2.76	3.03
16 years	2.87	3.10
17 years	2.98	3.18
18 years	3.09	3.25
19 years	3.19	3.33
20 years and above	3.30	3.40

## USD denominated liabilities

	2016	2015
	%	%
1 year	0.86	0.63
2 years	1.19	1.06
3 years	1.47	1.33
4 years	1.70	1.56
5 years	1.93	1.79
6 years	2.10	1.96
7 years	2.27	2.14
8 years	2.34	2.20
9 years	2.41	2.27
10 years	2.48	2.33
11 years	2.53	2.38
12 years	2.58	2.42
13 years	2.63	2.46
14 years	2.69	2.50
15 years	2.74	2.55
16 years	2.79	2.59
17 years	2.84	2.63
18 years	2.89	2.68
19 years	2.95	2.72
20 years	3.00	2.76
21 years	3.02	2.81
22 years	3.03	2.87
23 years	3.05	2.92
24 years	3.07	2.97
25 years	3.09	3.02
26 years	3.10	3.08
27 years	3.12	3.13
28 years	3.14	3.18
29 years	3.16	3.23
30 years and above	3.17	3.29

The best estimate liability of each policy in the participating fund and universal life products are as defined in Note 3c(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 2.65% to 8.98% (2015: 2.10% to 9.74%).

#### *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% (2015: 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.

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

Variable	Change in variable	Change in liability	
		2016 \$'000	2015 \$'000
Worsening of mortality and morbidity	+10%	–	134,114
Lowering of investment returns	-1%	2,077,321	2,767,902
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	Change in profit/equity	Change in liability	Change in profit/equity
		2016	2016	2015	2015
		\$'000	\$'000	\$'000	\$'000
Worsening of mortality and morbidity	+10%	78,938	(65,518)	70,166	(58,237)
Lowering of investment returns	-1%	270,677	(224,662)	266,184	(220,933)
Worsening of base renewal expense level	+10%	3,407	(2,828)	3,147	(2,612)
Worsening of renewal expense inflation rate	+2%	2,985	(2,477)	3,694	(3,066)
Worsening of lapse rate	-10%	23,745	(19,709)	20,969	(17,404)

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

Variable	Change in variable	Change in liability		Change in profit/equity	
		2016	2016	2015	2015
		\$'000	\$'000	\$'000	\$'000
Worsening of mortality and morbidity	+10%	1,385	(1,149)	1,121	(931)
Lowering of investment returns	-1%	781	(648)	721	(598)
Worsening of base renewal expense level	+10%	2,315	(1,921)	2,138	(1,775)
Worsening of renewal expense inflation rate	+2%	4,315	(1,002)	3,999	(3,319)
Worsening of lapse rate	-10%	956	(793)	830	(689)

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 7.

## 5. Capital, Insurance and Financial Risk Management

This section describes the Company's risks exposure, their 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. Capital consists of total equity with adjustments to inadmissible assets such as intangible assets, deferred tax asset and any other adjustments specified by MAS.

It is the Company's policy to hold capital levels in excess of the prescribed minimum fund solvency requirement (FSR) and capital adequacy requirement (CAR). Based on the Insurance (Valuation and Capital) Regulations, the capital adequacy ratio of the Company as at 31 December 2016 is 218% (2015: 228%).

Under the Insurance (Valuation and Capital) Regulations, all insurers are required to maintain a minimum FSR of 100% of total risk requirement and at least 120% of 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.

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 in the Company's statement of financial position, 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 to depends on the level of guarantees inherent in the contracts. As at 31 December 2016, the minimum condition liability, which includes only guaranteed benefits, is \$9.3 billion (2015: \$8.1 billion) and is significantly below the policy assets of \$17.4 billion (2015: \$15.1 billion). The corresponding policy liability, which would include future bonuses at a level which meets policyholders' reasonable expectations, is \$16.2 billion (2015: \$14.7 billion). The policy assets in excess of the policy liabilities, amounting to \$1.2 billion (2015: \$0.4 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 risks.

*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 of investment-linked contracts are mortality and morbidity risks.

(i) *Concentration of insurance risk*

Concentration 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 policyholders' 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 that 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 to limit 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 of 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 generated from investment assets 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) to appropriately manage investment risk in relation to liability related assumptions;
- (c) to ensure that the ALM strategy is within the Company's risk appetite limits and able to withstand an appropriate range of different scenarios, in accordance with economic and local regulatory requirements;
- (d) capital, solvency position, participating fund bonus policy and universal life crediting rate policy; and
- (e) other considerations 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 in the Company's statement of financial position, except for freehold property. In addition, best estimate insurance liabilities are also taken into consideration.

The Insurance (Valuation and Capital) Regulations prescribe 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 to the policyholders.

The participating fund invests in a 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, 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 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 commonly 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>2016</b>				
<b>Assets</b>				
Equity securities	–	–	4,310,146	4,310,146
Debt securities	5,581,836	711,146	–	6,292,982
Collective investment schemes	–	–	19,976,756	19,976,756
Derivative financial instruments	–	–	11,342	11,342
Loans and receivables	513,080	–	77,156	590,236
Reinsurers' share of insurance contract liabilities	–	–	888,315	888,315
Insurance and other receivables	–	–	563,982	563,982
Cash and cash equivalents	883,279	–	–	883,279
	6,978,195	711,146	25,827,697	33,517,038
<b>Liabilities</b>				
Gross insurance contract liabilities (including investment contracts with DPF)	(10,555,834)	(3,970,362)	(13,697,711)	(28,223,907)
Insurance and other payables	(1,580,646)	–	(1,115,769)	(2,696,415)
Derivative financial instruments	–	–	(404,610)	(404,610)
	(12,136,480)	(3,970,362)	(15,218,090)	(31,324,932)

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>2015</b>				
<b>Assets</b>				
Equity securities	–	–	4,208,215	4,208,215
Debt securities	5,713,001	702,945	–	6,415,946
Collective investment schemes	–	–	17,068,450	17,068,450
Derivative financial instruments	–	–	34,018	34,018
Loans and receivables	469,662	–	98,283	567,945
Reinsurers' share of insurance contract liabilities	–	–	227,335	227,335
Insurance and other receivables	–	–	479,086	479,086
Cash and cash equivalents	586,295	–	–	586,295
	6,768,958	702,945	22,115,387	29,587,290
<b>Liabilities</b>				
Gross insurance contract liabilities (including investment contracts with DPF)	(9,488,026)	(3,918,438)	(11,950,022)	(25,356,486)
Insurance and other payables	(1,405,980)	–	(718,762)	(2,124,742)
Derivative financial instruments	–	–	(271,811)	(271,811)
	(10,894,006)	(3,918,438)	(12,940,595)	(27,753,039)

*(ii) Foreign currency risk*

The Company faces foreign currency risk, primarily because some of its investments in equity securities, 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 Dollar ("SGD"). Other than SGD, the currencies in which these transactions are denominated are United States Dollar ("USD"), Euro ("EUR") and Hong Kong Dollar ("HKD").

Apart from natural offsets where the assets and liabilities are denominated in the same currency, the Company adopts the approach of hedging the currency risk of investments that generate stable cash flows. Currency risk derived from investments in foreign equities is generally not hedged.

The Insurance (Valuation and Capital) Regulations prescribe the 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	USD	EUR	HKD	Others	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2016</b>						
<b>Assets</b>						
Property and equipment	57,043	–	–	–	–	57,043
Intangible assets	311,246	–	–	–	–	311,246
Investments and loans						
- Equity securities	2,842,415	74,846	–	512,723	880,162	4,310,146
- Debt securities	5,318,685	846,702	38,090	28,415	61,090	6,292,982
- Collective investment schemes	6,579,715	10,164,675	2,226,959	401,106	604,301	19,976,756
- Derivative financial instruments	884,515	(73,278)	(250,497)	1,739	(551,137)	11,342
- Loans and receivables	550,652	37,183	1,100	284	1,017	590,236
Reinsurers' share of insurance contract liabilities	140,540	747,775	–	–	–	888,315
Insurance and other receivables	475,054	85,587	–	–	3,341	563,982
Cash and cash equivalents	784,523	84,803	30	2,924	10,999	883,279
	17,944,388	11,968,293	2,015,682	947,191	1,009,773	33,885,327
<b>Liabilities</b>						
Gross insurance contract liabilities (including investment contracts with DPF)	(26,537,120)	(1,686,787)	–	–	–	(28,223,907)
Insurance and other payables	(1,956,298)	(732,849)	(817)	(2,279)	(4,172)	(2,696,415)
Derivative financial instruments	5,562,561	(5,082,877)	(854,660)	(29,693)	59	(404,610)
Provision for tax	(99,607)	–	–	–	–	(99,607)
Deferred tax liabilities	(1,138,024)	–	–	–	–	(1,138,024)
	(24,168,488)	(7,502,513)	(855,477)	(31,972)	(4,113)	(32,562,563)

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

	SGD	USD	EUR	GBP	Others	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2015</b>						
<b>Assets</b>						
Property and equipment	54,344	–	–	–	–	54,344
Intangible assets	320,201	–	–	–	–	320,201
Investments and loans						
- Equity securities	2,517,441	131,684	–	–	1,559,090	4,208,215
- Debt securities	5,469,514	837,022	43,865	8,182	57,363	6,415,946
- Collective investment schemes	6,041,237	8,587,851	1,693,819	589,651	155,892	17,068,450
- Derivative financial instruments	2,118,135	(1,340,540)	(388,452)	(351,096)	(4,029)	34,018
- Loans and receivables	553,907	12,040	748	77	1,173	567,945
Reinsurers' share of insurance contract liabilities	(2,389)	229,724	–	–	–	227,335
Insurance and other receivables	362,228	114,748	–	–	2,110	479,086
Cash and cash equivalents	466,008	98,853	2,533	3,011	15,890	586,295
	17,900,626	8,671,382	1,352,513	249,825	1,787,489	29,961,835
<b>Liabilities</b>						
Gross insurance contract liabilities (including investment contracts with DPF)	(23,867,518)	(1,488,968)	–	–	–	(25,356,486)
Insurance and other payables	(1,857,171)	(251,380)	(15,487)	–	(704)	(2,124,742)
Derivative financial instruments	3,435,767	(3,273,089)	(201,307)	(2,374)	(230,808)	(271,811)
Provision for tax	(52,519)	–	–	–	–	(52,519)
Deferred tax liabilities	(988,188)	–	–	–	–	(988,188)
	(23,329,629)	(5,013,437)	(216,794)	(2,374)	(231,512)	(28,793,746)

*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		Change in equity	
	2016	2016	2015	2015
	\$'000	\$'000	\$'000	\$'000
Equity prices				
+10%	5,444	4,519	5,015	4,162
-10%	(5,132)	(4,259)	(5,311)	(4,408)
Interest rates				
+10 basis points	(21,591)	(17,920)	(21,756)	(18,057)
-10 basis points	17,812	14,784	19,923	16,536
Foreign currency				
+5%	7	6	9	7
-5%	(7)	(6)	(9)	(7)

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

Variable	Change in investments and loans	Change in gross insurance contract liabilities	Change in investments and loans	Change in gross insurance contract liabilities
	2016	2016	2015	2015
	\$'000	\$'000	\$'000	\$'000
Equity prices				
+10%	851,463	856,907	655,536	650,522
-10%	(843,061)	(848,193)	(326,355)	(321,044)
Interest rates				
+10 basis points	(104,252)	(82,661)	(93,662)	(71,906)
-10 basis points	104,255	86,443	95,325	75,402
Foreign currency				
+5%	357,286	357,279	267,937	267,929
-5%	(357,286)	(357,279)	(265,267)	(265,258)

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 flows, 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>2016</b>					
Gross insurance contract liabilities (including investment contracts with DPF)	9,007,435	842,624	3,826,076	14,547,772	28,223,907
Insurance and other payables	–	2,680,516	15,899	–	2,696,415
Derivative financial instruments	8,176	291,996	102,758	1,680	404,610
	9,015,611	3,815,136	3,944,733	14,549,452	31,324,932
<b>2015</b>					
Gross insurance contract liabilities (including investment contracts with DPF)	8,610,603	740,498	3,178,330	12,827,055	25,356,486
Insurance and other payables	–	2,106,764	17,978	–	2,124,742
Derivative financial instruments	2,497	89,887	179,427	–	271,811
	8,613,100	2,937,149	3,375,735	12,827,055	27,753,039

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 statement of 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).

The Company is exposed to substantial credit risk through its investments and reinsurance arrangements. At the reporting date, there were no significant concentration of credit risk. The maximum exposure to credit risk is represented by the aggregate carrying amount of all instruments from the same issuer.

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

	Credit ratings (from Standard & Poor's or equivalents)					Total \$'000
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB- or not rated	
	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>2016</b>						
Debt securities						
- Government bonds	2,557,804	11,890	36,896	21,505	1,011,543	3,639,638
- Corporate and other bonds	265,739	184,991	682,474	896,888	623,252	2,653,344
Loans and receivables	-	-	-	-	590,236	590,236
Reinsurers' share of insurance contract liabilities	-	888,315	-	-	-	888,315
	2,823,543	1,085,196	719,370	918,393	2,225,031	7,771,533
<b>2015</b>						
Debt securities						
- Government bonds	2,699,559	14,042	40,068	20,217	988,835	3,762,721
- Corporate and other bonds	250,932	230,266	571,126	854,177	746,724	2,653,225
Loans and receivables	-	-	-	-	567,945	567,945
Reinsurers' share of insurance contract liabilities	-	227,335	-	-	-	227,335
	2,950,491	471,643	611,194	874,394	2,303,504	7,211,226

The Company's investment policy sets limits on investments in bonds of different credit quality. The Company also imposes limits on each investment counterparty 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 prescribe 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 (2015: 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 prices at the reporting date, obtained from the Company's custodian's external price sources such as Bloomberg. For investments for which prices are not readily available, quotes are obtained from brokers or 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 the 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).

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)	Notional amount (Liabilities)	Positive revaluation	Negative revaluation
	\$'000	\$'000	\$'000	\$'000
<b>2016</b>				
Forward exchange contracts	977,374	5,692,230	10,720	(379,996)
Futures contracts	114,727	231,239	560	(540)
Currency swap contracts	–	168,269	–	(24,074)
Options contracts	3	–	62	–
	1,092,104	6,091,738	11,342	(404,610)
<b>2015</b>				
Forward exchange contracts	2,324,238	3,625,440	31,424	(251,085)
Futures contracts	245,894	–	2,505	–
Currency swap contracts	–	131,486	–	(20,726)
Options contracts	3	–	89	–
	2,570,135	3,756,926	34,018	(271,811)

**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 profit or loss and other 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>2016</b>				
Equity securities	4,217,145	7,837	85,164	4,310,146
Debt securities	5,318,745	974,237	–	6,292,982
Collective investment schemes	18,609,460	1,309,958	57,338	19,976,756
Loans and receivables	–	–	23,335	23,335
Derivative financial assets	622	10,720	–	11,342
Derivative financial liabilities	(539)	(404,071)	–	(404,610)
	28,145,433	1,898,681	165,837	30,209,951
<b>2015</b>				
Equity securities	4,123,365	–	84,850	4,208,215
Debt securities	5,573,194	842,752	–	6,415,946
Collective investment schemes	15,905,641	1,162,809	–	17,068,450
Loans and receivables	–	–	–	–
Derivative financial assets	2,594	31,424	–	34,018
Derivative financial liabilities	–	(271,811)	–	(271,811)
	25,604,794	1,765,174	84,850	27,454,818

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

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>2016</b>				
Cash and cash equivalents (Note 11)	883,279	–	–	883,279
Loans and receivables	–	566,901	–	566,901
Other receivables (Note 10)	–	438,399	–	438,399
Other payables (Note 13)	–	(209,272)	–	(209,272)
	883,279	796,028	–	1,679,307
<b>2015</b>				
Cash and cash equivalents (Note 11)	586,295	–	–	586,295
Loans and receivables	–	567,945	–	567,945
Other receivables (Note 10)	–	352,817	–	352,817
Other payables (Note 13)	–	(363,778)	–	(363,778)
	586,295	556,984	–	1,143,279

*Financial assets measured at fair value based on Level 3*

	Equity securities	Debt securities	Collective investment schemes	Loans and receivables	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2016	84,850	–	–	–	84,850
Net gains/(losses) included in profit or loss for the year presented in investment income	314	–	2,969	508	3,791
Purchases	–	–	54,369	22,827	77,196
Sales	–	–	–	–	–
At 31 December 2016	85,164	–	57,338	23,335	165,837
At 1 January 2015	80,146	10,569	–	–	90,715
Net gains/(losses) included in profit or loss for the year presented in investment income	4,704	(228)	–	–	4,476
Purchases	–	–	–	–	–
Sales	–	(10,341)	–	–	(10,341)
At 31 December 2015	84,850	–	–	–	84,850

There were no transfers into or out of Level 3.

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.

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
The fair value is determined by adjusting the underlying property value, which forms part of the net asset value of the investment. The estimated fair value of the underlying property is determined by discounting the expected cash flows at a risk-adjusted discount rate which is considered appropriate for the inherent, observable risks within the cash flows.	Risk adjusted discount rates used by the external licensed appraiser which reflect the nature, location and tenancy profile of the property together with current market investment criteria.	Fair value will increase if the risk adjusted discount rates decrease.
Valuation by independent valuer which uses discounted cash flow method for the Company's loans portfolio and market approach for over-the-counter instruments with adjustments for counterparty risk.	Risk adjusted discount rates that are not market determined.	Fair value will increase if the risk adjusted discount rates decrease.
Valuation by independent valuer which uses discounted cash flow method using risk adjusted rates of comparable bonds in the market.	Risk adjusted discount rates that are not market determined.	Fair value will increase if the risk adjusted discount rates decrease.
Valuation by Net Asset Value of the fund.	Not applicable	Not applicable

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 statement of financial position; or
- are subject to an enforceable master netting arrangement, irrespective of whether they are offset in the statement of financial position.

Financial instruments such as trade receivables and trade payables are not disclosed in the tables below unless they are offset in the statement of financial position.

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 statement of financial position. 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*

	Note	Gross amounts of recognised financial assets/ (liabilities) \$'000	Gross amounts of recognised financial assets/ (liabilities) offset in the statement of financial position \$'000	Net amounts of financial assets/ (liabilities) presented in the statement of financial position \$'000	Related amounts not offset in the statement of financial position – Financial instruments \$'000	Net amount \$'000
<b>2016</b>						
<b>Financial assets</b>						
Amount due from related companies (non-insurance)	10	6,435	(6,427)	8	–	8
Other receivables	10	49,284	–	49,284	(10,215)	39,069
		55,719	(6,427)	49,292	(10,215)	39,077
<b>Financial liabilities</b>						
Amount due to related companies (non-insurance)	13	(36,676)	6,427	(30,249)	–	(30,249)
Other payables and accrued expenses	13	(136,391)	–	(136,391)	10,215	(126,176)
		(173,067)	6,427	(166,640)	10,215	(156,425)
<b>2015</b>						
<b>Financial assets</b>						
Amount due from related companies (non-insurance)	10	9,673	(9,672)	1	–	1
Other receivables	10	130,857	–	130,857	(99,291)	31,566
		140,530	(9,672)	130,858	(99,291)	31,567
<b>Financial liabilities</b>						
Amount due to related companies (non-insurance)	13	(26,693)	9,672	(17,021)	–	(17,021)
Other payables and accrued expenses	13	(291,649)	–	(291,649)	99,291	(192,358)
		(318,342)	9,672	(308,670)	99,291	(209,379)

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

- receivables and payables – amortised cost.

The amounts in the above tables that are offset in the statement of financial position are measured on the same basis.

## 6. Property and Equipment

	Freehold property	Leasehold property	Office equipment	Computer equipment	Motor vehicles	Office renovations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	Cost	Valuation	Cost	Cost	Cost	Cost	
<b>Cost/Valuation</b>							
At 1 January 2015	1,440	30,900	3,692	39,891	261	31,852	108,036
Additions	–	–	32	5,479	287	1,230	7,028
Disposals	–	–	(1,666)	–	–	(12,115)	(13,781)
Gain on revaluation	–	1,532	–	–	–	–	1,532
Reversal of depreciation on revaluation	–	(932)	–	–	–	–	(932)
At 31 December 2015	1,440	31,500	2,058	45,370	548	20,967	101,883
Additions	–	–	773	5,517	–	6,737	13,027
Disposals	–	–	–	–	–	–	–
Gain on revaluation	–	1,479	–	–	–	–	1,479
Reversal of depreciation on revaluation	–	(979)	–	–	–	–	(979)
At 31 December 2016	1,440	32,000	2,831	50,887	548	27,704	115,410
<b>Accumulated depreciation</b>							
At 1 January 2015	634	–	2,629	30,331	208	20,545	54,347
Depreciation charge for the year	28	932	341	3,454	87	3,063	7,905
Disposals	–	–	(1,666)	–	–	(12,115)	(13,781)
Reversal of depreciation on revaluation	–	(932)	–	–	–	–	(932)
At 31 December 2015	662	–	1,304	33,785	295	11,493	47,539
Depreciation charge for the year	29	979	394	6,591	57	3,757	11,807
Disposals	–	–	–	–	–	–	–
Reversal of depreciation on revaluation	–	(979)	–	–	–	–	(979)
At 31 December 2016	691	–	1,698	40,376	352	15,250	58,367
<b>Carrying amounts</b>							
At 1 January 2015	806	30,900	1,063	9,560	53	11,307	53,689
At 31 December 2015	778	31,500	754	11,585	253	9,474	54,344
At 31 December 2016	749	32,000	1,133	10,511	196	12,454	57,043

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 2016. 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 is free from encumbrances, restrictions and outgoing of an onerous nature which would affect its value. The leasehold property is classified as Level 2 in the fair value hierarchy.

\$1,479,000 (2015: \$1,532,000) of revaluation gain was credited to the revaluation reserve.

The approximate carrying amount of leasehold property would have been \$14,170,000 (2015: \$14,518,000) 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 2015. For solvency purposes, it has a carrying amount of \$8,330,000 (2015: \$8,500,000).

Property and equipment are non-current assets.

## 7. Intangible Assets

	Goodwill	Acquired value in-force business	Others	Total
	\$'000	\$'000	\$'000	\$'000
<b>Cost</b>				
At 1 January 2015	231,279	29,787	136,457	397,523
Additions	–	–	21,392	21,392
Disposals	–	–	(43,595)	(43,595)
At 31 December 2015	231,279	29,787	114,254	375,320
Additions	–	–	5,242	5,242
Disposals	–	–	(11,393)	(11,393)
At 31 December 2016	231,279	29,787	108,103	369,169
<b>Accumulated amortisation</b>				
At 1 January 2015	–	7,447	59,491	66,938
Amortisation charge for the year	–	1,490	30,286	31,776
Disposals	–	–	(43,595)	(43,595)
At 31 December 2015	–	8,937	46,182	55,119
Amortisation charge for the year	–	1,488	12,709	14,197
Disposals	–	–	(11,393)	(11,393)
At 31 December 2016	–	10,425	47,498	57,923
<b>Carrying amounts</b>				
At 1 January 2015	231,279	22,340	76,966	330,585
At 31 December 2015	231,279	20,850	68,072	320,201
At 31 December 2016	231,279	19,362	60,605	311,246

***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 4 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 3.51% to 6.16% (2015: 3.61% to 6.24%).

**(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 1.74% to 8.51% (2015: 1.78% to 8.63%).

**Others**

Others represent amounts paid to third parties under certain distribution agreements and agency development expenses.

The intangible assets are all non-current assets.

## 8. Investments and Loans

	2016	2015
	\$'000	\$'000
<b>Financial assets designated at fair value through profit or loss</b>		
<i>Equity securities</i>		
- Listed equity securities	4,224,982	4,123,365
- Unlisted equity securities	85,164	84,850
	<u>4,310,146</u>	<u>4,208,215</u>
<i>Debt securities</i>		
- Government bonds	3,639,638	3,762,721
- Listed corporate and other bonds	2,450,695	2,490,266
- Unlisted corporate and other bonds	202,649	162,959
	<u>6,292,982</u>	<u>6,415,946</u>
<b>Collective investment schemes</b>	<u>19,976,756</u>	<u>17,068,450</u>
<b>Derivative financial instruments</b>	5(d) 11,342	34,018
<b>Loans and receivables</b>		
- Investment income receivables	77,156	98,284
- Policy loans	487,945	467,861
- Corporate loans	25,135	1,800
	<u>590,236</u>	<u>567,945</u>
<b>Total investments and loans</b>	<b>31,181,462</b>	<b>28,294,574</b>
Current portion	24,545,726	21,568,386
Non-current portion	6,635,736	6,726,188
	<u>31,181,462</u>	<u>28,294,574</u>

Included in the investments above are financial assets which have been lent out to third parties. The Company currently participates in a securities lending programme, 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.

The loaned securities are not derecognised; rather, they continue to be recognised within the appropriate investment classification. The

Company's policy is that collateral in excess of 100 per cent of the fair value of securities loaned is required from all securities' borrowers and typically consists of short-term time deposits and money market instruments. The collateral and corresponding obligation to return such collateral are recognised in the statement of financial position.

As at 31 December 2016 and 2015, the fair value of the assets on loan and collateral under the securities lending programme are as follow:

Fair value of assets on loan		Fair value of collateral		% of collateral over assets on loan	
2016	2015	2016	2015	2016	2015
\$'000	\$'000	\$'000	\$'000	%	%
4,222	2,006	4,433	2,108	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.

The corporate loan to a company of \$1,800,000 (2015: \$1,800,000) is unsecured, bears interest at 5.00% (2015: 5.00%) per annum and has a tenure of

six years. It is repayable on demand. Management does not expect repayment in the next twelve months.

The infrastructure loan of \$23,335,109 (2015: nil) is secured, bears interest at 6.875% (2015: nil) per annum and has tenure of twelve years.

## 9. Reinsurers' Share of Insurance Contract Liabilities

	2016	2015
	\$'000	\$'000
Reinsurers' share of insurance contract liabilities	888,315	227,335

The movement of reinsurers' share of insurance contract liabilities is as follows:

	2016	2015
	\$'000	\$'000
At 1 January	227,335	33,060
Increase in reinsurers' share of insurance contract liabilities	660,980	194,275
At 31 December	888,315	227,335
Current portion	–	–
Non-current portion	888,315	227,335
	888,315	227,335

## 10. Insurance and Other Receivables

	2016	2015
	\$'000	\$'000
Receivables arising from insurance and reinsurance contracts:		
- Due from policyholders	90,084	85,654
- Due from advisors	16,254	14,890
- Due from reinsurers	1,132	3,069
	107,470	103,613
Prepayments	18,111	22,656
Other receivables:		
- Amounts due from related companies (non-insurance)	8	1
- Other receivables	49,284	130,857
- Collateral deposits placed with financial institutions	389,107	221,959
	438,399	352,817
	563,980	479,086
Current portion	562,830	478,062
Non-current portion	1,150	1,024
	563,980	479,086

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

## 11. Cash and Cash Equivalents

	2016	2015
	\$'000	\$'000
Cash at bank and in hand	453,457	369,873
Short-term time deposits	425,342	202,154
Cash collateral received	4,480	14,268
	883,279	586,295

The effective interest rate on short-term time deposits was 0.73% (2015: 0.82%) and the deposits have an average maturity of less than 63 days (2015: less than 36 days).

Cash collateral received represents bank balances received under the securities lending programme (see note 8) and derivatives transactions.

## 12. Gross Insurance Contract Liabilities

	Note	2016 \$'000	2015 \$'000
Long term insurance contracts:			
- Life insurance par contracts	(i)	16,145,300	13,903,979
- Life insurance non-par contracts	(ii)	2,796,040	2,514,081
- Investment-linked contracts			
- Unit reserves	(iii)	9,007,435	8,610,603
- Non-unit reserves	(iv)	28,955	27,698
		27,977,730	25,056,361
Provision for outstanding claims		159,806	151,534
<b>Total insurance contract liabilities</b>		<b>28,137,536</b>	<b>25,207,895</b>
Long term investment contracts:			
- Life investment contracts with DPF	(v)	86,371	148,591
<b>Total insurance contract liabilities (including investment contracts with DPF)</b>		<b>28,223,907</b>	<b>25,356,486</b>
Current portion		159,806	151,534
Non-current portion		28,064,101	25,204,952
		28,223,907	25,356,486

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

- an amount of \$760.8 million (2015: \$715.9 million) relating to accumulated capital injections made by the shareholders and the accumulated investment returns since 1988; and

- a provision for current year policyholder bonuses of \$365.9 million (2015: \$302.1 million).

### Movements in insurance contract liabilities

#### (i) Life insurance par contracts

	2016 \$'000	2015 \$'000
At 1 January	13,903,979	13,006,790
Premiums received, net of reinsurance	2,708,222	2,391,136
Claims and surrenders	(1,199,495)	(973,260)
Expenses:		
- Operating	(409,488)	(401,928)
- Non-operating	(47,105)	(38,465)
Movement in deferred tax	(150,127)	(42,622)
Income:		
- Investment income	1,416,907	53,334
- Other expense	(34,927)	(19,772)
Transfer to shareholders' fund	(42,666)	(71,234)
At 31 December	16,145,300	13,903,979

#### (ii) Life insurance non-par contracts

	2016 \$'000	2015 \$'000
At 1 January	2,514,081	2,416,421
Valuation premiums	36,016	31,698
Liabilities released for payments on death and other terminations	(106,081)	(135,940)
Accretion of interest	46,920	35,673
Other movements	18,987	8,016
New business	192,616	119,041
Change in valuation basis:		
- Discount rate	92,001	73,398
- Others	1,500	(34,226)
At 31 December	2,796,040	2,514,081

As defined in the accounting policies Note 3(c)(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)**

	2016	2015
	\$'000	\$'000
At 1 January	8,610,603	9,186,474
Premiums received	985,453	1,173,386
Fees deducted from account balances of investment-linked contracts	(311,372)	(336,354)
Liabilities released for payments on death, surrender and other terminations	(858,059)	(1,000,719)
Changes in unit prices	580,363	(415,830)
Other movements	447	3,646
At 31 December	9,007,435	8,610,603

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

	2016	2015
	\$'000	\$'000
At 1 January	27,698	28,044
Premiums received	(626)	(2,306)
Fees deducted from account balances	1,465	1,559
Liabilities released for payments on death, surrender and other terminations	(893)	(837)
Accretion of interest	147	136
Changes in unit prices (within insurance benefits)	(1,529)	1,705
New business	867	190
Change in valuation basis:		
- Discount rate	1,309	126
- Others	517	(919)
At 31 December	28,955	27,698

**(v) Life investment contracts with DPF**

	2016	2015
	\$'000	\$'000
At 1 January	148,591	191,203
Claims and surrenders	(60,442)	(44,305)
Investment income	1,515	2,655
Others	(3,293)	(962)
At 31 December	86,371	148,591

### 13. Insurance and Other Payables

	Note	2016 \$'000	2015 \$'000
Payables arising from insurance and reinsurance contracts:			
- Insurance contract payables		1,731,527	1,535,011
- Reinsurance payables		755,614	225,953
		2,487,141	1,760,964
Other payables:			
- Provision for agency expenses		14,273	17,089
- Share-based payment liability		23,879	24,535
- Amount due to related companies (non-insurance)		30,249	17,021
- Cash collateral received	11	4,480	14,268
- Other payables and accrued expenses		136,391	290,865
		209,272	363,778
		2,696,413	2,124,742
Current portion		2,680,514	2,106,764
Non-current portion		15,899	17,978
		2,696,413	2,124,742

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.

## 14. Financial Liabilities

	Note	2016 \$'000	2015 \$'000
Derivative financial instruments	5(d)	404,610	271,811
Current portion		300,172	92,384
Non-current portion		104,438	179,427
		404,610	271,811

## 15. Deferred Tax Liabilities

	Note	2016 \$'000	2015 \$'000
At 1 January		988,188	945,761
Net provision made during the year	27	149,836	42,427
At 31 December		1,138,024	988,188

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

	Assets		Liabilities		Net	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Short-term timing differences	(2,749)	(2,448)	–	–	(2,749)	(2,448)
Capital allowances for property and equipment	–	–	1,298	1,340	1,298	1,340
Tax on future distributions	–	–	1,139,475	989,296	1,139,475	989,296
Deferred tax (assets)/liabilities	(2,749)	(2,448)	1,140,773	990,636	1,138,024	988,188

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.

## 16. Share Capital

	2016	2015
	No. of shares	No. of shares
	('000)	('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.

## 17. Reserves

	Note	2016	2015
		\$'000	\$'000
Capital contribution reserve		1,019	958
Revaluation reserve	6	15,255	13,776
		16,274	14,734

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

The revaluation reserve relates to the revaluation of leasehold property.

## 18. 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:

	2016	2015
	\$'000	\$'000
Interim dividends (2016: \$0.47 per qualifying share; 2015: \$0.47 per qualifying share)	250,000	250,000

## 19. Classification and Fair Values of Financial Instruments

	Note	Designated at fair value \$'000	Trading \$'000	Loans and receivables \$'000	Other financial liabilities \$'000	Total carrying amount \$'000	Fair value \$'000
<b>2016</b>							
<b>Financial assets</b>							
Investments and loans							
- Equity securities	8	4,310,146	-	-	-	4,310,146	4,310,146
- Debt securities	8	6,292,982	-	-	-	6,292,982	6,292,982
- Collective investment schemes	8	19,976,756	-	-	-	19,976,756	19,976,756
- Derivative financial instruments	8	-	11,342	-	-	11,342	11,342
- Loans and receivables	8	23,335	-	566,901	-	590,236	590,236
Other receivables	10	-	-	438,399	-	438,399	438,399
Cash and cash equivalents	11	-	-	883,279	-	883,279	883,279
		30,603,219	11,342	1,888,579	-	32,503,140	32,503,140
<b>Financial liabilities</b>							
Other payables	13	-	-	-	(209,272)	(209,272)	(209,272)
Derivative financial instruments	14	-	(404,610)	-	-	(404,610)	(404,610)
		-	(404,610)	-	(209,272)	(613,882)	(613,882)
<b>2015</b>							
<b>Financial assets</b>							
Investments and loans							
- Equity securities	8	4,208,215	-	-	-	4,208,215	4,208,215
- Debt securities	8	6,415,946	-	-	-	6,415,946	6,415,946
- Collective investment schemes	8	17,068,450	-	-	-	17,068,450	17,068,450
- Derivative financial instruments	8	-	34,018	-	-	34,018	34,018
- Loans and receivables	8	-	-	567,945	-	567,945	567,945
Other receivables	10	-	-	352,817	-	352,817	352,817
Cash and cash equivalents	11	-	-	586,295	-	586,295	586,295
		27,692,611	34,018	1,507,057	-	29,233,686	29,233,686
<b>Financial liabilities</b>							
Other payables	13	-	-	-	(363,778)	(363,778)	(363,778)
Derivative financial instruments	14	-	(271,811)	-	-	(271,811)	(271,811)
		-	(271,811)	-	(363,778)	(635,589)	(635,589)

## 20. Net Insurance Premiums

	Insurance premiums		Reinsurance premiums		Net insurance premiums	
	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Life insurance par contracts	2,711,013	2,393,851	(2,791)	(2,715)	2,708,222	2,391,136
Life insurance non-par contracts	879,106	784,572	(598,966)	(293,937)	280,140	490,635
Investment-linked contracts	985,453	1,173,386	(9,510)	(9,497)	975,943	1,163,889
	4,575,572	4,351,809	(611,267)	(306,149)	3,964,305	4,045,660

## 21. Fees and Commission Income

	2016	2015
	\$'000	\$'000
Fee income	15,145	8,100
Reinsurance commission	32,869	28,245
Profit commission/(expense)	(81)	160
	47,933	36,505

## 22. Investment Income

	2016	2015
	\$'000	\$'000
Interest income		
- Debt securities	199,508	199,017
- Loans and receivables	28,966	27,090
- Cash and cash equivalents	1,828	2,060
Dividend income	296,557	255,732
Rental income	1,330	1,409
Net realised gains/(losses) and fair value changes on financial assets at fair value through profit or loss	1,724,766	(739,535)
Exchange (losses)/gains	(9,495)	3,682
	2,243,460	(250,545)
Life insurance par contracts (including investment contracts with DPF)	1,409,494	60,565
Life insurance non-par contracts	247,242	97,438
Investment-linked contracts	588,018	(410,335)
Investment income from insurance operations	2,244,754	(252,332)
Shareholders' fund	(1,294)	1,787
	2,243,460	(250,545)

## 23. Net Claims and Benefits Incurred

	2016	2015
	\$'000	\$'000
<b>Long-term insurance contracts:</b>		
<b>Life insurance par contracts</b> (including investment contracts with DPF)		
Net claims, maturity and surrender benefits	1,259,937	1,017,563
Increase in liabilities during the year	2,179,101	854,577
Reinsurers' share of increase in liabilities during the year	(21,794)	–
<b>Life insurance non-par contracts</b>		
Net claims, maturity and surrender benefits	400,996	377,847
Increase in liabilities during the year	281,959	97,660
Reinsurers' share of increase in liabilities during the year	(639,186)	(194,275)
<b>Investment-linked contracts</b>		
Net claims, maturity and surrender benefits	903,305	1,041,230
Increase/(decrease) in liabilities during the year	398,089	(576,217)
<b>Shareholders' fund claims expenses</b>		
Net claims, maturity and surrender benefits	19	–
	4,762,426	2,618,385

## 24. Commission and Distribution Costs

	2016	2015
	\$'000	\$'000
Commission expenses	411,734	435,565
Other acquisition costs	112,346	111,061
	524,080	546,626

Included in commission expenses is \$332,000 (2015: \$6,771,000) of the share-based compensation expenses.

## 25. Staff Costs

	2016	2015
	\$'000	\$'000
Salaries and benefits in kind	86,238	86,209
Contributions to Central Provident Fund	8,491	6,832
Share-based compensation expenses	7,065	5,842
	101,794	98,883

## 26. Other Operating Expenses

Included in other operating expenses are the following:

	2016	2015
	\$'000	\$'000
Administrative expenses	17,210	16,720
Operational expenses	37,995	47,053
Advertising and promotional expenses	11,080	12,855
Investment expenses	93,069	83,798

## 27. Taxation

	Note	2016	2015
		\$'000	\$'000
<b>Current tax expense</b>			
Current year		99,154	57,240
Adjustment for prior periods		(1,480)	(2,922)
		97,674	54,318
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences	15	149,836	42,427
Total income tax expense		247,510	96,745

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.

	2016	2015
	\$'000	\$'000
<b>Reconciliation of effective tax charge</b>		
Profit before tax	650,645	356,985
Income tax using domestic corporation tax rate of 17% (2015: 17%)	110,610	60,687
Taxation relating to insurance funds	161,639	65,685
Non-deductible expenses	2,642	1,989
Over provision in prior years	(1,480)	(2,922)
Non-taxable income	(23,279)	(26,751)
Others	(2,622)	(1,943)
	247,510	96,745

## 28. Profit/(loss) for the Year by Funds

	2016	2015
	\$'000	\$'000
Life insurance par contracts (including investment contracts with DPF)	35,415	65,897
Life insurance non-par contracts	283,168	114,586
Investment-linked contracts	99,372	88,863
Shareholders' fund	(14,820)	(9,106)
	403,135	260,240

## 29. Share-based payment transactions

The Company has the following share-based payment arrangements:

### Share-based compensation plans (equity settled)

There are three main groups of compensation plans which are described below:

#### (a) Prudential International Savings-Related Share Option Scheme

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 the exercise price.

#### (b) PRUshareplus Plan

In 2014, Prudential Holdings Limited, a wholly owned subsidiary of Prudential Public Limited Company, established the PRUshareplus Plan, which replaces the Prudential International Savings-Related Share Option Scheme. Under the Plan, qualified employees can purchase Prudential Public Limited Company shares at market value each month. At the end of each scheme year, an additional matching share is awarded for every two shares purchased throughout the period. Dividend shares accumulate while the employee participates in the plan. The additional matching shares are not entitled to dividend shares. If the employee withdraws from the plan, or leaves the Group, the matching shares will be forfeited. The matching shares vest 12 months after the period.

**(c) Incentives plans issued from 2015 onwards**

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.

**Share-based compensation plans (cash settled)**

There are two main groups of compensation plans which are described below:

**(a) Incentives plans issued before 2015**

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, on the basis of performance and 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:

	Weighted average exercise price	2016 Number of options	2015 Number of options
	\$		
<b>Options outstanding</b>			
At 1 January	18.06	89,263	178,127
- Transfer out	18.06	-	(1,864)
- Vested	18.06	(78,212)	(65,554)
- Withdrawn	18.06	(9,055)	(21,446)
At 31 December	18.06	1,996	89,263

	2016 Number of awards	2015 Number of awards
<b>Awards outstanding</b>		
At 1 January	2,256,921	1,999,937
- Granted	961,085	528,798
- Vested	(229,843)	(194,506)
- Withdrawn	(269,811)	(77,308)
At 31 December	2,718,352	2,256,921

(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 20/9/2013	Options granted on 20/9/2013
Fair value at measurement date (\$)	6.55	7.43
Share price at grant date (\$)	23.75	23.75
Exercise price (\$)	18.06	18.06
Expected volatility	23.68%	23.23%
Expected life	3 years	5 years
Expected dividend yield	2.73%	2.73%
Risk-free interest rate	0.87%	1.68%

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 at the date of exercise for share options exercised in 2016 was GBP16.28 (2015: GBP15.64).

	2016 \$'000	2015 \$'000
Share-based compensation expense		
- Amount accounted for as cash settled	6,793	12,110
- Amount accounted for as equity settled	605	503
Carrying value at 31 December of liabilities arising from cash settled share-based payment transactions	23,879	24,535

## 30. Commitments

### (a) Capital commitments

	2016 \$'000	2015 \$'000
Contracted at the reporting date but not provided for	1,585	5,952

### (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:

	2016 \$'000	2015 \$'000
Payable:		
- Within one year	23,960	25,041
- After one year but within five years	52,651	63,752
- After five years	12,256	22,878
	88,867	111,671

### 31. 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:

	2016	2015
	\$'000	\$'000
Charges for life administration and operation services rendered by related corporations	28,059	30,872
Charges for management services provided to immediate holding company	161	150
Charges for management services rendered by a related corporation	22,696	27,621
Recovery of expense by a related corporation	19,632	11,304
Investment management fees (net) paid to a related corporation	31,918	23,925
Recovery of expense from related corporations	2,326	2,903
Salaries and other short-term employee benefits to key management	5,530	5,856

### 32. Contingent Liability

The Company is awaiting the decision on a dispute with a former distribution partner which was referred to arbitration. The Company's potential ultimate liability cannot be determined at present but is not expected to be significant. Based on the legal assesment, management is of the view that no provision is required for the claim. The arbitration award is expected to be decided in April 2017.



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