# ANNUAL REPORT
2015

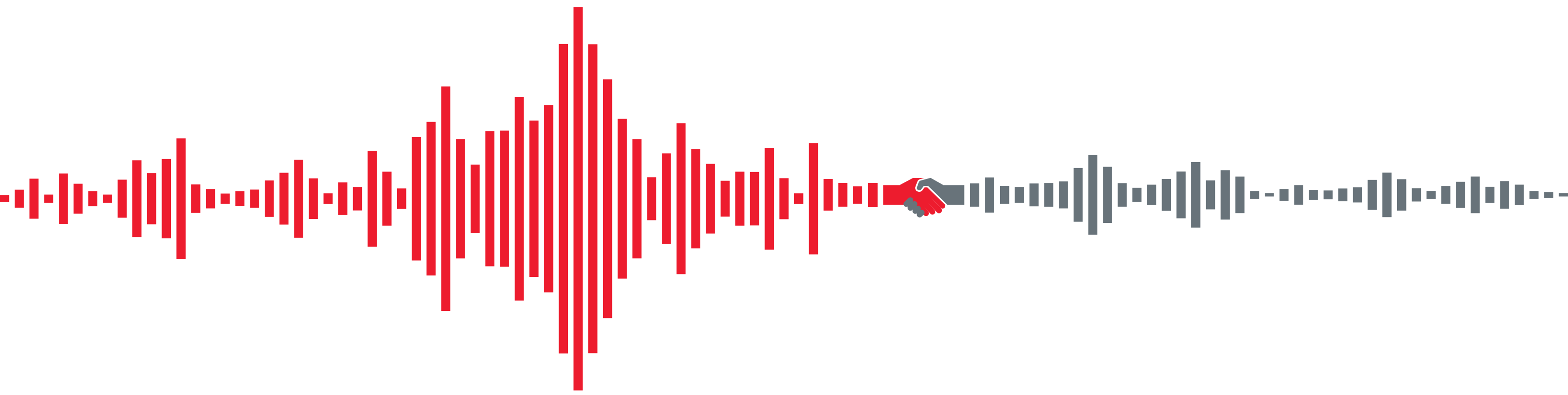
PRUDENTIAL
Always Listening. Always Understanding.

# CONTENTS



# ALWAYS LISTENING

# ALWAYS UNDERSTANDING



# WE'RE ALL ABOUT LISTENING

**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$28.7 billion funds under management as at 30 June 2015. In 2014, we were awarded an AA Financial Strength Rating by leading credit rating agency Standard & Poor's.

For the last 11 consecutive years, we have been awarded the Gold Award in Reader's Digest Trusted Brands. 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.

# TOWARDS A CONFIDENT TOMORROW

# Towards A Confident Tomorrow

I am pleased to report that Prudential Assurance Company Singapore (Pte) Limited ("Prudential Singapore") has once again delivered strong performance in 2015.

Against the backdrop of continuing global uncertainty and market volatility, we continued to stay relevant to our customers' needs, to help close the protection gap, and to help deliver financial freedom and peace of mind for all. During the year, we launched solutions such as *PRUwealth* and *PRUcover total refund* to serve the long term savings and protection needs of our customers.

Prudential Singapore also remained one of the leading insurers in the market. The combination of sound investment management and a growing customer base helped grow funds under management to $28.4bn. Despite the market volatility, Prudential Singapore's capital position has remained strong: financially sound and resilient, we are in an excellent position to take advantage of the growth and opportunities Singapore will present in the coming years. We remain highly committed to delivering shareholder value, while providing our customers with the products and services that they need.

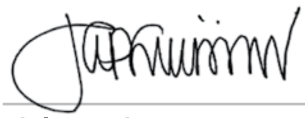
Social contribution and community engagement are at the core of what Prudential Singapore stands for. We celebrated with Singapore in her Golden Jubilee year with our *Life Matters* event; we hosted the *Prudential Singapore Eye* exhibition and the *Prudential Eye Awards*; and we also continued to support the long running The Boys Brigade Share-a-Gift (BBSG) programme.

The *Prudential Singapore Eye exhibition* shone a spotlight on emerging and established contemporary Singapore artists, showcasing the diversity and creativity of this dynamic nation, while the *Prudential Eye Awards* recognised emerging artists and galleries in the region.

Prudential Singapore hosted *Life Matters* – an event for Singaporeans of all ages. Parents attended investment, health and wellness forums, and children were entertained while learning the four financial literacy concepts of how to Earn, Save, Spend and Donate, through our ChaChing Financial Literacy Program for children. There was also an investment challenge for young adults to pit their skills in savings and investing against those of their peers, and a charity bike ride to raise funds to build a learning centre.

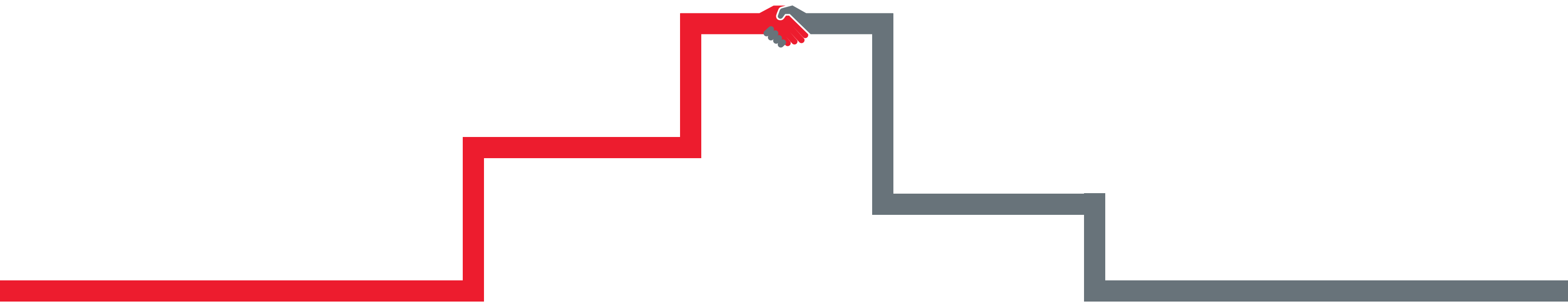
For the seventh consecutive year, we sponsored The Boys' Brigade Share-a-Gift programme. Our staff and agents were active participants, bringing cheer to many families during the year end festive season.

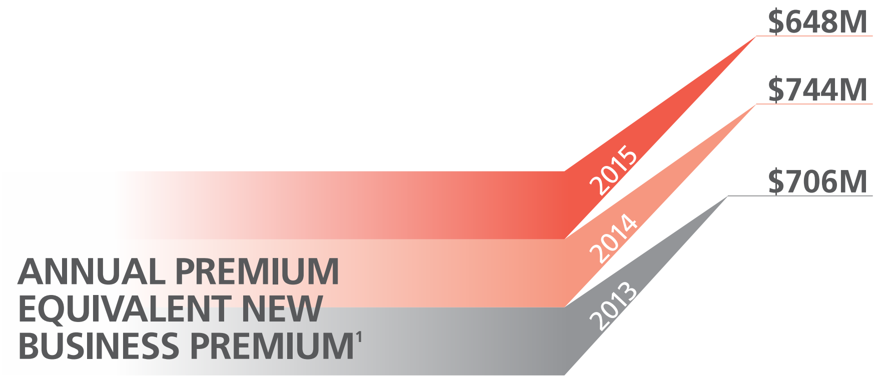
2015 was an eventful year and we look forward to greater success in the future. We are grateful for your continued support and remain committed to helping you fulfill your protection and investment needs. Thank you for continuing to place your trust in us.

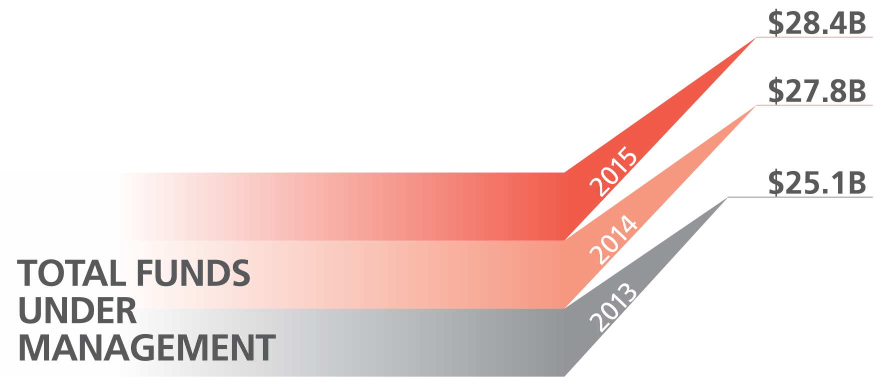


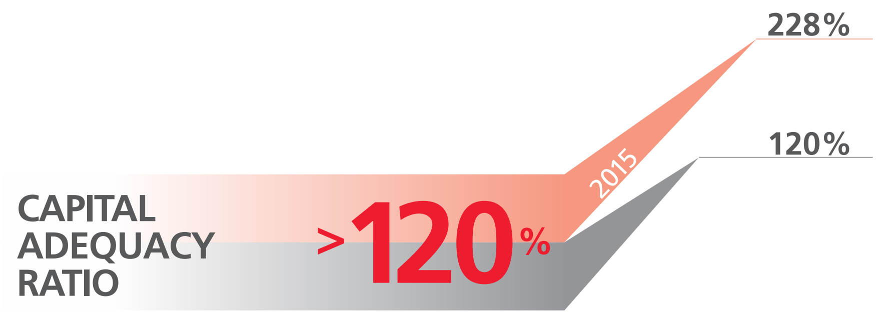
**Philip Seah**
*Chief Executive Officer*

# CELEBRATING A REMARKABLE YEAR






[1]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.

## Business Review

2015 was an eventful year for Prudential Assurance Company Singapore (Pte) Limited ("Prudential Singapore"). We celebrated with the nation on her 50th birthday, continued to stay relevant to customers changing needs with innovative products, and encourage the growth of the art and sports culture. On the corporate social responsibility front, we contributed towards one of the longest running year end charity programs, The Boys' Brigade Share-a-Gift (BBSG) programme, for the seventh year running. Our multi-channel distribution network comprising Agency Distribution and Bancassurance remains one of the strongest in Singapore, helping Singaporeans with their financial planning needs, to meet their retirement and financial goals.

### Helping Singaporeans Achieve Financial Freedom

We continued to develop products that respond to the changing needs of customers and stayed progressive with the launch of products that are designed to meet the varied needs of our customers.

In an environment of rising costs, pressures from inflation and continued low interest rates, customers find it challenging to find a financial product that can help counter inflation in the long term, while not having to worry about market volatility. We introduced PRUwealth to fill this gap. PRUwealth is the first long-term insurance savings plan that allows customers to continue to grow their wealth for longer. It is the first to market with the option for secondary life assured so wealth accumulation can continue in the event of unforeseen circumstances.

With rising costs of healthcare continuing to be a concern, Prudential Singapore launched PRUcover total refund, a critical illness plan that continues to provide coverage for death and terminal illness, even after a critical illness claim. The plan is also designed to reward customers who stay healthy with a total refund of premiums.

### Championing Art, Sports and Financial Literacy

In addition to meeting protection, savings and investment needs of customers, corporate social responsibility and community engagement remains a priority for the company. For the seventh year running, we actively contributed to the welfare of the less fortunate by continuing to support The Boys' Brigade Share-a-Gift programme, one of the largest and longest-running charity projects in Singapore during the year end festive season. Management, staff and the agency force of Prudential Singapore continued to contribute to the project in a personal way by adopting wishes as well as volunteering their time to pack and deliver food hampers right to the beneficiaries' doorsteps. This year, a total of over 40,000 beneficiaries island-wide benefited from the BBSG project which brings festive cheer to Singaporeans who need a helping hand.

Prudential Singapore celebrated SG50 with *Life Matters*, an event to impart finance related life skills to Singaporeans, in a fun and engaging manner.

*Life Matters*, a one day event featured seminars and talks for the adults, the finals of a two-week long online investment related challenge for youth, a financial literacy programme for kids, and food and entertainment for all.

While adults attended specialist talks on topics on financial planning, health and wellness, investments and lifestyle investments, children learnt money smart habits and the four financial literacy concepts Earn, Save, Spend and Donate with the help of Cha-Ching animated characters. Young adults who participated in a two-week long online challenge pitting their financial planning and money management skills against each other met for the Finals at the *Life Matters* event.

As part of the Jubilee Year celebrations, Prudential Singapore also sponsored the *Prudential Charity Ride*. Organised by not-for-profit society Bike Aid and Prudence (Prudential Agency Leaders Guild), the event supported charitable organisation, Sunlove Home, to raise funds to build a 2000 square-foot study corner in Chai Chee.

Also as part of Singapore's 50th anniversary, *Prudential Singapore Eye* turned the spotlight on emerging and established contemporary Singapore artists. The exhibition, which ran from January to June 2015, was one of the largest surveys of Singapore's contemporary art scene to date, with over 40 works on display. Framed and composed to reflect Singapore's urban context, the works range across various media including painting, installation and photography.

In another first for Singapore's art scene, 62 Singaporean artists and their works were documented in a book, *Singapore Eye: Contemporary Singapore Art*, a visual reference publication and a key resource on Singapore's contemporary art. To further promote art education, over 300 copies of *Singapore Eye* were donated to local schools, institutes and libraries.

Year end, Prudential Singapore once again sponsored the SCB Marathon, with healthy participation from staff and agency force.

# SHAPING AN ENDURING VISION

## 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 newly 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.

### Philip Seah
*Executive Director*

Philip Seah is Executive Director of the Board and Chief Executive Officer (CEO) of Prudential Singapore.

Philip first joined Prudential Singapore as a part-time agent in 1978. By 1990, Philip who had earned considerable success as an Agency Leader with the Company, was offered the unprecedented opportunity of leading the agency force as Assistant General Manager of Field Staff Operations of Prudential Singapore.

He then served as the Director of Agency Development at Prudential Corporation Asia (PCA), Prudential's regional headquarters in Hong Kong, before moving on to the role of Deputy Chief Executive Officer of Prudential Philippines. Subsequently, Philip was appointed CEO of Prudential Singapore. In 2010, Philip assumed the position of Regional Chief Agency Officer at PCA where he spent two years in the role before joining Prudential Assurance Malaysia Berhad (PAMB) as CEO in November 2012. He rejoined Prudential Singapore in October 2015.

## 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 2016. The Chairman of the Audit Committee, Dr Tan began his career in academia. In 1973, Dr Tan joined JP Morgan in New York. He joined Overseas Union Bank Limited in Singapore in 1989 as Executive Vice-President, and was appointed Chief Executive of the International Bank of Singapore 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 the Co-Deputy Chairman of BCA Academy Advisory Panel as well as a Director of Exploit Technologies 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.

## Sir Alan Stanley Collins KCVO CMG

*Non-Executive Director*

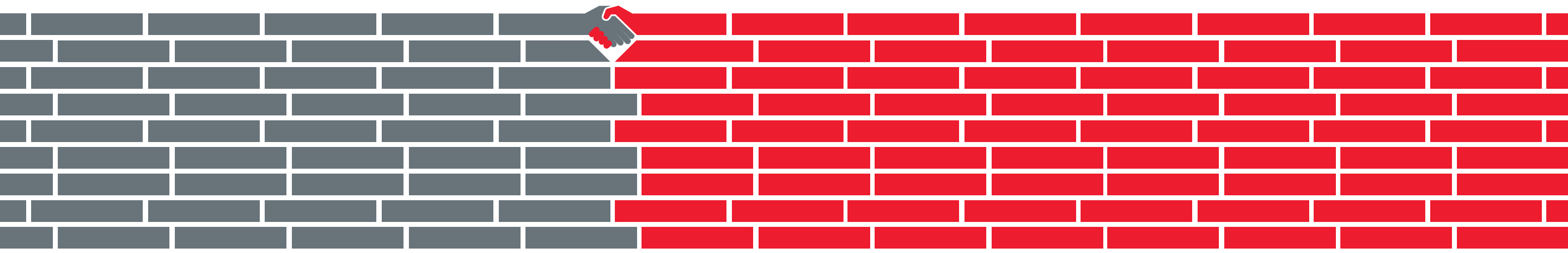
Sir Alan Collins has been a Non-Executive Director of Prudential Singapore since August 2012. He is also a member of the Audit Committee of Prudential Singapore.

Currently, Sir Alan serves as a Director on several companies, 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 diplomatic service holding a number of Ambassador and High Commissioner appointments representing Britain internationally, and was the British High Commissioner to Singapore from 2003 to 2007.

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

# LAYING THE BEDROCK OF SUCCESS



## Management Executive Committee

### Philip Seah
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### Edwin Peh
*Chief Financial Officer*

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

Edwin oversees Finance, Actuarial, Investment, Strategy & Analytics and Corporate Governance functions.

Prior to joining Prudential, Edwin was Deputy General Manager and Chief Financial Officer of a leading foreign-invested life insurer in Shanghai, China. He had worked in various roles in local business units, regional office and corporate head office. Prior to that, Edwin was the Appointed Actuary with a leading life insurer in Malaysia.

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.

## 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.

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

## Jon Sandham
*Chief Agency Officer*

Jon Sandham is the Chief Agency Officer of Prudential Singapore. His remit includes the stewardship of the Agency Distribution Division which includes three key sales channels i.e. agency, international business and employee benefit solutions. The other supporting functions that report into Jon are agency competency and education, recruitment, distribution support services and agency internal communications and events management.

Jon has over 29 years of experience in direct sales, distribution and channel management in the UK and in bancassurance and tied advisor channels in Asia.

Jon's previous appointments included overall management of the agency and the design and implementation of a revised growth strategy in Indonesia's largest bancassurance company, as well as driving distribution through strategic bank and post-assurance partners in Prudential Singapore. Besides Indonesia and Singapore, his time in Asia includes driving the partnerships distribution business in Prudential Taiwan and Korea.

## 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.

## Angela Hunter

*Chief Marketing Officer*

Angela Hunter is Chief Marketing Officer of Prudential Singapore. She oversees the Marketing Division, leading Product Development and Management, Customer Strategy and Engagement, Channel Marketing, Investment Marketing, Healthcare Services and Corporate Marketing Communications.

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 the Managing Director of GE Capital Insurance Australia & New Zealand. She has over 20 years of financial services experience and prior to joining GE, she spent four years at Citibank Australia as Head of Insurance. Her previous experience also includes roles at Insurance Australia Group (IAG) and telecommunications companies Vodafone and Optus as well as PricewaterhouseCoopers.

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*

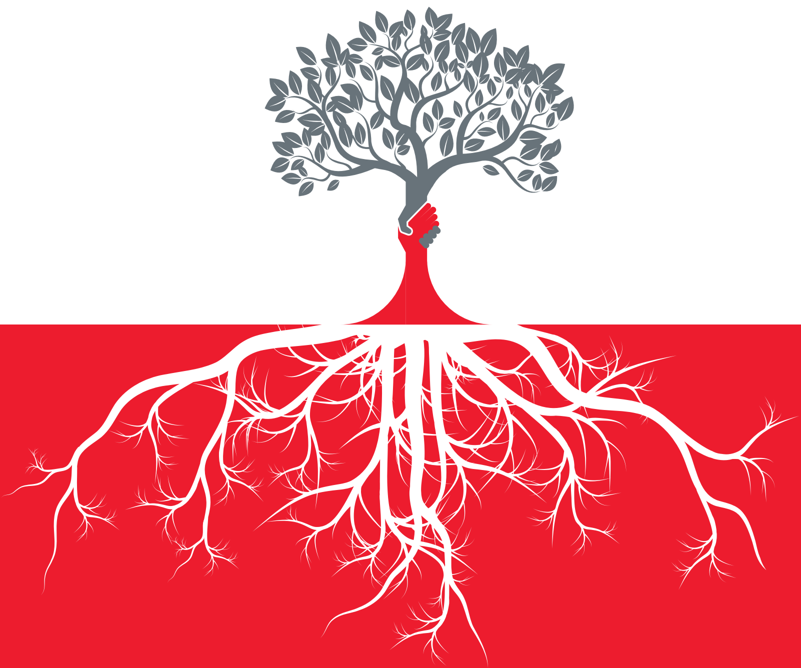
Stephanie Simonnet is responsible for the distribution of products and services of the company's bank partners.

Stephanie has spent 22 years in Asia; She joined Prudential in Hong Kong in 2003 where she supported the company's bancassurance partners, including the partnership with Citibank regionally. In 2010, she joined Prudential Singapore to manage the newly acquired United Overseas Bank (UOB) partnership. She went on to head the relationship for UOB and Standard Chartered Bank (SCB). In November 2014, she was promoted to her current position.

In her role, she is responsible for the contribution of the Partnerships channel to the Life business; to our strategic partners, to provide an essential offering to the banks' customers, where bancassurance is an important contributor to their overall business.

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

# STAYING TRUE TO OUR VALUES



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

## Board's Conduct of Affairs

### Board Responsibility and Accountability

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

### Board Committees

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

### Board/Committee Meetings and Attendance

The Board meets at least four times a year to review business performance and key activities, as well as to approve policies. Ad-hoc Board meetings will be convened if warranted. Audit Committee meetings are also held four times a year and usually before the Board meetings. The table below lists the number of Board and Audit Committee meetings attended by each director throughout 2015.

| Board/Committee Meetings and Attendance | Board Meetings (includes 1 Special meeting) | Audit Committee Meetings |
|---|---|---|
| **Number of meetings held in 2015** | 5 | 4 |
| | | |
| **Chairman** | | |
| Lilian Ng (Note 1) | 3 | – |
| Tony Wilkey (Note 2) | 2 | – |
| | | |
| **Chief Executive Officer** | | |
| Philip Seah (Note 3) | 1 | – |
| Tomas Urbanec (Note 4) | 4 | – |
| | | |
| **Non-Executive Officer** | | |
| Dr Tan Ng Chee (Note 5) | 5 | 4 |
| Kevin Wong Kingcheung | 5 | 4 |
| Sir Alan Stanley Collins | 5 | 4 |

Note 1: Appointed as Director and Chairman with effect from 12 August 2015.
Note 2: Stepped down as Director and Chairman with effect from 12 August 2015.
Note 3: Appointed as Director and Chief Executive Officer with effect from 8 December 2015.
Note 4: Stepped down as Director and Chief Executive Officer with effect from 22 October 2015.
Note 5: 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 2016 AGM.

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

## Board Composition 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 Philip Seah, 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-independant 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 fulfillment 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 2015 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[1] issued by the Financial Stability Board, its policies are intended for the broader audience of all Prudential entities across Asia. Consequently, there may be some differences between its policies and the Implementation Standards.

### Disclosure on Remuneration

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

[1] Please refer to the FSB Principles for Sound Compensation Practices: Implementation Standards.

## Accountability

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

## Risk Management and Internal Controls

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

## Risk Management

### Principles and Objectives

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

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

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

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

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

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

## Risk and Capital Management

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

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

### a. Risk Appetite

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

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

(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 |
|---|---|---|
| Financial risks | 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). |
| Non-financial risks | 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 2015, 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, 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 2015, 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 2015 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.

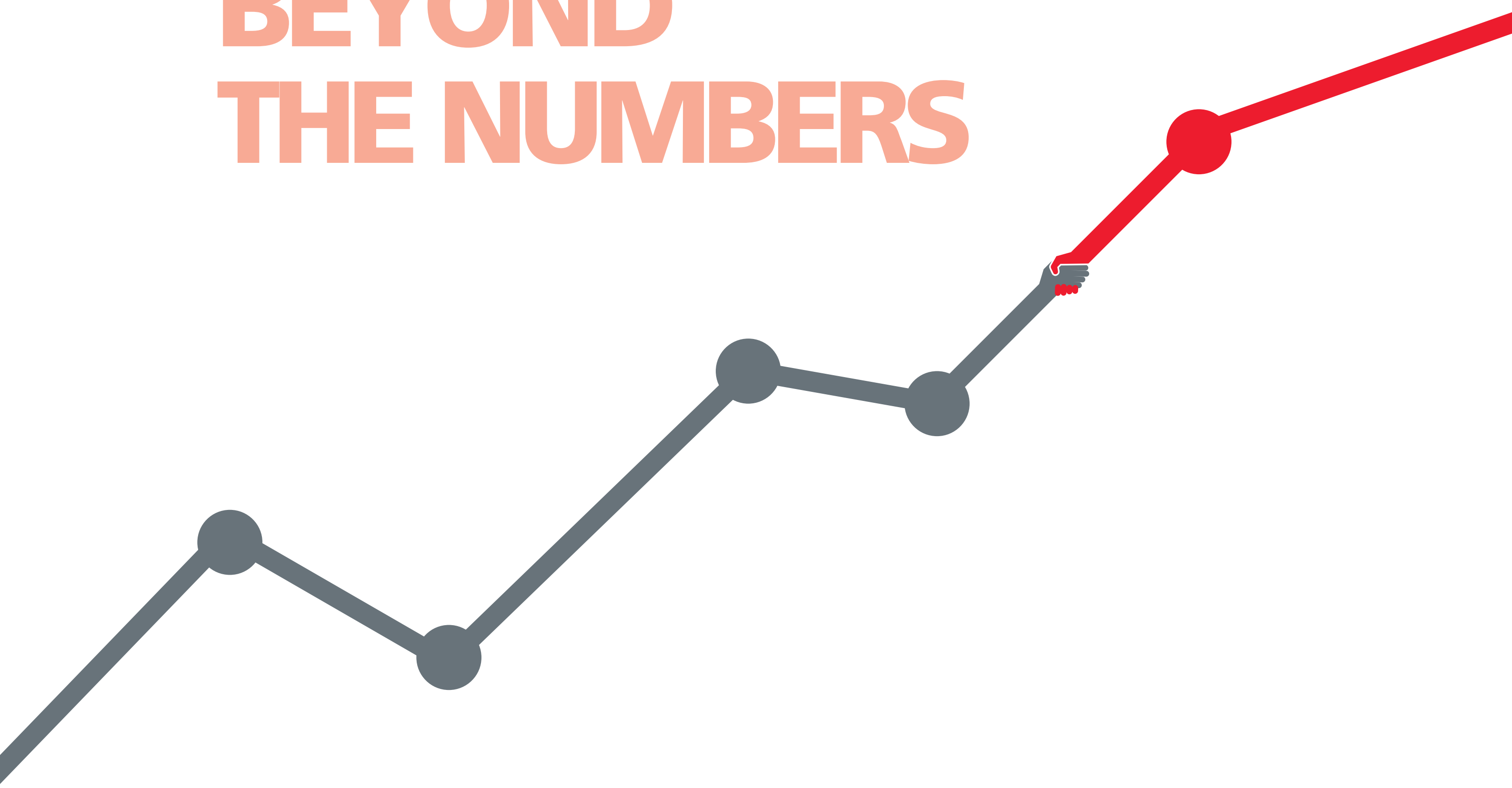
## Board Executive Committee

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.

# LOOKING BEYOND THE NUMBERS



## 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 2015.

In our opinion:

(a) the financial statements set out on pages 35 to 97 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2015 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 | (Appointed on 12 August 2015) |
| Philip Seah Cheng Chua | (Appointed on 8 December 2015) |
| 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

**Philip Seah Cheng Chua**
*Director*

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

18 March 2016

# Independent Auditors' Report

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

## Report on the financial statements

We have audited the accompanying financial statements of Prudential Assurance Company Singapore (Pte) Limited (the Company), which comprise the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 35 to 97.

### *Management's responsibility 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 Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards, 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.

### *Auditors' responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Company as at 31 December 2015 and the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

### Report on other legal and regulatory requirements

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

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

Singapore
18 March 2016

## Statement of Financial Position

### As at 31 December 2015

| | Note | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|---|
| **Assets** | | | |
| Property and equipment | 6 | 54,344 | 53,689 |
| Intangible assets | 7 | 320,201 | 330,585 |
| Investments and loans | | | |
| - Equity securities | 8 | 4,208,215 | 4,428,016 |
| - Debt securities | 8 | 6,415,946 | 6,303,524 |
| - Collective investment schemes | 8 | 17,068,450 | 16,383,752 |
| - Derivative financial instruments | 8 | 34,018 | 27,944 |
| - Loans and receivables | 8 | 567,945 | 526,458 |
| Reinsurers' share of insurance contract liabilities | 9 | 227,335 | 33,060 |
| Insurance and other receivables | 10 | 479,086 | 353,354 |
| Cash and cash equivalents | 11 | 586,295 | 600,758 |
| **Total assets** | | 29,961,835 | 29,041,140 |
| | | | |
| **Liabilities** | | | |
| Gross insurance contract liabilities | 12 | 25,207,895 | 24,772,047 |
| Investment contracts with discretionary participating features | 12 | 148,591 | 191,203 |
| Insurance and other payables | 13 | 2,124,742 | 1,638,586 |
| Derivative financial instruments | 14 | 271,811 | 263,951 |
| Provision for tax | | 52,519 | 73,493 |
| Deferred tax liabilities | 15 | 988,188 | 945,761 |
| **Total liabilities** | | 28,793,746 | 27,885,041 |
| **Net assets** | | 1,168,089 | 1,156,099 |
| | | | |
| **Equity** | | | |
| Share capital | 16 | 526,557 | 526,557 |
| Reserves | 17 | 14,734 | 12,984 |
| Accumulated surplus | 18 | 626,798 | 616,558 |
| **Total equity** | | 1,168,089 | 1,156,099 |

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

## Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2015

| | Note | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|---|
| Insurance premiums | 20 | 4,351,809 | 4,514,515 |
| Reinsurance premiums | 20 | (306,149) | (95,366) |
| Net insurance premiums | 20 | 4,045,660 | 4,419,149 |
| Fees and commission income | 21 | 36,505 | 13,729 |
| Investment income | 22 | (250,545) | 1,931,551 |
| Other operating income | | 5,827 | 3,290 |
| **Net income before claims, benefits and expenses** | | 3,837,447 | 6,367,719 |
| Gross claims, maturity and surrender benefits | | (2,515,088) | (2,897,932) |
| Increase in gross insurance contracts (including investment contracts with discretionary participating features) liabilities during the year | | (376,020) | (2,177,677) |
| Reinsurers' share of contract liabilities, claims and benefits incurred | | 272,723 | 77,153 |
| Net claims and benefits incurred | 23 | (2,618,385) | (4,998,456) |
| Commission and distribution costs | 24 | (546,626) | (578,535) |
| Staff costs | 25 | (98,883) | (89,960) |
| Depreciation of property and equipment | 6 | (7,905) | (11,074) |
| Other operating expenses | 26 | (208,663) | (189,600) |
| **Claims, benefits and expenses** | | (3,480,462) | (5,867,625) |
| **Profit before tax** | | 356,985 | 500,094 |
| Taxation expense | 27 | (96,745) | (177,170) |
| **Profit for the year** | 28 | 260,240 | 322,924 |
| **Other comprehensive income** | | | |
| **Item that will not be reclassified to profit or loss:** | | | |
| Gain on revaluation of leasehold property (net of tax) | 6 | 1,532 | 3,719 |
| **Total other comprehensive income** | | 1,532 | 3,719 |
| **Total comprehensive income for the year** | | 261,772 | 326,643 |

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

## Statement of Changes in Equity

Year ended 31 December 2015

| | Note | Share capital $'000 | Capital contribution reserve $'000 | Revaluation reserve $'000 | Accumulated surplus $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| At 1 January 2014 | | 526,557 | 549 | 8,525 | 537,634 | 1,073,265 |
| **Total comprehensive income for the year** | | | | | | |
| Profit for the year | | – | – | – | 322,924 | 322,924 |
| **Other comprehensive income** | | | | | | |
| Gain on revaluation of leasehold property | 6 | – | – | 3,719 | – | 3,719 |
| Total comprehensive income for the year | | – | – | 3,719 | 322,924 | 326,643 |
| **Transaction with owner, recorded directly in equity** | | | | | | |
| Value of employee services received for issue of options | | – | 191 | – | – | 191 |
| Dividends to equity holder | 18 | – | – | – | (244,000) | (244,000) |
| Total transactions with owner | | – | 191 | – | (244,000) | (243,809) |
| At 31 December 2014 | | 526,557 | 740 | 12,244 | 616,558 | 1,156,099 |
| At 1 January 2015 | | 526,557 | 740 | 12,244 | 616,558 | 1,156,099 |
| **Total comprehensive income for the year** | | | | | | |
| Profit for the year | | – | – | – | 260,240 | 260,240 |
| **Other comprehensive income** | | | | | | |
| Gain on revaluation of leasehold property | 6 | – | – | 1,532 | – | 1,532 |
| Total comprehensive income for the year | | – | – | 1,532 | 260,240 | 261,772 |
| **Transaction with owner, recorded directly in equity** | | | | | | |
| 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 |

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

## Statement of Cash Flows

Year ended 31 December 2015

| | Note | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 356,985 | 500,094 |
| Adjustments for: | | | |
| Amortisation of club membership | | - | 31 |
| Amortisation of intangible assets | 7 | 31,776 | 21,951 |
| Depreciation of property and equipment | 6 | 7,905 | 11,074 |
| Equity settled share-based compensation expense | 29 | 503 | 210 |
| Gain on disposal of property and equipment | | - | (48) |
| Interest, rental and other investment income | | (485,309) | (465,917) |
| Net realised gains/losses and fair value changes on financial assets at fair value through profit or loss | 22 | 739,535 | (1,469,274) |
| | | 651,395 | (1,401,879) |
| Changes in operating assets and liabilities: | | | |
| Loans and receivables and insurance and other receivables | | (138,234) | (166,747) |
| Reinsurers' share of insurance contract liabilities | 9 | (194,275) | 60,641 |
| Gross insurance contract liabilities | | 435,848 | 2,302,157 |
| Investment contract liabilities | | (42,612) | (100,185) |
| Insurance and other payables | | 471,889 | 225,045 |
| Cash generated from operations | | 1,184,011 | 919,032 |
| Income taxes paid | | (75,292) | (41,236) |
| **Net cash from operating activities** | | 1,108,719 | 877,796 |
| **Cash flows from investing activities** | | | |
| Dividends received | | 231,045 | 205,463 |
| Interest received | | 224,657 | 277,535 |
| Purchase of corporate loan | | - | (1,800) |
| Proceeds from sale of investments | | 8,782,148 | 10,132,726 |
| Proceeds from sale of property and equipment | | - | 700 |
| Payment for intangible assets | 7 | (21,392) | (9,862) |
| Purchase of investments | | (10,098,289) | (11,613,928) |
| Purchase of property and equipment | 6 | (7,028) | (8,737) |
| Rental received | | 1,409 | 1,349 |
| **Net cash used in investing activities** | | (887,450) | (1,016,554) |
| **Cash flow from financing activity** | | | |
| Dividends paid | 18 | (250,000) | (244,000) |
| **Net cash used in financing activity** | | (250,000) | (244,000) |
| **Net decrease in cash and cash equivalents** | | (28,731) | (382,758) |
| Cash and cash equivalents at beginning of the year | | 600,758 | 983,516 |
| **Cash and cash equivalents at end of the year** | | 572,027 | 600,758 |
| **Cash and cash equivalents comprise:** | | | |
| Cash collateral received | 11 | 14,268 | - |
| Cash at bank | | 572,027 | 600,758 |
| | 11 | 586,295 | 600,758 |

## 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 18 March 2016.

## 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.

The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

### (e) Changes in accounting policies

A number of new standards, amendments to standards and interpretations are effective for annual period beginning on 1 January 2015, and have been applied in preparing these financial statements. None of these have a significant effect on the financial statements of the Company.

## 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 is consistent with those for life insurance par contracts.

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

- life insurance par contracts (including investment contracts with DPF)
- life insurance non-par contracts
- investment-linked contracts

The Company does not unbundle any insurance contracts as its accounting policy recognises all insurance premiums, claims and benefit payments, expenses and valuation of future benefit payments, inclusive of the investment component, through the statement of 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 receivables 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 are stated at their revalued amounts. 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.

*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.

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 judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### (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 2015, and have not been applied in preparing these financial statements. The Company is currently assessing the potential impact of adopting these new standards and interpretations on the financial statements of the Company.

The new standards include FRS 109 *Financial Instruments* which is mandatory for adoption by the Company on 1 January 2018. FRS 109 replaces most of the existing guidance in FRS 39 *Financial Instruments: Recognition and Measurement.* It includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements.

As FRS 109, when effective, will change the existing accounting standards and guidance applied by the Company in accounting for financial instruments, the standard is expected to be relevant to the Company. The Company does not plan to adopt the standard early.

## 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 such policyholders' behaviour.

*Discount rate*

The risk-free rates below are used for discounting the insurance contract liabilities in respect of non-participating policies, non-unit reserves of investment-linked policies, as well as the minimum condition liability of life participating funds and universal life policies. The derivation of the risk-free rates is in accordance with the MAS Notice 319 and guidance note issued by the Singapore Actuarial Society (SAS GNL02). Effective from 1 January 2013, the MAS Notice 319 (Amendment) dated 14 May 2012 requires direct insurers to adopt the new long term risk-free discount rate basis in valuing Singapore Dollar denominated liabilities of non-participating policies, non-unit reserves of investment-linked policies and the minimum condition liability of participating funds.

## SGD Denominated Liabilities

| | 2015 | 2014 |
|---|---|---|
| | % | % |
| 1 year | 1.03 | 0.64 |
| 2 years | 1.14 | 0.74 |
| 3 years | 1.43 | 1.05 |
| 4 years | 1.71 | 1.35 |
| 5 years | 1.99 | 1.65 |
| 6 years | 2.14 | 1.80 |
| 7 years | 2.28 | 1.94 |
| 8 years | 2.43 | 2.09 |
| 9 years | 2.58 | 2.24 |
| 10 years | 2.72 | 2.38 |
| 11 years | 2.78 | 2.46 |
| 12 years | 2.84 | 2.53 |
| 13 years | 2.90 | 2.61 |
| 14 years | 2.96 | 2.69 |
| 15 years | 3.03 | 2.76 |
| 16 years | 3.10 | 2.91 |
| 17 years | 3.18 | 3.06 |
| 18 years | 3.25 | 3.20 |
| 19 years | 3.33 | 3.35 |
| 20 years and above | 3.40 | 3.50 |

## USD Denominated Liabilities

| | 2015<br>% | 2014<br>% |
|---|---|---|
| 1 year | 0.63 | 0.24 |
| 2 years | 1.06 | 0.67 |
| 3 years | 1.33 | 1.10 |
| 4 years | 1.56 | 1.39 |
| 5 years | 1.79 | 1.68 |
| 6 years | 1.96 | 1.85 |
| 7 years | 2.14 | 2.02 |
| 8 years | 2.20 | 2.09 |
| 9 years | 2.27 | 2.16 |
| 10 years | 2.33 | 2.23 |
| 11 years | 2.38 | 2.27 |
| 12 years | 2.42 | 2.30 |
| 13 years | 2.46 | 2.33 |
| 14 years | 2.50 | 2.36 |
| 15 years | 2.55 | 2.40 |
| 16 years | 2.59 | 2.43 |
| 17 years | 2.63 | 2.46 |
| 18 years | 2.68 | 2.49 |
| 19 years | 2.72 | 2.53 |
| 20 years | 2.76 | 2.56 |
| 21 years | 2.81 | 2.60 |
| 22 years | 2.87 | 2.64 |
| 23 years | 2.92 | 2.67 |
| 24 years | 2.97 | 2.71 |
| 25 years | 3.02 | 2.75 |
| 26 years | 3.08 | 2.79 |
| 27 years | 3.13 | 2.83 |
| 28 years | 3.18 | 2.87 |
| 29 years | 3.23 | 2.91 |
| 30 years and above | 3.29 | 2.95 |

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 2.10% to 9.74% (2014: 0.37% to 9.99%).

*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% (2014: 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 2015 $'000 | Change in liability 2014 $'000 |
|---|---|---|---|
| Worsening of mortality and morbidity | +10% | 134,114 | – |
| Lowering of investment returns | -1% | 2,767,902 | 1,761,941 |
| 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 |
|---|---|---|---|---|---|
| | | 2015 | 2015 | 2014 | 2014 |
| | | $'000 | $'000 | $'000 | $'000 |
| Worsening of mortality and morbidity | +10% | 70,166 | (58,237) | 65,463 | (54,333) |
| Lowering of investment returns | -1% | 266,184 | (220,933) | 327,424 | (271,762) |
| Worsening of base renewal expense level | +10% | 3,147 | (2,612) | 3,544 | (2,942) |
| Worsening of renewal expense inflation rate | +2% | 3,694 | (3,066) | 5,521 | (4,582) |
| Worsening of lapse rate | -10% | 20,969 | (17,404) | 20,456 | (16,978) |

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

| Variable | Change in variable | Change in liability 2015 $'000 | Change in profit/equity 2015 $'000 | Change in liability 2014 $'000 | Change in profit/equity 2014 $'000 |
|---|---|---|---|---|---|
| Worsening of mortality and morbidity | +10% | 1,121 | (931) | 775 | (643) |
| Lowering of investment returns | -1% | 721 | (598) | 622 | (516) |
| Worsening of base renewal expense level | +10% | 2,138 | (1,775) | 1,874 | (1,555) |
| Worsening of renewal expense inflation rate | +2% | 3,999 | (3,319) | 3,562 | (2,956) |
| Worsening of lapse rate | -10% | 830 | (689) | 704 | (584) |

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 2015 is 228% (2014: 212%).

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 2015, the minimum condition liability, which includes only guaranteed benefits, is $7.0 billion (2014: $7.3 billion) and is significantly below the policy assets of $15.1 billion (2014: $14.2 billion). The corresponding policy liability, which would include future bonuses at a level which meets policyholders' reasonable expectations, is $14.7 billion (2014: $13.2 billion). The policy assets in excess of the policy liabilities, amounting to

$0.4 billion (2014: $1.0 billion), are available to meet the insurance fund's solvency requirements and any adverse deviations in the Company's operating experience.

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

*Life insurance non-par contracts*

The life insurance non-par contracts consist of individual term insurance, annuity, universal life, health business and group business. The major health business written is Prushield which covers hospitalisation, surgical fees and certain outpatient treatment expenses. The key risks faced by the Company in respect of non-participating contracts are mortality and morbidity 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 to 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 on 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**<br>**$'000** | **Floating rate**<br>**$'000** | **Non-interest sensitive**<br>**$'000** | **Total**<br>**$'000** |
|---|---|---|---|---|
| **2015** | | | | |
| **Assets** | | | | |
| 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 |
| **Liabilities** | | | | |
| 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) |

| | Fixed rate $'000 | Floating rate $'000 | Non-interest sensitive $'000 | Total $'000 |
|---|---|---|---|---|
| **2014** | | | | |
| **Assets** | | | | |
| Equity securities | – | – | 4,428,016 | 4,428,016 |
| Debt securities | 5,706,806 | 596,718 | – | 6,303,524 |
| Collective investment schemes | – | – | 16,383,752 | 16,383,752 |
| Derivative financial instruments | – | – | 27,944 | 27,944 |
| Loans and receivables | 456,371 | – | 70,087 | 526,458 |
| Reinsurers' share of insurance contract liabilities | – | – | 33,060 | 33,060 |
| Insurance and other receivables | – | – | 353,354 | 353,354 |
| Cash and cash equivalents | 600,758 | – | – | 600,758 |
| | 6,763,935 | 596,718 | 21,296,213 | 28,656,866 |
| **Liabilities** | | | | |
| Gross insurance contract liabilities *(including investment contracts with DPF)* | (9,477,264) | (3,342,291) | (12,143,695) | (24,963,250) |
| Insurance and other payables | (1,256,731) | – | (381,855) | (1,638,586) |
| Derivative financial instruments | – | – | (263,951) | (263,951) |
| | (10,733,995) | (3,342,291) | (12,789,501) | (26,865,787) |

*(ii) Foreign currency risk*

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

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 $'000 | USD $'000 | EUR $'000 | GBP $'000 | Others $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| **Assets** | | | | | | |
| 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 |
| **Liabilities** | | | | | | |
| 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) |

| | SGD $'000 | USD $'000 | EUR $'000 | GBP $'000 | Others $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| **Assets** | | | | | | |
| Property and equipment | 53,689 | – | – | – | – | 53,689 |
| Intangible assets | 330,585 | – | – | – | – | 330,585 |
| Investments and loans | | | | | | |
| - Equity securities | 2,590,004 | 112,428 | – | – | 1,725,584 | 4,428,016 |
| - Debt securities | 5,312,341 | 878,709 | 45,145 | 10,773 | 56,556 | 6,303,524 |
| - Collective investment schemes | 5,713,588 | 8,835,640 | 1,309,528 | 472,943 | 52,053 | 16,383,752 |
| - Derivative financial instruments | 536,082 | (1,148) | (330,500) | – | (176,490) | 27,944 |
| - Loans and receivables | 513,439 | 11,159 | 763 | 103 | 994 | 526,458 |
| Reinsurers' share of insurance contract liabilities | 33,060 | – | – | – | – | 33,060 |
| Insurance and other receivables | 341,960 | 9,489 | – | – | 1,905 | 353,354 |
| Cash and cash equivalents | 425,552 | 154,358 | 11,914 | 1,649 | 7,285 | 600,758 |
| | 15,850,300 | 10,000,635 | 1,036,850 | 485,468 | 1,667,887 | 29,041,140 |
| **Liabilities** | | | | | | |
| Gross insurance contract liabilities *(including investment contracts with DPF)* | (23,629,585) | (1,333,665) | – | – | – | (24,963,250) |
| Insurance and other payables | (1,612,130) | (26,456) | – | – | – | (1,638,586) |
| Derivative financial instruments | 4,893,926 | (4,875,075) | 2,408 | (204,509) | (80,701) | (263,951) |
| Provision for tax | (73,493) | – | – | – | – | (73,493) |
| Deferred tax liabilities | (945,761) | – | – | – | – | (945,761) |
| | (21,367,043) | (6,235,196) | 2,408 | (204,509) | (80,701) | (27,885,041) |

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

*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 2015 $'000** | **Change in equity 2015 $'000** | **Change in profit 2014 $'000** | **Change in equity 2014 $'000** |
|---|---|---|---|---|
| Equity prices | | | | |
| +10% | 5,015 | 4,162 | 5,538 | 4,596 |
| -10% | (5,311) | (4,408) | (5,817) | (4,828) |
| Interest rates | | | | |
| +10 basis points | (21,756) | (18,057) | (5,055) | (4,196) |
| -10 basis points | 19,923 | 16,536 | 3,788 | 3,144 |

| **Variable** | **Change in profit 2015 $'000** | **Change in equity 2015 $'000** | **Change in profit 2014 $'000** | **Change in equity 2014 $'000** |
|---|---|---|---|---|
| Foreign currency | | | | |
| +5% | 9 | 7 | 3 | 2 |
| -5% | (9) | (7) | (3) | (2) |

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

| Variable | Change in investments and loans 2015 $'000 | Change in gross insurance contract liabilities 2015 $'000 | Change in investments and loans 2014 $'000 | Change in gross insurance contract liabilities 2014 $'000 |
|---|---|---|---|---|
| Equity prices | | | | |
| +10% | 655,536 | 650,522 | 601,709 | 596,172 |
| -10% | (326,355) | (321,044) | (601,789) | (595,972) |
| Interest rates | | | | |
| +10 basis points | (93,662) | (71,906) | (101,050) | (95,995) |
| -10 basis points | 95,325 | 75,402 | 101,052 | 97,263 |
| Foreign currency | | | | |
| +5% | 267,937 | 267,929 | 247,848 | 247,845 |
| -5% | (265,267) | (265,258) | (247,848) | (247,845) |

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 | Within one year | After one year but within five years | After five years | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2015** | | | | | |
| 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 |
| **2014** | | | | | |
| Gross insurance contract liabilities *(including investment contracts with DPF)* | 9,186,474 | 641,699 | 2,959,765 | 12,175,312 | 24,963,250 |
| Insurance and other payables | – | 1,609,769 | 28,817 | – | 1,638,586 |
| Derivative financial instruments | 12,231 | 159,531 | 91,807 | 382 | 263,951 |
| | 9,198,705 | 2,410,999 | 3,080,389 | 12,175,694 | 26,865,787 |

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) | | | | | |
|---|---|---|---|---|---|---|
| | **AAA** | **AA+ to AA-** | **A+ to A-** | **BBB+ to BBB-** | **Below BBB- or not rated** | **Total** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **2015** | | | | | | |
| 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 |
| **2014** | | | | | | |
| Debt securities | | | | | | |
| - Government bonds | 2,615,648 | 18,908 | 41,574 | 16,724 | 1,070,373 | 3,763,227 |
| - Corporate and other bonds | 266,427 | 180,952 | 559,875 | 773,391 | 759,652 | 2,540,297 |
| Loans and receivables | – | – | – | – | 526,458 | 526,458 |
| Reinsurers' share of insurance contract liabilities | – | 33,060 | – | – | – | 33,060 |
| | 2,882,075 | 232,920 | 601,449 | 790,115 | 2,356,483 | 6,863,042 |

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 (2014: 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 |
| **2015** | | | | |
| 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) |
| **2014** | | | | |
| Forward exchange contracts | 581,666 | 4,688,035 | 18,501 | (246,389) |
| Futures contracts | 183,066 | 496,174 | 8,560 | (2,223) |
| Currency swap contracts | 18,865 | 215,850 | 883 | (15,339) |
| Options contracts | – | – | – | – |
| | 783,597 | 5,400,059 | 27,944 | (263,951) |

***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** |
|---|---|---|---|---|
| **2015** | | | | |
| 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 |
| 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 |
| **2014** | | | | |
| Equity securities | 4,347,870 | – | 80,146 | 4,428,016 |
| Debt securities | 5,498,565 | 794,390 | 10,569 | 6,303,524 |
| Collective investment schemes | 15,646,890 | 736,862 | – | 16,383,752 |
| Derivative financial assets | 8,560 | 19,384 | – | 27,944 |
| Derivative financial liabilities | (2,223) | (261,728) | – | (263,951) |
| | 25,499,662 | 1,288,908 | 90,715 | 26,879,285 |

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

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **2015** | | | | |
| Cash and cash equivalents | 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 |
| **2014** | | | | |
| Cash and cash equivalents | 600,758 | – | – | 600,758 |
| Loans and receivables | – | 526,458 | – | 526,458 |
| Other receivables (Note 10) | – | 235,828 | – | 235,828 |
| Other payables (Note 13) | – | (231,589) | – | (231,589) |
| | 600,758 | 530,697 | – | 1,131,455 |

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

| | Equity securities $'000 | Debt securities $'000 | Collective investment schemes $'000 | Total $'000 |
|---|---|---|---|---|
| At 1 January 2015 | 80,146 | 10,569 | – | 90,715 |
| Net gains included in profit or loss for the period presented in investment income/(losses) | 4,704 | (228) | – | 4,476 |
| Purchases | – | – | – | – |
| Sales | – | (10,341) | – | (10,341) |
| Settlements | – | – | – | – |
| At 31 December 2015 | 84,850 | – | – | 84,850 |
| At 1 January 2014 | 35,218 | 63,103 | 37 | 98,358 |
| Net gains included in profit or loss for the period presented in investment income/(losses) | 6,909 | (476) | (4) | 6,429 |
| Purchases | 38,019 | 10,569 | – | 48,588 |
| Sales | – | (62,627) | (33) | (62,660) |
| Settlements | – | – | – | – |
| At 31 December 2014 | 80,146 | 10,569 | – | 90,715 |

There were no transfers into and 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. |
| Inputs from broker's valuation with verification by the Company using the credit status of the underlying counterparties and market interest rates. | Risk adjusted discount rates. | Fair value will increase if 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. |

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) | Gross amounts of recognised financial assets/ (liabilities) offset in the statement of financial position | Net amounts of financial assets/ (liabilities) presented in the statement of financial position | Related amounts not offset in the statement of financial position – Financial instruments | Net amount |
|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2015** | | | | | | |
| **Financial assets** | | | | | | |
| 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 |
| **Financial liabilities** | | | | | | |
| 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) |
| **2014** | | | | | | |
| **Financial assets** | | | | | | |
| Amount due from related companies (non-insurance) | 10 | 9,674 | (9,673) | 1 | – | 1 |
| Other receivables | 10 | 58,215 | – | 58,215 | (17,194) | 41,021 |
| | | 67,889 | (9,673) | 58,216 | (17,194) | 41,022 |
| **Financial liabilities** | | | | | | |
| Amount due to related companies (non-insurance) | 13 | (26,234) | 9,673 | (16,561) | – | (16,561) |
| Other payables and accrued expenses | 13 | (180,006) | – | (180,006) | 17,194 | (162,812) |
| | | (206,240) | 9,673 | (196,567) | 17,194 | (179,373) |

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 $'000 Cost | Leasehold property $'000 Valuation | Office equipment $'000 Cost | Computer equipment $'000 Cost | Motor vehicles $'000 Cost | Office renovations $'000 Cost | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Cost/Valuation** | | | | | | | |
| At 1 January 2014 | 1,440 | 28,000 | 3,391 | 35,737 | 529 | 29,285 | 98,382 |
| Additions | – | – | 301 | 5,793 | – | 2,643 | 8,737 |
| Disposals | – | – | – | (1,639) | (268) | (76) | (1,983) |
| Gain on revaluation | – | 3,719 | – | – | – | – | 3,719 |
| Reversal of depreciation on revaluation | – | (819) | – | – | – | – | (819) |
| At 31 December 2014 | 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 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2014 | 605 | – | 2,181 | 24,853 | 424 | 17,360 | 45,423 |
| Depreciation charge for the year | 29 | 819 | 448 | 6,009 | 52 | 3,717 | 11,074 |
| Disposals | – | – | – | (531) | (268) | (532) | (1,331) |
| Reversal of depreciation on revaluation | – | (819) | – | – | – | – | (819) |
| At 31 December 2014 | 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 |
| **Carrying amounts** | | | | | | | |
| At 1 January 2014 | 835 | 28,000 | 1,210 | 10,884 | 105 | 11,925 | 52,959 |
| At 31 December 2014 | 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 |

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 2015. 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 outgoings of an onerous nature which would affect its value. The leasehold property is classified as Level 2 in the fair value hierarchy.

$1,532,000 (2014: $3,719,000) of revaluation gain was credited to the revaluation reserve.

The approximate carrying amount of leasehold property would have been $14,518,000 (2014: $14,849,000) 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 $8,500,000 (2014: $9,600,000).

Property and equipment are non-current assets.

## 7. Intangible Assets

| | Goodwill | Acquired value in-force business | Others | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Cost** | | | | |
| At 1 January 2014 | 231,279 | 29,787 | 133,095 | 394,161 |
| Additions | – | – | 9,862 | 9,862 |
| Disposals | – | – | (6,500) | (6,500) |
| At 31 December 2014 | 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 |
| **Accumulated amortisation** | | | | |
| At 1 January 2014 | – | 5,957 | 45,530 | 51,487 |
| Amortisation charge for the year | – | 1,490 | 20,461 | 21,951 |
| Disposals | – | – | (6,500) | (6,500) |
| At 31 December 2014 | – | 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 |
| **Carrying amounts** | | | | |
| At 1 January 2014 | 231,279 | 23,830 | 87,565 | 342,674 |
| At 31 December 2014 | 231,279 | 22,340 | 76,966 | 330,585 |
| At 31 December 2015 | 231,279 | 20,850 | 68,072 | 320,201 |

***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 3.61% to 6.24% (2014: 3.48% to 5.92%).

**(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 1.78% to 8.63% (2014: 1.76% to 8.53%).

***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

| | | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|---|
| **Financial assets designated at fair value through profit or loss** | | | |
| *Equity securities* | | | |
| - Listed equity securities | | 4,123,365 | 4,347,870 |
| - Unlisted equity securities | | 84,850 | 80,146 |
| | | 4,208,215 | 4,428,016 |
| *Debt securities* | | | |
| - Government bonds | | 3,762,721 | 3,763,227 |
| - Listed corporate and other bonds | | 2,490,266 | 2,340,540 |
| - Unlisted corporate and other bonds | | 162,959 | 199,757 |
| | | 6,415,946 | 6,303,524 |
| **Collective investment schemes** | | 17,068,450 | 16,383,752 |
| **Derivative financial instruments** | 5(d) | 34,018 | 27,944 |

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| **Loans and receivables** | | |
| - Investment income receivables | 98,284 | 70,088 |
| - Policy loans | 467,861 | 454,570 |
| - Corporate loan | 1,800 | 1,800 |
| | 567,945 | 526,458 |
| **Total investments and loans** | 28,294,574 | 27,669,694 |
| Current portion | 21,568,386 | 21,537,371 |
| Non-current portion | 6,726,188 | 6,132,323 |
| | 28,294,574 | 27,669,694 |

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 2015 and 2014, 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 | |
|---|---|---|---|---|---|
| 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| $'000 | $'000 | $'000 | $'000 | % | % |
| 2,006 | 15,355 | 2,108 | 16,123 | 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 is unsecured, bears interest at 5.00% per annum and has a tenure of seven years. It is repayable on demand. Management does not expect repayment in the next twelve months.

## 9. Reinsurers' Share of Insurance Contract Liabilities

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Reinsurers' share of insurance contract liabilities | 227,335 | 33,060 |

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

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| At 1 January | 33,060 | 93,701 |
| Increase/(decrease) in reinsurers' share of insurance contract liabilities | 194,275 | (60,641) |
| At 31 December | 227,335 | 33,060 |
| Current portion | – | – |
| Non-current portion | 227,335 | 33,060 |
| | 227,335 | 33,060 |

## 10. Insurance and Other Receivables

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| Receivables arising from insurance and reinsurance contracts: | | |
| - Due from policyholders | 85,654 | 79,098 |
| - Due from advisors | 14,890 | 13,954 |
| - Due from reinsurers | 3,069 | 2,182 |
| | 103,613 | 95,234 |
| Prepayments | 22,656 | 22,292 |
| Other receivables: | | |
| - Amounts due from related companies (non-insurance) | 1 | 1 |
| - Other receivables | 130,857 | 58,215 |
| - Collateral deposits placed with financial institutions | 221,959 | 177,612 |
| | 352,817 | 235,828 |
| | 479,086 | 353,354 |
| Current portion | 478,062 | 352,123 |
| Non-current portion | 1,024 | 1,231 |
| | 479,086 | 353,354 |

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

## 11. Cash and Cash Equivalents

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| Cash at bank and in hand | 369,873 | 427,303 |
| Short-term time deposits | 202,154 | 173,455 |
| Cash collateral received | 14,268 | – |
| | 586,295 | 600,758 |

The effective interest rate on short-term time deposits was 0.82% (2014: 0.46%) and the deposits have an average maturity of less than 36 days (2014: less than 19 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 | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| Long term insurance contracts: | | | |
| - Life insurance par contracts | (i) | 13,903,979 | 13,006,790 |
| - Life insurance non-par contracts | (ii) | 2,514,081 | 2,416,421 |
| - Investment-linked contracts | | | |
| - Unit reserves | (iii) | 8,610,603 | 9,186,474 |
| - Non-unit reserves | (iv) | 27,698 | 28,044 |
| | | 25,056,361 | 24,637,729 |
| Provision for outstanding claims | | 151,534 | 134,318 |
| **Total insurance contract liabilities** | | 25,207,895 | 24,772,047 |
| Long term investment contracts: | | | |
| - Life investment contracts with DPF | (v) | 148,591 | 191,203 |
| **Total insurance contract liabilities** *(including investment contracts with DPF)* | | 25,356,486 | 24,963,250 |
| Current portion | | 151,534 | 134,318 |
| Non-current portion | | 25,204,952 | 24,828,932 |
| | | 25,356,486 | 24,963,250 |

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

- an amount of $715.9 million (2014: $712.8 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 $302.1 million (2014: $281.8 million).

### Movements in insurance contract liabilities

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

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| At 1 January | 13,006,790 | 11,527,517 |
| Premiums received, net of reinsurance | 2,391,136 | 2,197,116 |
| Claims and surrenders | (973,260) | (922,136) |
| Expenses: | | |
| - Operating | (401,928) | (365,764) |
| - Non-operating | (38,465) | (31,749) |
| Movement in deferred tax | (42,622) | (92,894) |
| Income: | | |
| - Investment income | 53,334 | 770,439 |
| - Other expense | (19,772) | (32,417) |
| Transfer to shareholders' fund | (71,234) | (43,322) |
| At 31 December | 13,903,979 | 13,006,790 |

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

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| At 1 January | 2,416,421 | 2,376,258 |
| Valuation premiums | 31,698 | 23,486 |
| Liabilities released for payments on death and other terminations | (135,940) | (620,916) |
| Accretion of interest | 35,673 | 41,479 |
| Other movements | 8,016 | 4,096 |
| New business | 119,041 | 442,872 |
| Change in valuation basis: | | |
| - Discount rate | 73,398 | 165,035 |
| - Others | (34,226) | (15,889) |
| At 31 December | 2,514,081 | 2,416,421 |

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)*

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| At 1 January | 9,186,474 | 8,430,040 |
| Premiums received | 1,173,386 | 1,211,322 |
| Fees deducted from account balances of investment-linked contracts | (336,354) | (340,803) |
| Liabilities released for payments on death, surrender and other terminations | (1,000,719) | (943,044) |
| Changes in unit prices | (415,830) | 817,944 |
| Other movements | 3,646 | 11,015 |
| At 31 December | 8,610,603 | 9,186,474 |

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

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| At 1 January | 28,044 | 26,052 |
| Premiums received | (2,306) | 806 |
| Fees deducted from account balances | 1,559 | 888 |
| Liabilities released for payments on death, surrender and other terminations | (837) | (767) |
| Accretion of interest | 136 | 67 |
| Changes in unit prices (within insurance benefits) | 1,705 | (714) |
| New business | 190 | 406 |
| Change in valuation basis: | | |
| - Discount rate | 126 | 1,140 |
| - Others | (919) | 166 |
| At 31 December | 27,698 | 28,044 |

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

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| At 1 January | 191,203 | 291,388 |
| Claims and surrenders | (44,305) | (115,044) |
| Investment income | 2,655 | 5,859 |
| Others | (962) | 9,000 |
| At 31 December | 148,591 | 191,203 |

## 13. Insurance and Other Payables

| | Note | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|---|
| Payables arising from insurance and reinsurance contracts: | | | |
| - Insurance contract payables | | 1,535,011 | 1,391,373 |
| - Reinsurance payables | | 225,953 | 15,624 |
| | | 1,760,964 | 1,406,997 |
| Other payables: | | | |
| - Provision for agency expenses | | 17,089 | 14,538 |
| - Share-based payment liability | 29(b) | 24,535 | 20,484 |
| - Amount due to related companies (non-insurance) | | 17,021 | 16,561 |
| - Cash collateral received | | 14,268 | – |
| - Other payables and accrued expenses | | 290,865 | 180,006 |
| | | 363,778 | 231,589 |
| | | 2,124,742 | 1,638,586 |
| Current portion | | 2,106,764 | 1,609,769 |
| Non-current portion | | 17,978 | 28,817 |
| | | 2,124,742 | 1,638,586 |

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 | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| Derivative financial instruments | 5(d) | 271,811 | 263,951 |
| Current portion | | 92,384 | 171,761 |
| Non-current portion | | 179,427 | 92,190 |
| | | 271,811 | 263,951 |

## 15. Deferred Tax Liabilities

| | Note | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| At 1 January | | 945,761 | 840,145 |
| Net provision made during the year | 27 | 42,427 | 105,616 |
| At 31 December | | 988,188 | 945,761 |

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

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 |
| Short-term timing differences | (2,448) | (1,846) | – | – | (2,448) | (1,846) |
| Capital allowances for property and equipment | – | – | 1,340 | 1,120 | 1,340 | 1,120 |
| Tax on future distributions | – | – | 989,296 | 946,487 | 989,296 | 946,487 |
| Deferred tax (assets)/liabilities | (2,448) | (1,846) | 990,636 | 947,607 | 988,188 | 945,761 |

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

| | 2015 No. of shares ('000) | 2014 No. of shares ('000) |
|---|---|---|
| **Fully paid ordinary shares, with no par value:** | | |
| 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 | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| Capital contribution reserve | | 958 | 740 |
| Revaluation reserve | 6 | 13,776 | 12,244 |
| | | 14,734 | 12,984 |

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:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Interim dividends (2015: $0.47 per qualifying share; 2014: $0.46 per qualifying share) | 250,000 | 244,000 |

## 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 |
|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | |
| **Financial assets** | | | | | | | |
| 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 |
| **Financial liabilities** | | | | | | | |
| 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) |
| **2014** | | | | | | | |
| **Financial assets** | | | | | | | |
| Investments and loans | | | | | | | |
| - Equity securities | 8 | 4,428,016 | – | – | – | 4,428,016 | 4,428,016 |
| - Debt securities | 8 | 6,303,524 | – | – | – | 6,303,524 | 6,303,524 |
| - Collective investment schemes | 8 | 16,383,752 | – | – | – | 16,383,752 | 16,383,752 |
| - Derivative financial instruments | 8 | – | 27,944 | – | – | 27,944 | 27,944 |
| - Loans and receivables | 8 | – | – | 526,458 | – | 526,458 | 526,458 |
| Other receivables | 10 | – | – | 235,828 | – | 235,828 | 235,828 |
| Cash and cash equivalents | 11 | – | – | 600,758 | – | 600,758 | 600,758 |
| | | 27,115,292 | 27,944 | 1,363,044 | – | 28,506,280 | 28,506,280 |
| **Financial liabilities** | | | | | | | |
| Other payables | 13 | – | – | – | (231,589) | (231,589) | (231,589) |
| Derivative financial instruments | 14 | – | (263,951) | – | – | (263,951) | (263,951) |
| | | – | (263,951) | – | (231,589) | (495,540) | (495,540) |

## 20. Insurance Premiums

| | Gross premiums | | Premiums ceded to reinsurers | | Net premiums | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Life insurance par contracts | 2,393,851 | 2,195,161 | (2,715) | 1,955 | 2,391,136 | 2,197,116 |
| Life insurance non-par contracts | 784,572 | 1,108,032 | (293,937) | (88,110) | 490,635 | 1,019,922 |
| Investment-linked contracts | 1,173,386 | 1,211,322 | (9,497) | (9,211) | 1,163,889 | 1,202,111 |
| | 4,351,809 | 4,514,515 | (306,149) | (95,366) | 4,045,660 | 4,419,149 |

## 21. Fees and Commission Income

| | 2015 | 2014 |
|---|---|---|
| | $'000 | $'000 |
| Fee income | 8,100 | 7,702 |
| Reinsurance commission | 28,245 | 5,482 |
| Profit commission | 160 | 545 |
| | 36,505 | 13,729 |

## 22. Investment Income

| | 2015 | 2014 |
|---|---|---|
| | $'000 | $'000 |
| Interest income | | |
| - Debt securities | 199,017 | 230,705 |
| - Loans and receivables | 27,090 | 25,812 |
| - Cash and cash equivalents | 2,060 | 1,235 |
| Dividend income | 255,732 | 206,817 |
| Rental income | 1,409 | 1,349 |
| Net realised gains/losses and fair value changes on financial assets at fair value through profit or loss | (739,535) | 1,469,274 |
| Exchange gains/(losses) | 3,682 | (3,641) |
| | (250,545) | 1,931,551 |
| Life insurance par contracts *(including investment contracts with DPF)* | 60,565 | 774,230 |
| Life insurance non-par contracts | 97,438 | 325,334 |
| Investment-linked contracts | (410,335) | 829,305 |
| Investment income from insurance operations | (252,332) | 1,928,869 |
| Shareholders' fund | 1,787 | 2,682 |
| | (250,545) | 1,931,551 |

## 23. Claims and Benefits Incurred

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Long-term insurance contracts:** | | |
| **Life insurance par contracts** *(including investment contracts with DPF)* | | |
| Claims, maturity and surrender benefits | 1,017,563 | 1,023,741 |
| Increase in liabilities during the year | 854,577 | 1,379,086 |
| **Life insurance non-par contracts** | | |
| Claims, maturity and surrender benefits | 377,847 | 765,812 |
| Increase in liabilities during the year | 97,660 | 40,165 |
| Reinsurers' share of increase in liabilities during the year | (194,275) | 60,641 |
| **Investment-linked contracts** | | |
| Claims, maturity and surrender benefits | 1,041,230 | 970,555 |
| (Decrease)/ increase in liabilities during the year | (576,217) | 758,426 |
| **Shareholders' fund claims expenses** | | |
| Claims, maturity and surrender benefits | – | 30 |
| | 2,618,385 | 4,998,456 |

## 24. Commission and Distribution Costs

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Commission expenses | 435,565 | 465,414 |
| Other acquisition costs | 111,061 | 113,121 |
| | 546,626 | 578,535 |

Included in commission expenses is $6,771,000 (2014: $6,300,000) of the share-based compensation expenses.

## 25. Staff Costs

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Salaries and benefits in kind | 86,209 | 77,877 |
| Contributions to Central Provident Fund | 6,832 | 6,484 |
| Share-based compensation expenses | 5,842 | 5,599 |
| | 98,883 | 89,960 |

## 26. Other Operating Expenses

Included in other operating expenses are the following:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Administrative expenses | 16,720 | 14,134 |
| Operational expenses | 47,053 | 41,484 |
| Advertising and promotional expenses | 12,855 | 17,512 |
| Investment expenses | 83,798 | 78,111 |

## 27. Taxation

| | Note | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| **Current tax expense** | | | |
| Current year | | 57,240 | 76,644 |
| Adjustment for prior periods | | (2,922) | (5,090) |
| | | 54,318 | 71,554 |
| **Deferred tax expense** | | | |
| Origination and reversal of temporary differences | 15 | 42,427 | 105,616 |
| Total income tax expense | | 96,745 | 177,170 |

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.

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| ***Reconciliation of effective tax charge*** | | |
| Profit before tax | 356,985 | 500,094 |
| Income tax using domestic corporation tax rate of 17% (2014: 17%) | 60,687 | 85,016 |
| Taxation relating to insurance funds | 65,685 | 117,192 |
| Non-deductible expenses | 1,989 | 2,621 |
| Over provision in prior years | (2,922) | (5,090) |
| Non-taxable income | (26,751) | (20,446) |
| Others | (1,943) | (2,123) |
| | 96,745 | 177,170 |

## 28. Profit for the Year by Funds

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Life insurance par contracts *(including investment contracts with DPF)* | 65,897 | 38,026 |
| Life insurance non-par contracts | 114,586 | 218,284 |
| Investment-linked contracts | 88,863 | 75,780 |
| Shareholders' fund | (9,106) | (9,166) |
| | 260,240 | 322,924 |

## 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 $ | 2015 Number of options | 2014 Number of options |
|---|---|---|---|
| **Options outstanding** | | | |
| At 1 January | 15.70 | 178,127 | 257,107 |
| - Transfer out | 9.49 | (1,864) | (40,150) |
| - Vested | 12.48 | (65,554) | (36,036) |
| - Withdrawn | 16.25 | (21,446) | (2,794) |
| At 31 December | 18.06 | 89,263 | 178,127 |

| | 2015 Number of awards | 2014 Number of awards |
|---|---|---|
| **Awards outstanding** | | |
| At 1 January | 1,999,937 | 1,377,670 |
| - Granted | 528,798 | 885,478 |
| - Vested | (194,506) | (211,094) |
| - Withdrawn | (77,308) | (52,117) |
| At 31 December | 2,256,921 | 1,999,937 |

(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 21/9/2012 | Options granted on 20/9/2013 | Options granted on 20/9/2013 |
|---|---|---|---|
| Fair value at measurement date ($) | 4.48 | 6.55 | 7.43 |
| Share price at grant date ($) | 16.39 | 23.75 | 23.75 |
| Exercise price ($) | 12.48 | 18.06 | 18.06 |
| Expected volatility | 34.27% | 23.68% | 23.23% |
| Expected life | 3 years | 3 years | 5 years |
| Expected dividend yield | 3.63% | 2.73% | 2.73% |
| Risk-free interest rate | 0.33% | 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 2015 was GBP15.64 (2014: GBP15.41).

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| Share-based compensation expense | | |
| - Amount accounted for as cash settled | 12,110 | 11,690 |
| - Amount accounted for as equity settled | 503 | 210 |
| Carrying value at 31 December of liabilities arising from cash settled share-based payment transactions | 24,535 | 20,484 |

## 30. Commitments

### (a) Capital commitments

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| Contracted at the reporting date but not provided for | 5,952 | 1,075 |

### (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:

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| Payable: | | |
| - Within one year | 25,041 | 24,608 |
| - After one year but within five years | 63,752 | 76,597 |
| - After five years | 22,878 | 37,557 |
| | 111,671 | 138,762 |

## 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:

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| Charges for life administration and operation services rendered by related corporations | 30,872 | 29,602 |
| Charges for management services provided to immediate holding company | 150 | 150 |
| Charges for management services rendered by a related corporation | 27,621 | 18,408 |
| Recovery of expense by a related corporation | 11,304 | - |
| Interest on loan to key management personnel | - | 1 |
| Investment management fees (net) paid to a related corporation | 23,925 | 21,633 |
| Outstanding loan to key management personnel | - | 4 |
| Recovery of expense from related corporations | 2,903 | 1,781 |
| Salaries and other short-term employee benefits to key management | 5,856 | 5,909 |