

## Annual Bonus Update for Pru Life Regular Premium Sub-Fund

As a valued customer of a participating policy from Prudential Assurance Company Singapore (Pte) Limited, we are pleased to provide you with this Annual Bonus Update.

The purpose of this report is to present you with an update on the performance of the Pru Life Regular Premium Life Sub-Fund ('Fund') for the year ending 31 December 2016 and the bonuses allocated for the year. It also sets out our views on the future outlook of the Fund based on our latest actuarial investigation of policy liabilities carried out under section 37(1) of the Insurance Act and updates you on any changes in future non-guaranteed benefits.

If you would like to know how a participating fund operates in general, a copy of *Your Guide to Participating Policies* is available on Prudential's website ([www.prudential.com.sg](http://www.prudential.com.sg)) or you may request for a copy from your Financial Consultant.

### What are the benefits of your participating policy?

The benefits of your participating policy are made up of guaranteed and non-guaranteed benefits. The non-guaranteed benefits may be in the following forms according to your policy's Terms and Conditions:

- **Reversionary Bonus** (if any) is an annual bonus added to your policy benefits. Once declared, it will form part of the guaranteed benefits of the policy.
- **Terminal Bonus** (if any) is a one-off bonus, which may be payable when you surrender the policy, when a claim is paid or when the policy matures. The amount will vary depending on the date of termination. Terminal Bonus is sensitive to investment performance and is likely to vary more than Reversionary Bonus over time.
- **Dividend** (if any) may be payable on your policy anniversary.
- **Non-Guaranteed CashBack/Cash Benefit** (if any) may be payable on your policy anniversary together with the guaranteed CashBack/ Cash Benefit.

### What are the risks that affect the level of bonuses and how are the risks shared?

The level of bonuses depends on the actual experience and future outlook of key factors affecting the performance of the Fund. The key factors include investment performance and future investment outlook of the Fund, claims experience (with respect to Death, Critical Illness, Total & Permanent Disability and Terminal Illness), surrender experience and level of expenses incurred by or allocated to the Fund.

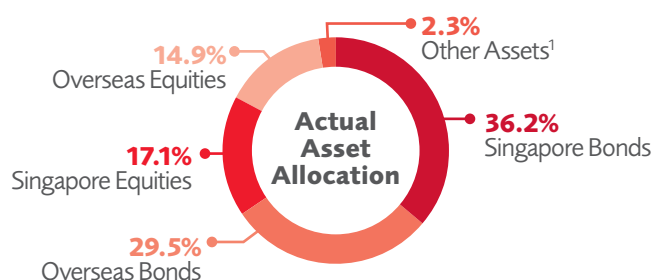
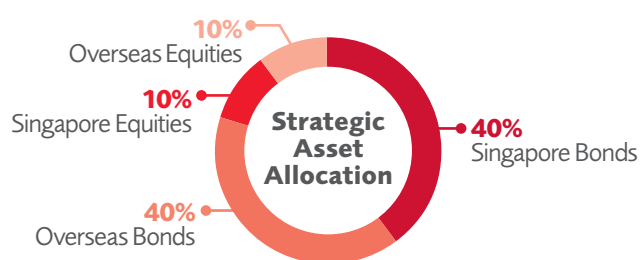
In determining the level of bonuses that can be supported, the assets available to back the policy will be derived by accumulating the premiums paid at the actual rate of investment return less the cost of insurance, expenses incurred, commissions paid, taxes and other costs that may be incurred in managing the Fund.

### How are bonuses smoothed over time?

As investment performance fluctuates over time, bonuses are smoothed to ensure stable medium to long term returns on your policy. As a result, some of the investment returns in good years may not be distributed immediately so as to smooth out the returns in years where the investment return is low. However, the extent of smoothing is constrained by a limited deviation of the Fund's performance, and without affecting the Participating policyholders' benefits in the long-term.

## Asset Allocation

The Strategic Asset Allocation and Actual Asset Allocation of the Fund as of 31 December 2016 are as follows:



<sup>1</sup> Other assets include policy loans and cash

## Investment Performance of the Fund

Investment performance is a key factor that determines the level of bonuses.

Overall, 2016 was a good year in terms of performance led mainly by overseas equities. This was driven by encouraging economic data emanating from the developed economies, especially from the United States of America. Reflation expectations following Donald Trump's United States (US) Presidential election victory with prospects of more economy boosting measures such as infrastructure spending and tax cuts also spurred positive sentiment towards equities. However, Singapore equities performance was more muted as a result of very subdued growth for much of the year and capital outflows from the region.

2016 witnessed no substantial change in bond yields even though they experienced significant volatility over the course of the year. The US Federal Reserve Bank delivered a rate hike in December 2016 and pro-growth rhetoric from incoming US President, Donald Trump led to significant outflows from bonds into equities. Meanwhile, the European Central Bank and Bank of Japan maintained loose monetary policies which continued to depress interest rates in other developed economies. Consequently, Singapore bonds made a slight gain due to coupons received and a slightly lower interest rate in part related to a more subdued domestic growth momentum.

Prudential is able to maintain the bonus rates for all policies under the Fund for the performance up to the financial year end of 2016.

The investment return and investment expense ratio over the past three years are as follows:

Year	Investment Return <sup>2</sup>	Investment Expense Ratio <sup>3</sup>
2014	5.2%	0.29%
2015	-0.3%	0.23%
2016	6.6%	0.22%

Source: Sub-Fund's financial statement.

<sup>2</sup> This investment return is shown after deducting investment expenses incurred in managing the Fund. Past performance is not necessarily indicative of future performance.

<sup>3</sup> Investment expense ratio is defined as the costs incurred in investment (which would include investment fees paid to fund managers for providing fund management services) expressed as a percentage of the size of funds under management.

For comments on the investment outlook going forward, please refer to the Future Outlook section. You may also refer to the enclosed Bonus or Policy Notice (where applicable) for details of your policy's projected benefits.

## Other Areas of Performance

Operating expenses, insurance claims and surrender experiences are the other key factors that affect the level of bonuses.

For the year 2016, the operating expenses under the Fund were higher than expected while insurance claims and surrender payments were lower than expected. These short-term fluctuations are not expected to significantly affect current and future bonuses.

## Assets and Benefits in 2016

Your policy is written out of the Fund which has a size of S\$631 million as at 31 December 2016. Benefit payments of S\$50 million were made out to policyholders in 2016, with the following breakdown:

Insurance Claims	S\$1,429,816
Survival Benefit Payments <sup>4</sup>	S\$45,932,863
Surrender Payments	S\$2,481,089

Source: Sub-Fund's financial statement.

<sup>4</sup> It includes Maturity benefits, Annuity benefits, CashBack/ Cash Benefit and Dividends.

## Future Outlook

Global growth is expected to improve in 2017 based on favourable government fiscal policies in the developed world and improved domestic consumption in emerging economies alongside steadier oil prices. However, politics could present some volatility across the world in areas relating to upcoming elections in core parts of Europe, spats over territorial rights as well as possible trade issues and tensions from the new Trump administration in the US.

Fundamentally, the environment is likely to be conducive for equities over bonds as corporate earnings are likely to improve across most regions and markets, after a couple of years of profits recession, in tandem with improving macro momentum. Better valuation and return expectations from equities warrant higher allocations even

as outcomes in politics and policies could surprise and interrupt market trends in the interim. Amidst this backdrop, one should be mindful and cognizant of market surprises and reversals by looking past these short term volatilities and focusing on the long term objective of investing.

We will remain vigilant to some of the possible key risks and uncertainties that could creep into the markets by continuously managing the Fund prudently, aiming to provide stable medium to long term returns on your participating policies. This will be done through a combination of guaranteed and non-guaranteed benefits where non-guaranteed benefits are smoothed over time.

This Annual Bonus Update is also available in English and Chinese at our website [www.prudential.com.sg/en/our-services/annual-bonus-update/](http://www.prudential.com.sg/en/our-services/annual-bonus-update/)

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Prudential Assurance Company Singapore (Pte) Limited.  
(Reg. No. 199002477Z)  
30 Cecil Street #30-01 Prudential Tower  
Singapore 049712  
Tel: 1800-333 0 333 Fax: 6734-6953  
Part of Prudential plc  
[www.prudential.com.sg](http://www.prudential.com.sg)