PRUDENTIAL
Always Listening. Always Understanding.

2011 ANNUAL REPORT
80 YEARS OF PUTTING YOU FIRST

CONTENTS

ABOUT PRUDENTIAL ASSURANCE COMPANY SINGAPORE (PTE) LIMITED (PRUDENTIAL SINGAPORE)

DID YOU KNOW?
Prudential opened its first office at Mercantile Bank Building in 1931.

Always **Listening** Always **Understanding**

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

We are one of the market leaders in investment-linked plans with S$7.3 billion managed under PruLink funds as at 31 December 2011. With a rich history that has spanned 80 years, Prudential Singapore now has a dedicated team of approximately 3,100 financial consultants and over 700 employees. We are committed to serving the needs of more than 680,000 policyholders with more than 1.6 million policies.

Prudential Singapore is the first life insurer in Singapore to be named Asia's Life Insurance Company of the Year in 2000. We were also presented with the Gold Award in Reader's Digest Trusted Brands for four consecutive years from 2007 to 2010 and the May Day Model Partnership Award in 2009. In 2010, we emerged as one of the top insurers in Singapore in the Customer Satisfaction Index, which is a national barometer that tracks 104 companies from eight sectors.

Our **dual-channel network**, both the tied agency force as well as strategic partnerships, continued to **deliver strong results.**

It gives me great pleasure to announce that Prudential Singapore has delivered outstanding results for 2011.

Despite the uncertainty that plagued global financial markets in the latter half of 2011, Prudential Singapore remained financially resilient, maintained our focus, and maximised the opportunities that presented themselves. Prudential Singapore continued to deliver a strong performance: net profit went up 20% to $259 million and new business sales hit $473 million, up by an impressive 29%. Prudential Singapore also remains one of the leaders in the industry in regular premium sales with total funds under management at $20.7 billion.

Our exceptional performance is largely due to our commitment to customer excellence. We endeavour to always stay relevant to our customers' changing needs and deliver innovative products and services. In 2011, we launched first-to-market products in *Early Stage Disability* and *PruFracture Care* which address the changing lifestyle needs of Singaporeans. Prudential Singapore has also always been a market leader in Investment-Linked Life Insurance Policies (ILPs). Our newly introduced *PruLink Heritage Account* and *PruSelect Vantage* products provide opportunities for customers to grow and maximise their wealth.

Our dual-channel network, both the tied agency force as well as strategic partnerships, continued to deliver strong results. While Agency Distribution saw a good 6% growth, our bancassurance partners - Maybank, Standard Chartered Bank, United Overseas Bank and SingPost saw an increase of 82% in new business sales.

2011 was also the year Prudential Singapore celebrated its 80th anniversary. While we remain committed to delivering shareholder value and providing products and services of exceptional value to our customers, we celebrated this milestone in the history of the company by giving back to the community. Our 80th anniversary celebrations focused on raising money for the less fortunate and also for cancer research. As part of our philosophy on corporate social responsibility, we invested in the future of our youths through the endowment of scholarships to two universities, and through a financial literacy programme for children.

We have enjoyed 80 memorable years and we look forward to more good years ahead, as well as to further contribute to the welfare of Singaporeans.

Kevin Holmgren
Chief Executive Officer

DID YOU KNOW?
In 1991, 100% of Prudential's agents are full time so as to serve customers better.

Report Card **2011**

Annual Premium Equivalent New Business Premium[1]

+29% OVER 2010

$473M
2011

$368M
2010

$290M
2009

Total Funds under Management

No SIGNIFICANT CHANGE OVER 2010

$20.7B
2011

$20.8B
2010

$16.7B
2009

Net profit for the year

+20% OVER 2010

$259M
2011

$216M
2010

$176M
2009

Capital Adequacy Ratio

>120%

256%
2011

120%

Minimum Regulatory Requirement

[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.*

Prudential Singapore continued to trailblaze in 2011 with innovative product offerings, achievements and accolades.

2011 was a highly successful and exciting year for Prudential Singapore which was marked by the launch of innovative products and services and the company's 80th anniversary celebrations.

We continued to introduce high-value products that were new to the market, to meet the changing needs of our customers. Our multi-channel distribution network comprising mainly Agency Distribution (AD) and our bancassurance channel, Partnerships Distribution (PD), continued to deliver outstanding results.

Our exceptional performance was marked by the spirit of excellence that is characteristic of the Prudential family. Whether at corporate level, with our tied agency force, or financial services consultants with our bancassurance partners, we are committed to delivering the highest standards of customer excellence in all that we do. While we had steady growth through our agency channel, on the PD front, we continued to build and enjoy strong relationships with our strategic bancassurance partners – Maybank, Standard Chartered Bank, United Overseas Bank and SingPost.

This year, Prudential Singapore also celebrated our 80th anniversary. This milestone chapter was marked by the company giving back to the community through several activities throughout the year. Through a carnival for staff, the agency force and our families, as well as a golf charity event, we raised money for cancer research; we also endowed scholarships for universities. We sustained our active participation in the Boys' Brigade Share-a-Gift (BBSG) 2011 project. In addition, we continued to actively promote "Know your Numbers with Prudential", our creative programme to promote financial literacy for children.

Prudential celebrates 80 years in Singapore by giving back to the community through several activities.

Funds were raised through a Prudential Golf Charity event to benefit cancer research.

Another initiative from Prudential is to invest in our future generations by awarding scholarships to university students.

Proceeds from Prudential Carnival ticket sales were donated to National Cancer Centre Singapore.

Product Innovation

Prudential Singapore introduced several innovative products to cater to the varying and changing needs of our customers.

In the Accident & Health category, we introduced *Early Stage Disability* which is the first insurance plan in Singapore that provides coverage against partial and temporary disability.

We also launched PRU*fracture care* to provide our customers with comprehensive protection for major or minor fractures, burns and dislocations. It offers payouts to provide medical assistance for such injuries and also to soften the impact of lifestyle adjustments, until recovery.

Investment-Linked Life Insurance Policies (ILPs)

In 1992, Prudential Singapore was the first insurance company in Singapore to launch a comprehensive range of ILPs. Today, we continue to lead in investment-linked life insurance policies with around S$7.3 billion of PruLink funds.

In 2011, we introduced PRU*link heritage* account to give customers the opportunity to create wealth for their loved ones without having to worry about a lifetime of charges. This regular premium investment-linked life insurance policy is an effective investment vehicle which has the potential to deliver higher returns for customers.

We also launched PRU*select vantage*, the company's first back-end loaded regular premium investment-linked life insurance policy with 100% premium allocation. This plan helps customers with wealth accumulation by giving them the freedom of choice in creating their investment portfolio. Customers are offered an extensive range of more than 95 carefully researched and quality funds which are managed by as many as 13 established fund companies to effectively build and diversify their portfolios.

PRU*early stage disability*

Prudential launched the first insurance plan in Singapore to provide coverage against partial and temporary disablement that can affect one's quality of life.

PRU*select vantage*

An investment-linked insurance plan that helps to build and diversify your portfolio from a wide range of quality funds with investment expertise from Mercer Investment Consulting.

PRU*fracture care*

Offers coverage against major or minor fractures, burns and dislocations caused by accidents.

80th Anniversary Celebrations

Prudential Singapore celebrated 80 memorable years in Singapore by giving back to the community through various activities and events.

We celebrated the occasion with the Prudential Carnival, a significant event for staff, our agency force and our families. Proceeds from ticket sales were donated to the National Cancer Centre Singapore for cancer research.

In September, we organised the Prudential Golf Charity for Singapore's partners and business associates. The proceeds raised from the day of golfing camaraderie were also donated to National Cancer Centre Singapore to benefit cancer research.

On top of this, we donated a total of $200,000 to benefit the education of youths. A sum of $100,000 each was donated to National Technological University (NTU) and Singapore Management University (SMU) to fund scholarships for needy students.

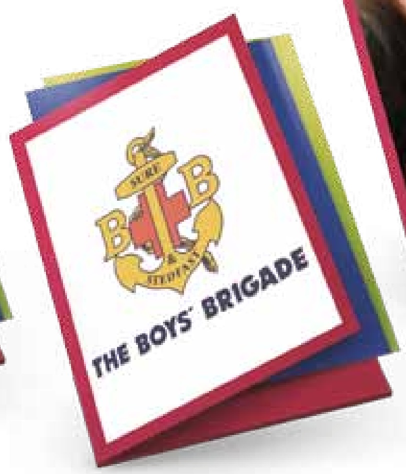
Corporate Social Responsibility

Prudential Singapore continued to actively participate in the Boys' Brigade Share-A-Gift charity event. For the third year running, we rallied together to bring cheer to the less fortunate over the year end festive period. Staff, agency force and our family members contributed to this cause by helping to pack and deliver food hampers for the needy and fulfilling wishes to the less fortunate.

Following the natural disasters in Japan earlier in the year, the company also held a donation drive which raised funds for Red Cross Singapore, in aid of Japan.

In line with our CSR philosophy to promote education, especially financial literacy for children, Prudential Singapore extended the "Know Your Numbers with Prudential" programme in primary schools across the nation.

Donation drive to raise funds for Red Cross Singapore in aid of Japan.



Main sponsor of Boys' Brigade Share-a-Gift charity event for the third year and running.

"Know Your Numbers with Prudential" programme continues to instill financial literacy for children.

DID YOU KNOW?

Prudential was the **first** in Singapore to win the Life Insurance Company of the Year award (Asia Insurance Industry Awards) in 2000.

Leading from the **front**

Tony Wilkey
Chairman

Kevin Holmgren
Executive Director

Dr Tan Ng Chee
Non-Executive Director

Wong Kingcheung Kevin
Non-Executive Director

Chin Phick Fui
Non-Executive Director

BOARD OF DIRECTORS

Tony Wilkey
Chairman

Tony Wilkey was appointed Chairman of the Board of Prudential Singapore in March 2011. Currently he is Chief Executive, Insurance, for Prudential Corporation Asia with 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, Japan, Thailand and the Philippines.

Tony joined Prudential Corporation Asia in 2006 as Chief Operating Officer, responsible for a significant portfolio of regional functions and strategic initiatives including Operations and IT Systems, Agency Distribution, Direct Marketing, Partnerships Development (including Bancassurance) and Customer Relationship Management across Prudential's 12 markets in Asia.

He is a 26 year veteran of the insurance industry. Prior to joining Prudential, Tony was Deputy President and Chief Operating Officer of American International Assurance (AIA), based in Hong Kong, overseeing AIA's Life Companies in South East Asia.

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

Kevin Holmgren
Executive Director

Kevin Holmgren is an Executive Director of the Board and Chief Executive Officer of Prudential Singapore since February 2011.

His extensive experience of 30 years in the insurance industry includes 16 years in Asia, 12 of which are with Prudential. Kevin joined Prudential Corporation Asia as a Director in 2000. Prior to joining Prudential Singapore, Kevin served as Chief Executive Officer of Prudential's life insurance business in Indonesia. Under his leadership, the company grew to become the market leader in Indonesia. Kevin spent the first part of his career in various senior roles in the insurance industry in the United States as well as Malaysia.

Kevin holds an MBA from Southern Methodist University, USA, and a Bachelor of Science in Finance from the University of Connecticut, USA.

Dr Tan Ng Chee
Non-Executive Director

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

Currently, Dr Tan serves as a Director on several companies, such as Intraco Limited, among others. He is also an Adjunct Professor of Law at the National University of Singapore where he teaches a course in Comparative Corporate Governance.

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

Wong Kingcheung Kevin
Non-Executive Director

Kevin Wong has been a Non-Executive Director of Prudential Singapore since July 2006, and is a member of the Audit Committee of Prudential Singapore.

He is the Group Chief Executive Officer of Keppel Land Limited, an appointment he has held since 2000. He is also the Deputy Chairman and Director of K-REIT Asia Management Limited, and Deputy Chairman of Keppel Land China Limited. He is a Board Member of the Building and Construction Authority ("BCA"), and Deputy Chairman of BCA Academy Advisory Panel.

Other than Singapore, Kevin's extensive experience in the real estate industry includes having worked in the US and UK.

Mr Wong 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.

Chin Phick Fui
Non-Executive Director

Chin Phick Fui has been a Non-Executive Director of Prudential Singapore since June 2010. Phick Fui started her career with the Monetary Authority of Singapore and the Government of Singapore Investment Corporation. She was appointed the Group Chief Investment Officer for Overseas Assurance Corporation Ltd in 1994. She joined the DBS Group in 2000 as Executive Director, DBS Asset Management Limited and became the Managing Director & Head, DBS Private Banking in Singapore in 2003. She then joined UBS AG in 2006, where she is currently Managing Director and Senior Adviser to ultra-high net worth clients in Asia. Phick Fui is active in community work, serving as a Council Member of the Singapore Chinese Chamber of Commerce and Industry and as a Member of the Advisory Council of the Community Foundation of Singapore, among other organisations.

Phick Fui holds a Bachelor of Arts & Social Science with 2nd Upper Class Honours from the National University of Singapore.

Taking us **forward**

Kevin Holmgren
Chief Executive Officer

Goh Geok Cheng
Chief Financial Officer

Tomas Urbanec
Chief Marketing and Partnerships Distribution Officer

Patrick Teow
Chief Distribution Officer

Theresa Nai
Chief Operating Officer

Gan Peck Yeow
Chief Human Resources Officer

MANAGEMENT EXECUTIVE COMMITTEE

Kevin Holmgren
Chief Executive Officer

Kevin Holmgren is an Executive Director of the Board and Chief Executive Officer of Prudential Singapore.

Prior to joining Prudential Singapore, Kevin served as Chief Executive Officer of Prudential's life insurance business in Indonesia. Under his leadership, the company grew to become the market leader in Indonesia. Kevin spent the first part of his career in various senior roles in the insurance industry in the United States as well as Malaysia. His extensive experience of 30 years in the insurance industry includes 16 years in Asia, 12 of which are with Prudential. Kevin joined Prudential Corporation Asia as a Director in 2000.

Kevin holds an MBA from Southern Methodist University, USA, and a Bachelor of Science in Finance from the University of Connecticut, USA.

Goh Geok Cheng
Chief Financial Officer

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

At Prudential Singapore, Geok Cheng's responsibilities include overseeing Finance, Actuarial Services, Risk Management and Strategic Planning.

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

Tomas Urbanec
Chief Marketing and Partnerships Distribution Officer

Tomas Urbanec has been the Chief Marketing Officer since September 2009 and assumed the additional role as Chief Partnerships Distribution Officer in August 2011. Before joining Prudential Singapore, Tomas distinguished himself as the Regional Director of Integrated Distribution and Customer Strategy at Prudential Corporation Asia. Tomas brings with him both depth and breadth of experience, having lived and worked in Japan, China, Greece and Hong Kong.

Tomas currently oversees the Marketing Division with responsibility for Products, Customers, Affluent Marketing as well as Corporate and Marketing Communications. His role in Partnerships Distribution includes leading the bancassurance business with Prudential's four strategic partnerships and two open-architecture arrangements.

Tomas has an MBA in International Finance from Case Western Reserve University, Cleveland, Ohio; and a Bachelor of Science in Finance from Indiana University, Bloomington, Indiana, USA.

Patrick Teow
Chief Distribution Officer

Patrick Teow has been the Chief Distribution Officer of Prudential Singapore since June 2009. A veteran in the insurance business, Patrick joined Prudential Singapore in the Agency Distribution unit in 1985. Prior to his current appointment, he was a Group Financial Services Director. He has won numerous prestigious awards for his leadership, agency building capabilities and contribution in this industry.

Patrick is responsible for the Agency Distribution Channel, Academy of Competence and Education, Group Business and Distribution Support Services Departments.

He is a Chartered Financial Consultant and Chartered Life Underwriter.

Theresa Nai
Chief Operating Officer

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

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

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

Gan Peck Yeow
Chief Human Resources Officer

Peck Yeow joined the company in January 2011 as Chief Human Resources Officer. Before Prudential, Peck Yeow was with a major Telecommunications Company for 15 years where she was the Director of Human Resources.

At Prudential Singapore, she is responsible for Human Resources, comprising Business Partners, Compensation and Benefits, Learning and Development, Talent Management and Succession Planning.

Peck Yeow holds a Bachelor of Arts (Honours) from the National University of Singapore and an MBA from the University of Warwick, United Kingdom. She also holds a post-graduate Diploma in Human Resources from the Singapore Institute of Management.

DID YOU KNOW?

In 2001, Prudential was the chief patron for Prudential's Children's First – the **first** international arts event for children.

Always doing the right thing

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 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 a minimum of four times annually to review business performance and key activities, as well as to approve policies. Ad-hoc Board meetings will also be convened if warranted. Audit Committee meetings are also held four times annually and usually before the Board meetings.

The table below lists the number of Board and Audit Committee meetings attended by each Director throughout 2011.

Board/Committee Meetings and Attendance	Board Meetings (Include 1 special meeting)	Audit Committe Meetings
Number of meetings in year 2011	5	4
Chairman		
Tony Wilkey	4	
Chief Executive Officer		
Kevin Holmgren	5	
Independent Directors		
Dr Tan Ng Chee (see Note 1)	5	4
Wong Kingcheung Kevin	4	3
Chin Phick Fui	4	
Ho Mimi Sze (see Note 2)	5	4

Note 1: Audit Committee Chairman
Note 2: Since retired from the Board and Audit Committee

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. For the former, this includes the overall business direction for the year, significant policies and acquisitions (if any), among others.

Training Framework

Induction

Newly appointed Directors are provided with induction programs covering an overview of the company, its structure and principal activities, among others.

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.

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 and 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 regulatory field/industry, as well as issues in relation to risk management and control, corporate governance, among others, where relevant.

BOARD COMPOSITION

As at the date of this report, the Board comprises the Chairman, Mr Tony Wilkey, the Chief Executive Officer (CEO), Mr Kevin Holmgren, as well as three other non-executive Directors, Dr Tan Ng Chee, Mr Wong Kingcheung Kevin and Ms Chin Phick Fui.

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

Our 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.

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

With the assistance of 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.

BOARD MEMBERSHIP

Role of the Nominating Committee

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

On an annual basis, the Board determines whether each Director remains qualified for office taking into account various factors such as the extent of independence, fit and proper status, experience, among others. Directors may serve on a number of other Boards, provided that they are able to demonstrate satisfactory time commitment to their role at Prudential Singapore.

Process for Appointment of New Directors

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

Key Information Regarding Directors

Key information regarding Directors, such as their academic and professional qualifications, status as executive or non-executive Directors, independence and board committees served are included in both this report as well as in the preceding section on Directors.

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, 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 services of 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 as developed by Prudential Singapore, and the remuneration framework for members of the Management ExCo as developed by the Regional Head Office in Hong Kong. The Board also endorses the remuneration packages for independent Directors and the Management ExCo.

Director/Management ExCo Remuneration

Our 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, i.e., performance based variable bonus which is closely linked to the performance of Prudential Singapore and the individual concerned, as well as long term incentives which provides 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 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.

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

Disclosures 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.

The Directors and CEO do not have immediate family members who are employees of Prudential Singapore and whose remuneration exceeds S$150,000 during the year.

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.

AUDIT COMMITTEE

As of 31 December 2011, the Audit Committee comprised three non-executive Directors, who are Dr Tan Ng Chee (Chairman), Ms Mimi Ho Sze[2] as well as Mr Wong Kingcheung Kevin. All our Audit Committee members have significant financial management expertise and experience.

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

In consultation with the Audit Committee at our Regional Head Office, Prudential Singapore's Audit Committee 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.

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

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

The Audit Committee in the Regional Head Office in Hong Kong has instituted a PCA Confidential Helpline across all of Prudential's Asian entities. Employees of these companies may, in confidence, raise concerns about possible improprieties, whether in financial reporting or other matters. The Audit Committee of Prudential Singapore provides oversight over arrangements for the independent investigation of such matters and for appropriate follow-up action.

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 Audit Committee. In turn, the Audit Committee provides oversight over processes developed to address these recommendations in a timely manner.

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

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 encompasses the examination and evaluation of the adequacy and effectiveness of

[2] Ms Mimi Ho Sze has since retired from the Board and Audit Committee. Prudential Singapore is currently in the process of finding her replacement.

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 Audit Committee, 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 Audit Committee 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 Audit Committee 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 Audit Committee 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.

Our 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 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.

RISK MANAGEMENT

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 Risk Committee also reviews the operation of the enterprise risk management system, the adequacy of risk management practices, the current risk profile, risk tolerance level and risk strategy of Prudential Singapore. It also 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 financial risk management function is currently overseen by the Chief Financial Officer (CFO), and also reports regularly to the Risk Committee.

The Board is of the view that the risk management processes and systems in place provide adequate assurance against material financial and operational risks for this financial year.

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.

DID YOU KNOW?
Prudential issued its **one-millionth** policy in 2004.

The **numbers** that matter

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 2011.

Directors

The directors in office at the date of this report are as follows:
Tony Paul Wilkey
Kevin Lee Holmgren
Tan Ng Chee
Wong Kingcheung Kevin
Chin Phick Fui

Directors' interests

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

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

Except for salaries, bonuses and fees and those benefits that are disclosed in note 26 to the financial statements, since the end of the last financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member or with a company in which he has a substantial financial interest.

Share options

During the financial year, there were:

(a) no options granted by the Company to any person to take up unissued shares in the Company; and

(b) no shares issued by virtue of any exercise of option to take up unissued shares of the Company.

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

Auditors

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

On behalf of the Board of Directors

Kevin Lee Holmgren
Director

Tony Paul Wilkey
Director

23 March 2012

FINANCIAL STATEMENTS
Statement by Directors

In our opinion:

(a) the financial statements set out on pages 22 to 64 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2011 and the results, changes in equity and cash flows of the Company for the year ended on that date in accordance with the provisions of the Act and Singapore Financial Reporting Standards; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on 16 March 2012, authorised these financial statements for issue.

On behalf of the Board of Directors

Kevin Lee Holmgren	**Tony Paul Wilkey**
Director	Director

23 March 2012

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 balance sheet as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 64 .

Management's responsibility for the financial statements

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

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Company as at 31 December 2011 and the results, changes in equity and cash flows of the Company for the year ended on that date.

Report on other legal and regulatory requirements

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

kpmg llp

KPMG LLP

Public Accountants and

Certified Public Accountants

Singapore

16 March 2012

FINANCIAL STATEMENTS
Balance sheet
As at 31 December 2011

	Note	2011 $'000	2010 $'000
Assets			
Property and equipment	5	40,800	34,016
Intangible assets	6	365,135	371,341
Investments and loans			
- Equity securities	7	3,087,053	4,431,488
- Debt securities	7	7,709,458	6,837,550
- Collective investment schemes	7	9,013,438	8,700,687
- Derivative financial instruments	7	23,930	189,223
- Loans and receivables	7	613,519	630,240
Insurance and other receivables	8	161,841	151,862
Cash and cash equivalents	9	776,473	827,547
Total assets		21,791,647	22,173,954
Liabilities			
Insurance contract liabilities	10	18,171,407	18,831,688
Investment contracts with discretionary participating features	10	608,018	670,898
Insurance and other payables	11	968,428	866,038
Derivative financial instruments	12	134,083	5,468
Provision for tax		80,234	69,788
Deferred tax liabilities	13	699,894	683,239
Total liabilities		20,662,064	21,127,119
Net assets		1,129,583	1,046,835
Shareholders' equity			
Share capital	14	526,557	526,557
Capital contribution reserve	15	19	-
Revaluation reserve		2,991	-
Accumulated surplus	16		
- Maintained for solvency purposes		411,481	375,637
- Available for distributions		188,535	144,641
Total shareholders' equity		1,129,583	1,046,835

Statement of comprehensive income

Year ended 31 December 2011

	Note	2011 $'000	2010 $'000
Insurance premium revenue	18	2,859,509	2,508,489
Reinsurance premiums	18	(52,568)	(48,659)
Net insurance premium revenue	18	2,806,941	2,459,830
Fees and commission income	19	15,962	12,658
Investment (loss)/income	20	(821,558)	1,387,492
Other operating income		199	342
Net income before claims, benefits and expenses		2,001,544	3,860,322
Gross death, maturity and surrender benefits		(1,852,007)	(1,569,538)
Decrease/(increase) in insurance contract (including investment with discretionary participating features) liabilities during the year		726,296	(1,511,928)
Reinsurer's share of claims and benefits incurred		30,618	21,164
Net claims and benefits incurred	21	(1,095,093)	(3,060,302)
Commission and distribution costs	22	(355,344)	(289,559)
Staff costs	23	(60,018)	(54,243)
Depreciation of property and equipment	5	(8,488)	(6,012)
Impairment write-back on leasehold properties	5	1,834	2,118
Other operating expenses	24	(157,844)	(153,856)
Claims, benefits and expenses		(1,674,953)	(3,561,854)
Profit before taxation		326,591	298,468
Taxation expense	25	(67,603)	(82,907)
Profit for the year		258,988	215,561
Other comprehensive income			
Gain on revaluation of leasehold property	5	2,991	-
Total other comprehensive income		2,991	-
Total comprehensive income for the year		261,979	215,561

FINANCIAL STATEMENTS
Statement of changes in equity
Year ended 31 December 2011

	Note	Share capital $'000	Capital contribution reserve $'000	Revaluation reserve $'000	Accumulated surplus: Maintained for solvency purposes $'000	Accumulated surplus: Available for distributions $'000	Total $'000
At 1 January 2010		25,500	-	-	194,324	271,393	491,217
Total comprehensive income for the year							
Profit or loss		-	-	-	-	215,561	215,561
Total comprehensive income for the year		-	-	-	-	215,561	215,561
Change in solvency requirements		-	-	-	181,313	(181,313)	-
Transaction with owners, recorded directly in equity							
Shares issued	14	501,057	-	-	-	-	501,057
Dividends to equity holders	16	-	-	-	-	(161,000)	(161,000)
Total transactions with owners		501,057	-	-	-	(161,000)	340,057
At 31 December 2010		526,557	-	-	375,637	144,641	1,046,835
At 1 January 2011		526,557	-	-	375,637	144,641	1,046,835
Total comprehensive income for the year							
Profit or loss		-	-	-	-	258,988	258,988
Other comprehensive income							
Net gain on revaluation of leasehold properties	5	-	-	2,991	-	-	2,991
Total comprehensive income for the year		-	-	2,991	-	258,988	261,979
Change in solvency requirements		-	-	-	35,844	(35,844)	-
Transaction with owners, recorded directly in equity							
Value of employee services received for issue of options	26	-	19	-	-	-	19
Dividends to equity holders	16	-	-	-	-	(179,250)	(179,250)
Total transactions with owners		-	-	-	-	(179,250)	(179,250)
At 31 December 2011		526,557	19	2,991	411,481	188,535	1,129,583

FINANCIAL STATEMENTS
Statement of cash flows
Year ended 31 December 2011

	Note	2011 $'000	2010 $'000
Operating activities			
Profit before tax		326,591	298,468
Adjustments for:			
Amortisation of club membership		12	17
Amortisation of intangible assets	6	6,206	6,115
Depreciation of property and equipment	5	8,488	6,012
Equity settled share-based compensation expense	26	19	-
(Gain)/loss on sale of property and equipment		(49)	159
Interest, rental and other investment income		(437,795)	(423,480)
Realised loss/(gain) and fair value changes on financial assets at fair value through profit or loss	20	1,254,268	(966,571)
Write-back on leasehold properties	5	(1,834)	(2,118)
		1,155,906	(1,081,398)
Changes in operating assets and liabilities:			
Loans and receivables and insurance and other receivables		(24,525)	30,839
Insurance contracts liabilities		(660,281)	1,503,077
Investment contract liabilities		(62,880)	7,093
Insurance and other payables		102,390	242,084
Cash generated from operations		510,610	701,695
Income taxes (paid)/ refunded		(38,136)	1,183
Cash flows from operating activities		472,474	702,878
Investing activities			
Dividends received		158,034	165,606
Increase in loan to intermediate holding company		(115,000)	(125,000)
Interest received		281,226	269,124
Proceeds from sale of investments		11,916,895	9,911,724
Proceeds from sale of property and equipment		50	201
Purchase of club membership		(23)	-
Purchase of investments		(12,717,378)	(10,697,421)
Purchase of property and equipment	5	(10,448)	(4,257)
Rental received		1,346	1,081
Repayment of loan from related companies		141,000	135,000
Cash flows used in investing activities		(344,298)	(343,942)
Financing activities			
Dividend paid	16	(179,250)	(161,000)
Shares issued	14	-	9,144
Cash flows used in financing activities		(179,250)	(151,856)
Net (decrease)/increase in cash and cash equivalents		(51,074)	207,080
Cash and cash equivalents at beginning of the year		827,547	414,898
Cash acquired through business combination		-	205,569
Cash and cash equivalents at end of the year	9	776,473	827,547

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 16 March 2012.

1 Domicile and activities

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

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

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

2 Summary of significant accounting policies

(a) Statement of compliance

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

(b) Basis of preparation

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

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

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

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

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

From 1 January 2011, the Company has applied the revised FRS 24 Related Party Disclosures (2010) to identify parties that are related to the Company and to determine the disclosures to be made on transactions and outstanding balances, including commitments, between the Company and its related parties. FRS 24 (2010) improved the definition of a related party in order to eliminate inconsistencies and ensure symmetrical identification of relationships between two parties.

The adoption of FRS 24 (2010) has not resulted in additional parties being identified as related to the Company.

The adoption of FRS 24 (2010) affects only the disclosures made in the financial statements. There is no financial effect on the results and financial position of the Company for the current and previous financial years.

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 2011, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

(c) Business combination

Acquisitions from entities under common control

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

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

(d) Insurance contracts – classification

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

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

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

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

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

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

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

Insurance and investment contracts that contain DPF are classified as participating policies. The DPF feature entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Company; and
- that are contractually based on:

  (a) the performance of a specified pool of contracts or a specified type of contract;
  (b) realised and/or unrealised investment returns on a specified pool of assets held by the Company; or
  (c) the profit or loss of the Company or fund that issues the contract.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Company may exercise its discretion as to the quantum and timing of their payment to policyholders.

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

(ii) Life insurance non-par contracts

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

For protection based contracts, the Company usually guarantees a fixed level of benefit that is payable upon a claim event (eg. 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.

(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 investment funds set up by the Company. The amount of benefits is directly linked to the performance of these investment funds. In addition, units are deducted from the unit-linked account balances for mortality and morbidity, asset management and policy administration. The investment returns derived from the variety of investment funds as elected by the policyholder accrue directly to the policyholder.

(e) Insurance contracts – recognition and measurement

(i) Premiums and commission

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

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

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

(ii) Claims and benefits incurred

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

Benefits are recorded as an expense when they are incurred.

(iii) Insurance contract liabilities

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

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 (similar to non-participating and investment-linked policies) in respect of each policy of the life participating fund, including the allowance for expected payments arising from non-guaranteed benefits;

(b) the minimum condition liability of the life participating fund; or

(c) the value of policy assets of the life participating fund.

Insurance contract liabilities – life insurance non-par contracts and investment-linked contracts

In respect of policies within the non-participating fund and investment-linked fund, the Company values its liabilities using best estimate assumptions and discounting future cash flows at interest rates prescribed by MAS Notice 319. Additional provision is made in the valuation assumptions to allow for any adverse deviation from the best estimate experience. Provision made for adverse deviation (PAD) is mainly based on prescribed adjustments to valuation assumptions set out in Table 6 of the Sixth Schedule of Insurance (Valuation and Capital) Regulations. The level of provision is reviewed annually by the Appointed Actuary to assess its appropriateness and sufficiency.

(f) Insurance contracts – embedded derivatives

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

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

(g) Insurance contracts – reinsurance

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

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet 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.

As at 31 December 2011, reinsurance assets and liabilities are immaterial to the Company's overall financial position.

(h) Insurance contracts – liability adequacy test

At each balance sheet 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 and loss in the statement of comprehensive income.

(i) Investment contracts with DPF

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

(j) Foreign currencies

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

(k) Property and equipment

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

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

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

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

Freehold property	2%
Leasehold properties	over the remaining useful life
Office equipment	20%
Computer equipment	20% to 33 1/3%
Motor vehicles	20%
Office renovations	20%

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

(l) Intangible assets

(i) Goodwill

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

Goodwill is measured at cost less accumulated impairment losses.

(ii) Acquired value in-force business

Acquired value in-force business represents the present value of acquired in-force policies for insurance contracts and investment contracts with discretionary participation features 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 inforce 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 balance sheet date.

(iii) Others

Others represent amounts paid to third parties under certain distribution agreements. The amounts paid have finite useful lives ranging from 8 to 12 years are measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated based on sales emergence over the duration that the facilities are available for use.

(m) Financial instruments

(i) Non-derivative financial assets

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

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

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

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

Equity securities, debt securities and collective investment schemes

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

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

Loans and receivables

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

Loans and receivables comprise insurance receivables and other receivables. Insurance receivables are recognised when due. These include amounts due from advisors, brokers and insurance policyholders.

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

Cash and cash equivalents

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

(ii) Non-derivative financial liabilities

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

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

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

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

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

(iii) Derivative financial instruments

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

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

(iv) Share capital

Ordinary shares are classified as equity.

(n) Impairment

Impairment of financial assets

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

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

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

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

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

Impairment of non-financial assets

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

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

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

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

An impairment loss in respect of goodwill is not reversed.

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

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

(o) Provisions

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

(p) Income tax

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

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

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

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

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

(q) Other revenue and expenditure recognition

Fees and commission income

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

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

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

Dividend income

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

Interest income

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

Rental income from operating leases

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

Operating leases

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

Employee benefits - defined contribution plans

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

Short-term benefits

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

(r) Share-based payment

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

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

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

The Company commenced accounting for share-based compensation plans for employees in 2011. The prior year's share-based compensation plans for employees are not restated as the amount is not material as at the balance sheet date. However, comparatives for the corresponding period are disclosed.

(s) Key management personnel

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

3 Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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 balance sheet date is provided in note 10.

(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 reinsurers' mortality tables. Where appropriate, the estimates are adjusted to reflect the Company's own experience over the most recent 5 years. 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 ("AIDS"), Severe Acute Respiratory Syndrome ("SARS") and wide-ranging lifestyle changes, such as in changes in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Company has significant exposure to mortality risk. Also, continuing improvements in medical care and social conditions could result in improvements in longevity with the Company being exposed to longevity risk.

Morbidity

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

Persistency

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

Discount rate

The risk free rates below are used for discounting the policy 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. The derivation of the risk free rates is in accordance with the Monetary Authority of Singapore (MAS) Notice 319. The liability of each policy in the participating fund is as defined in note 2(e)(iii).

	2011	2010
	%	%
1 year	0.37	0.42
2 years	0.35	0.51
3 years	0.43	0.81
4 years	0.52	1.10
5 years	0.60	1.40
6 years	0.81	1.71
7 years	1.01	2.01
8 years	1.22	2.24
9 years	1.42	2.48
10 years	1.63	2.71
11 years	2.00	2.89
12 years	2.38	3.07
13 years	2.75	3.24
14 years	3.13	3.42
15 years and above	3.50	3.60

Investment return

Investment returns are generally based on a long term expected market return. The investment returns applied to different asset classes ranged from 4.00% to 8.00% (2010: 4.00% to 8.00%).

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% per annum. The Company conducts an expense study every 3-5 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 discretionary participation features defined under FRS104)

Variable	Change in variable	Change in liability 2011 $'000	Change in liability 2010 $'000
Worsening of mortality and morbidity	+10%	-	-
Lowering of investment returns	-1%	1,596,905	512,018
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 2011 $'000	Change in profit/equity 2011 $'000	Change in liability 2010 $'000	Change in profit/equity 2010 $'000
Worsening of mortality and morbidity	+10%	19,728	(16,375)	22,158	(18,391)
Lowering of investment returns	-1%	71,606	(59,433)	53,612	(44,498)
Worsening of base renewal expense level	+10%	1,768	(1,467)	4,651	(3,860)
Worsening of renewal expense inflation rate	+2%	1,759	(1,460)	11,508	(9,551)
Worsening of lapse rate	-10%	11,095	(9,209)	5,999	(4,979)

Investment-linked contracts (non-unit reserves)

Variable	Change in variable	Change in liability 2011 $'000	Change in profit/equity 2011 $'000	Change in liability 2010 $'000	Change in profit/equity 2010 $'000
Worsening of mortality and morbidity	+10%	1,075	(893)	3,012	(2,500)
Lowering of investment returns	-1%	296	(246)	64	(53)
Worsening of base renewal expense level	+10%	2,177	(1,807)	517	(429)
Worsening of renewal expense inflation rate	+2%	3,512	(2,915)	913	(758)
Worsening of lapse rate	-10%	744	(618)	535	(444)

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.

Goodwill

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

4 Capital, insurance and financial risk management

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

(a) Capital management

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

Under Singapore's Insurance (Valuation and Capital) Regulations, all insurers are required to maintain a minimum fund solvency requirement (FSR) of 100% of total risk requirement and at least 120% of capital adequacy requirement (CAR) to meet policyholders' obligations. The 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 Act. It is the Company's policy to hold capital levels in excess of FSR and CAR.

In addition to satisfying regulatory capital requirements, the Company is also subject to Prudential Group's economic capital framework. Stress tests are conducted on the balance sheet of the Company to ensure that the Group will have adequate economic capital to qualify for its targeted minimum financial strength rating in a comprehensive array of scenarios.

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

(b) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. 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. Risks that are specific to the various types of insurance contracts are elaborated below:

Life insurance par contracts (Including investment contracts with DPF)

The amount of risk to which the Company is exposed depends on the level of guarantees inherent in the contracts. As at 31 December 2011, the minimum condition liability, which includes only guaranteed benefits, is $5.9 billion (2010: $5.4 billion), and is significantly below the policy assets of $10.3 billion (2010: $10.1 billion). The corresponding policy liability, which would include future bonuses at a level which meets policyholders' reasonable expectations, is $9.8 billion (2010: $8.7 billion). The policy assets in excess of the policy liabilities, amounting to $0.5 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, health business and group business. The major health plan is Prushield which covers hospitalisation, surgical fees and certain outpatient treatment expenses.

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 balance sheet date.

(i) Concentration of insurance risk

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

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

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

(ii) Management of insurance risk - underwriting and reinsurance strategy

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 2 main areas - risk selection and risk classification.

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

Each group of insurance risks is classified into categories of standard and degree of substandard through underwriting. Medical selection and financial underwriting guidelines included in the Company's underwriting procedures allow the correct assignment of insurance risk to the appropriate classes. Each class has varied premium to reflect the health condition and family medical history of the applicants. The Company uses reinsurance in the normal course of business to diversify its risks and limits its net loss potential. Reinsurance arrangement for risk undertaken by the Company has limited the Company's risk exposure. The Company has a maximum retention limit for any single life insured that is set according to the Reinsurance Management Strategy guideline.

(c) Financial risk

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 an unexpected change in fair value of a financial instrument due to adverse movements in prices, interest rates, or foreign currency exchange rates.

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

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

The Investment Committee of the Company reviews the investment policy for the Company on a regular basis. The investment policy establishes investment guidelines and limits, and sets controls on the asset/liability management 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.

For contracts that acquire surrender values over their policy term, they can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. The Company is not required to, and does not, measure this embedded derivative at fair value. Under the Third Schedule of the Insurance (Valuation and Capital) Regulations, the Company is required to maintain sufficient capital resources, to cover any shortfall between the aggregate surrender values of the contracts and the policy liabilities.

Life insurance par contracts (including investment contracts with DPF)

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

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, the duration of the liability is usually longer than the duration of the assets available in the local market. As such, the Company is exposed to the risk of decreasing interest rates. However, under the Third Schedule of Insurance (Valuation and Capital) Regulations, the Company is required to hold sufficient capital resources to cushion against adverse movements in interest rates arising from duration mismatching.

Investment-linked contracts

For investment-linked contracts, the investment risk is largely passed on to the policyholders. As a result, the Company is not 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 to a lesser extent, its insurance contract liabilities. Changes in investment values attributable to interest rate changes are mitigated by partially offsetting changes in the value of insurance contract liabilities. The overall objective of these asset/liability matching strategies is to limit the net changes in the value of assets and liabilities arising from interest rate movements.

Stochastic simulations are performed on the major 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 asset/liability management objectives.

The table below presents the interest rate exposure of the Company's financial assets and financial liabilities (including insurance liabilities):

	Fixed rate $'000	Floating rate $'000	Non-interest sensitive $'000	Total $'000
2011				
Financial assets				
Equity securities	-	-	3,087,053	3,087,053
Debt securities	7,183,409	526,049	-	7,709,458
Collective investment schemes	-	-	9,013,438	9,013,438
Derivative financial instruments	-	-	23,930	23,930
Loans and receivables	412,129	115,000	86,390	613,519
Insurance and other receivables	-	20,000	141,841	161,841
Cash and cash equivalents	776,473	-	-	776,473
	8,372,011	661,049	12,352,652	21,385,712
Financial liabilities				
Insurance contract liabilities (Including investment contracts with DPF)	8,413,683	2,885,015	7,480,727	18,779,425
Insurance and other payables	421,963	-	546,465	968,428
Derivative financial instruments	-	-	134,083	134,083
	8,835,646	2,885,015	8,161,275	19,881,936

	Fixed rate $'000	Floating rate $'000	Non-interest sensitive $'000	Total $'000
2010				
Financial assets				
Equity securities	-	-	4,431,488	4,431,488
Debt securities	6,117,830	719,720	-	6,837,550
Collective investment schemes	-	-	8,700,687	8,700,687
Derivative financial instruments	-	-	189,223	189,223
Loans and receivables	401,085	141,000	88,155	630,240
Insurance and other receivables	-	20,000	131,862	151,862
Cash and cash equivalents	827,547	-	-	827,547
	7,346,462	880,720	13,541,415	21,768,597
Financial liabilities				
Insurance contract liabilities (Including investment contracts with DPF)	7,581,777	2,480,203	9,440,606	19,502,586
Insurance and other payables	343,451	-	522,587	866,038
Derivative financial instruments	-	-	5,468	5,468
	7,925,228	2,480,203	9,968,661	20,374,092

(ii) Foreign currency risk

The Company faces foreign currency risk, primarily because some of its investments in equity, debt securities and collective investment schemes are held in currencies other than Singapore dollars to improve the diversification of its portfolio, while almost all its liabilities are denominated in Singapore dollars.

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

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

	SGD $'000	USD $'000	EUR $'000	GBP $'000	Others $'000	Total $'000
2011						
Assets						
Property and equipment	40,800	-	-	-	-	40,800
Intangible assets	365,135	-	-	-	-	365,135
Investments and loans						
- Equity securities	2,290,242	63,932	-	-	732,879	3,087,053
- Debt securities	6,490,120	1,110,156	35,722	13,756	59,704	7,709,458
- Collective investment schemes	2,770,259	5,440,570	336,586	466,023	-	9,013,438
- Derivative financial instruments	2,566	17,220	2,465	1,473	206	23,930
- Loans and receivables	613,488	1	-	-	30	613,519
Insurance and other receivables	152,820	1,051	-	-	7,970	161,841
Cash and cash equivalents	704,416	38,429	803	30,160	2,665	776,473
	13,429,846	6,671,359	375,576	511,412	803,454	21,791,647
Liabilities						
Insurance contract liabilities (Including investment contracts with DPF)	(18,567,307)	(212,118)	-	-	-	(18,779,425)
Insurance and other payables	(955,190)	(5,461)	-	-	(7,777)	(968,428)
Derivative financial instruments	(2,544)	(129,697)	-	-	(1,842)	(134,083)
Provision for tax	(80,234)	-	-	-	-	(80,234)
Deferred tax liabilities	(699,894)	-	-	-	-	(699,894)
	(20,305,169)	(347,276)	-	-	(9,619)	(20,662,064)

	SGD $'000	USD $'000	EUR $'000	GBP $'000	Others $'000	Total $'000
2010						
Assets						
Property and equipment	34,016	-	-	-	-	34,016
Intangible assets	371,341	-	-	-	-	371,341
Investments and loans						
- Equity securities	3,434,509	32,322	-	-	964,657	4,431,488
- Debt securities	5,396,908	1,366,873	29,039	11,157	33,573	6,837,550
- Collective investment schemes	3,206,851	4,404,534	478,437	610,865	-	8,700,687
- Derivative financial instruments	3,877	170,739	14,215	391	1	189,223
- Loans and receivables	630,208	2	-	-	30	630,240
Insurance and other receivables	151,533	-	-	-	329	151,862
Cash and cash equivalents	781,510	25,808	302	18,301	1,626	827,547
	14,010,753	6,000,278	521,993	640,714	1,000,216	22,173,954
Liabilities						
Insurance contract liabilities (Including investment contracts with DPF)	(19,447,605)	(54,981)	-	-	-	(19,502,586)
Insurance and other payables	(822,761)	(5,226)	-	(38,051)	-	(866,038)
Derivative financial instruments	(512)	(611)	(3,428)	-	(917)	(5,468)
Provision for tax	(69,788)	-	-	-	-	(69,788)
Deferred tax liabilities	(683,239)	-	-	-	-	(683,239)
	(21,023,905)	(60,818)	(3,428)	(38,051)	(917)	(21,127,119)

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

Sensitivity analysis

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

Variable	Change in profit 2011 $'000	Change in equity 2011 $'000	Change in profit 2010 $'000	Change in equity 2010 $'000
Equity prices				
+10%	5,965	4,951	6,630	5,503
-10%	(6,189)	(5,137)	(6,813)	(5,655)
Interest rates				
+10 basis points	(4,288)	(3,599)	(2,798)	(2,322)
-10 basis points	4,155	3,449	2,681	2,225
Foreign currency				
+5%	2	2	2	2
-5%	(2)	(2)	(2)	(2)

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

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 that the Company may be unable to meet payment of its obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates. Liquidity management seeks to ensure that, even under adverse conditions, the Company has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

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

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

	Unit-linked $'000	< 1 year $'000	1-5 years $'000	> 5 years $'000	Total $'000
2011					
Insurance contract liabilities (Including investment contracts with DPF)	7,290,187	469,624	2,241,809	8,777,805	18,779,425
Insurance and other payables	-	968,428	-	-	968,428
Derivative financial instruments	12,308	104,546	17,229	-	134,083
	7,302,495	1,542,598	2,259,038	8,777,805	19,881,936
2010					
Insurance contract liabilities (Including investment contracts with DPF)	8,438,859	570,865	2,338,211	8,154,651	19,502,586
Insurance and other payables	-	866,038	-	-	866,038
Derivative financial instruments	-	5,058	410	-	5,468
	8,438,859	1,441,961	2,338,621	8,154,651	20,374,092

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

(iv) Credit risk

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty to settle its financial and contractual obligations to the Company as and when they fall due.

The Company is exposed to substantial credit risk through its investments. At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The Company's exposure to credit risk relating to its debt securities, loans and receivables is summarised below:

	Credit ratings (from S&P or equivalents)					
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB- or not rated	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2011						
Debt securities						
- Government bonds	3,371,771	60,460	229,621	711	351,937	4,014,500
- Corporate and other bonds	269,227	299,879	959,228	852,411	1,314,213	3,694,958
Loans and receivables	-	-	116,173	-	497,346	613,519
	3,640,998	360,339	1,305,022	853,122	2,163,496	8,322,977

	Credit ratings (from S&P or equivalents)					
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB- or not rated	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2010						
Debt securities						
- Government bonds	2,346,418	29,911	149,792	14,465	333,693	2,874,279
- Corporate and other bonds	339,068	343,063	1,495,847	575,233	1,210,060	3,963,271
Loans and receivables	-	-	141,127	-	489,113	630,240
	2,685,486	372,974	1,786,766	589,698	2,032,866	7,467,790

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.

For receivables arising from insurance and re-insurance contracts, none of the Company's receivables due from policyholders are past due (2010: nil).

The swap collateral of $20,000,000 (2010: $20,000,000) placed with a financial institution (note 8) is due on demand.

(d) Estimation of fair values

Equity securities, debt securities and collective investment schemes

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

Derivative financial instruments

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

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

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 balance sheet date.

	2011			2010		
	Notional amount	Positive revaluation	Negative revaluation	Notional amount	Positive revaluation	Negative revaluation
	$'000	$'000	$'000	$'000	$'000	$'000
Forward exchange contracts	4,503,583	5,874	(111,074)	4,470,996	173,528	(1,067)
Futures contracts	282,210	3,593	(7,396)	339,004	1,698	(3,991)
Currency swap contracts	435,105	12,296	(15,613)	208,052	11,848	(357)
Interest rate swap contracts	-	-	-	5,957	14	(53)
Options contracts	65,964	2,167	-	66,040	2,135	-
	5,286,862	23,930	(134,083)	5,090,049	189,223	(5,468)

Other financial assets and liabilities

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

Fair value hierarchy

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

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

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2011				
Equity securities	3,087,053	-	-	3,087,053
Debt securities	6,912,908	570,877	225,673	7,709,458
Collective investment schemes	9,013,420	-	18	9,013,438
Derivative financial assets	3,593	20,337	-	23,930
Derivative financial liabilities	(7,396)	(126,687)	-	(134,083)
	19,009,578	464,527	225,691	19,699,796
2010				
Equity securities	4,431,488	-	-	4,431,488
Debt securities	6,033,045	599,672	204,833	6,837,550
Collective investment schemes	8,700,687	-	-	8,700,687
Derivative financial assets	-	189,223	-	189,223
Derivative financial liabilities	-	(5,468)	-	(5,468)
	19,165,220	783,427	204,833	20,153,480

Financial assets measured at fair value based on Level 3	Equity securities $'000	Debt securities $'000	Derivative assets $'000	Total $'000
At 1 January 2011	-	204,833	-	204,833
Gains or losses included in profit or loss for the period presented in investment income/(expense)	-	3,732	-	3,732
Purchases	18	19,478	-	19,496
Sales	-	(659)	-	(659)
Transfers into Level 3	-	8,424	-	8,424
Transfers out of Level 3	-	(10,135)	-	(10,135)
At 31 December 2011	18	225,673	-	225,691
At 1 January 2010	-	535,695	2,995	538,690
Gains or losses included in profit or loss for the period presented in investment income/(expense)	-	13,408	(815)	12,593
Purchases	-	49,827	-	49,827
Sales	-	(28,104)	-	(28,104)
Settlements	-	(107,396)	-	(107,396)
Transfers out of Level 3	-	(258,597)	(2,180)	(260,777)
At 31 December 2010	-	204,833	-	204,833

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

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.

5 Property and equipment

	Freehold property $'000 Cost	Leasehold properties $'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 2010	1,440	17,850	1,383	12,662	654	16,040	50,029
Acquired through business combination	-	-	716	2,289	-	-	3,005
Additions	-	-	168	1,871	-	2,218	4,257
Disposals	-	-	(260)	(382)	-	-	(642)
Reversal of depreciation on revaluation	-	(468)	-	-	-	-	(468)
Impairment write-back	-	2,118	-	-	-	-	2,118
At 31 December 2010	1,440	19,500	2,007	16,440	654	18,258	58,299
Additions	-	-	193	6,386	261	3,608	10,448
Gain on revaluation	-	2,991	-	-	-	-	2,991
Disposals	-	-	-	(2)	(386)	(2,404)	(2,792)
Reversal of depreciation on revaluation	-	(525)	-	-	-	-	(525)
Impairment write-back	-	1,834	-	-	-	-	1,834
At 31 December 2011	1,440	23,800	2,200	22,824	529	19,462	70,255
Accumulated depreciation							
At 1 January 2010	490	-	484	11,587	654	5,806	19,021
Depreciation charge for the year	29	468	467	2,290	-	2,758	6,012
Disposals	-	-	(96)	(186)	-	-	(282)
Reversal of depreciation on revaluation	-	(468)	-	-	-	-	(468)
At 31 December 2010	519	-	855	13,691	654	8,564	24,283
Depreciation charge for the year	28	525	423	3,666	52	3,794	8,488
Disposals	-	-	-	(1)	(386)	(2,404)	(2,791)
Reversal of depreciation on revaluation	-	(525)	-	-	-	-	(525)
At 31 December 2011	547	-	1,278	17,356	320	9,954	29,455
Carrying amount							
At 1 January 2010	950	17,850	899	1,075	-	10,234	31,008
At 31 December 2010	921	19,500	1,152	2,749	-	9,694	34,016
At 31 December 2011	893	23,800	922	5,468	209	9,508	40,800

An independent valuation of the leasehold properties 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 2011. The valuation has been made on the assumption that the properties are 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 properties. It is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which would affect value.

$1,833,685 (2010: $2,117,550) of revaluation gain was credited to the profit and loss account to reverse previously recognised revaluation loss on the leasehold properties.

The approximate carrying amount of leasehold properties would have been $15,793,000 (2010: $16,097,000) had the leasehold properties been carried under the cost method.

Property and equipment are non-current assets.

6 Intangible assets

	Goodwill $'000	Acquired value in-force business $'000	Others $'000	Total $'000
Cost				
At 1 January 2010	-	-	50,095	50,095
Acquired through business combination	231,279	29,787	83,000	344,066
At 31 December 2010	231,279	29,787	133,095	394,161
Additions	-	-	-	-
At 31 December 2011	231,279	29,787	133,095	394,161
Accumulated amortisation				
At 1 January 2010	-	-	16,705	16,705
Amortisation charge for the year	-	1,489	4,626	6,115
At 31 December 2010	-	1,489	21,331	22,820
Amortisation charge for the year	-	1,489	4,717	6,206
At 31 December 2011	-	2,978	26,048	29,026
Carrying amount				
At 1 January 2010	-	-	33,390	33,390
At 31 December 2010	231,279	28,298	111,764	371,341
At 31 December 2011	231,279	26,809	107,047	365,135

Goodwill and acquired value in-force business

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

(i) Discount rates

Discount rates are determined by adding a risk margin to the appropriate risk free rate of return. The discount rates applied to the insurance funds ranged from 3.24% to 5.45% (2010: 4.55% to 8.25%).

(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 0.89% to 7.68% (2010: 1.98% to 8.74%).

Others

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

The intangible assets are all non-current assets.

7 Investments and loans

	Note	2011 $'000	2010 $'000
Financial assets designated at fair value through profit or loss			
Equity securities			
- Listed equity securities		3,087,053	4,431,488
Debt securities			
- Government bonds		4,014,500	2,874,279
- Listed corporate and other bonds		2,924,063	3,089,935
- Unlisted corporate and other bonds		770,895	873,336
		7,709,458	6,837,550
Collective investment schemes		9,013,438	8,700,687
Derivative financial instruments	4(d)	23,930	189,223
Loans and receivables			
- Investment income receivables		85,216	88,028
- Policy loans		412,130	401,085
- Amounts due from related companies		116,173	141,127
		613,519	630,240
Total investments and loans		20,447,398	20,789,188
Current portion		13,028,460	13,509,582
Non-current portion		7,418,938	7,279,606
		20,447,398	20,789,188

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

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

As at 31 December 2011 and 2010, the fair value of the assets on loan and collateral under the securities lending program are as follow:

Fair value of assets on loan		Fair value of collateral		% of collateral over assets on loan	
2011	2010	2011	2010	2011	2010
$'000	$'000	$'000	$'000	%	%
14,594	81,340	14,885	81,640	102	100

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.

Amounts due from related companies consist of a loan to the Company's intermediate and ultimate holding company of $115,000,000 (2010: $141,000,000). The loan to the Company's intermediate holding company is unsecured, bears interest at 1.95% (2010: 2.35% to 4.74%) per annum, and is repayable over 1 year (2010: 1 to 3 years).

Investments in debt securities of a related corporation, Jackson National Fund, of $15,000,000 (2010: $15,000,000) matured on 8 March 2011. These debt securities were unsecured and bore interest at 3.92% (2010: 3.92%).

8 Insurance and other receivables

	2011 $'000	2010 $'000
Receivables arising from insurance and reinsurance contracts		
- Due from policyholders	54,965	48,903
- Due from advisors	6,289	2,953
- Due from reinsurers	50	6,325
	61,304	58,181
Other receivables		
- Prepayments	35,196	45,719
- Amounts due from related companies (non-insurance)	72	458
- Other receivables	45,269	27,504
- Swap collateral placed with a financial institution	20,000	20,000
	161,841	151,862
Receivables arising from insurance and reinsurance contracts		
Current portion	161,761	150,870
Non-current portion	80	992
	161,841	151,862

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

9 Cash and cash equivalents

	2011 $'000	2010 $'000
Cash at bank and in hand	294,379	644,979
Short-term time deposits	482,094	182,568
	776,473	827,547

The effective interest rate on short-term time deposits was 0.34% (2010: 0.29%) and the deposits have an average maturity of less than 71 days (2010: less than 63 days).

10 Insurance contract liabilities

	Note	2011 $'000	2010 $'000
Long term insurance contracts:			
- Life insurance non-par contracts	(i)	1,760,703	1,579,080
- Life insurance par contracts	(ii)	9,015,719	8,720,076
- Investment-linked contracts			
- Unit reserves	(iii)	7,290,187	8,438,861
- Non-unit reserves	(iv)	22,091	14,099
		18,088,700	18,752,116
Provision for outstanding claims		82,707	79,572
Total insurance contract liabilities		18,171,407	18,831,688
Long term investment contracts:			
- Life investment contracts with DPF	(v)	608,018	670,898
Total insurance contract liabilities (including investment contracts with DPF)		18,779,425	19,502,586
Current portion		82,707	79,572
Non-current portion		18,696,718	19,423,014
		18,779,425	19,502,586

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

- An amount of $567.7 million (2010: $564.2 million) relating to accumulated capital injections made by the shareholder and assumed investment returns on the capital injections since 1988; and
- A provision for current year policyholder bonuses of $224.5 million (2010: $179.5 million).

Movements in insurance contract liabilities

(i) Life insurance non-par contracts

	2011 $'000	2010 $'000
At beginning of year	1,579,080	451,374
Acquired through business combination	-	1,053,320
Valuation premiums	33,896	30,003
Liabilities released for payments on death and other terminations	(163,162)	(98,308)
Accretion of interest	6,342	5,488
Other movements	(5,444)	(5,455)
New business	241,007	114,830
Change in valuation basis:		
- Discount rate	77,937	32,602
- Others	(8,953)	(4,774)
At end of year	1,760,703	1,579,080

As defined in the accounting policies note, valuation premiums are the amount of premiums received that have a direct impact of increasing the insurance contract liabilities.

(ii) Life insurance par contracts

	2011 $'000	2010 $'000
At beginning of year	8,720,076	7,413,454
Acquired through business combination	-	479,675
Premiums received, net of reinsurance	1,298,295	1,109,431
Claims and surrenders	(755,050)	(659,224)
Expenses:		
- Operating	(205,355)	(166,762)
- Non-operating	(32,359)	(23,561)
Movement in deferred tax	(16,404)	(57,230)
Income:		
- Investment income	56,436	651,621
- Other expense	(24,711)	(9,053)
Transfer to shareholder's fund	(25,209)	(18,275)
At end of year	9,015,719	8,720,076

(iii) Investment-linked contracts (unit reserves)

	2011 $'000	2010 $'000
At beginning of year	8,438,861	7,818,437
Acquired through business combination	-	6,593
Premiums received	943,851	963,645
Fees deducted from account balances of investment-linked contracts	(293,267)	(271,415)
Liabilities released for payments on death, surrender and other terminations	(722,582)	(700,674)
Changes in unit prices	(1,077,360)	628,705
Other movements	684	(6,430)
At end of year	7,290,187	8,438,861

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

	2011 $'000	2010 $'000
At beginning of year	14,099	24,427
Premiums received	31	33
Fees deducted from account balances	2,256	2,118
Liabilities released for payments on death, surrender and other terminations	(1,001)	(2,476)
Accretion of interest	87	59
Changes in unit prices (within insurance benefits)	2,611	(690)
Other movements (within insurance benefits)	1,365	(9,023)
New business	3,167	55
Change in valuation basis:		
- Discount rate	229	226
- Others	(753)	(630)
At end of year	22,091	14,099

(v) Life investment contracts with DPF

	2011 $'000	2010 $'000
At beginning of the year	670,898	-
Acquired through business combination	-	663,805
Claims and surrenders	(85,547)	(24,226)
Investment income	27,280	34,229
Others	(4,613)	(2,910)
At end of year	608,018	670,898

11 Insurance and other payables

	Note	2011 $'000	2010 $'000
Insurance contract payables		841,533	639,847
Reinsurance payables		8,176	259
Provision for agency expenses		10,405	8,607
Share-based payment liability	26	5,055	1,559
Other payables and accrued expenses		92,413	210,660
Amount due to related companies (non-insurance)		10,846	5,106
		968,428	866,038
Current portion		966,004	865,838
Non-current portion		2,424	200
		968,428	866,038

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 senior agents, senior management and retirement needs of long serving agents.

12 Financial liabilities

	Note	2011 $'000	2010 $'000
Derivative financial instruments	4(d)	134,083	5,468
Current portion		116,854	5,058
Non-current portion		17,229	410
		134,083	5,468

13 Deferred tax liabilities

	Note	2011 $'000	2010 $'000
At 1 January		683,239	594,968
Acquired through business combination		-	32,783
Net provision made during the year	25	16,655	55,488
At 31 December		699,894	683,239

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

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
	$'000	$'000	$'000	$'000	$'000	$'000
Unrealised foreign exchange (losses)/gains	(153)	(35)	-	235	(153)	200
Capital allowances for property and equipment	-	-	1,401	955	1,401	955
Tax on future distributions	-	-	698,646	682,127	698,646	682,127
Tax credit available for future offset	-	(43)	-	-	-	(43)
Deferred tax (assets)/liabilities	(153)	(78)	700,047	683,317	699,894	683,239

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.

14 Share capital

	2011	2010
	No. of shares ('000)	No. of shares ('000)
Fully paid ordinary shares, with no par value:		
At beginning of the year	526,557	25,500
Issued for non-cash assets	-	491,913
Issued for cash	-	9,144
At 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.

15 Capital contribution reserve

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

16 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% for the Company.

Dividends

The following dividends were declared and paid by the Company:

	2011	2010
	$'000	$'000
Interim dividend (2011: $0.34 per qualifying share; 2010: $0.31 per qualifying share)	179,250	161,000

Notes to the financial statements

17 Accounting classification and fair values

	Note	Designated at fair value $'000	Trading $'000	Loans and receivables $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
2011							
Financial assets							
Investments and loans							
- Equity securities	7	3,087,053	-	-	-	3,087,053	3,087,053
- Debt securities	7	7,709,458	-	-	-	7,709,458	7,709,458
- Collective investment schemes	7	9,013,438	-	-	-	9,013,438	9,013,438
- Derivative financial instruments	7	-	23,930	-	-	23,930	23,930
- Loans and receivables	7	-	-	613,519	-	613,519	613,519
Insurance and other receivables	8	-	-	161,841	-	161,841	161,841
Cash and cash equivalents	9	-	-	776,473	-	776,473	776,473
		19,809,949	23,930	1,551,833	-	21,385,712	21,385,712
Financial liabilities							
Insurance and other payables	11	-	-	-	(968,428)	(968,428)	(968,428)
Derivative financial instruments	12	-	(134,083)	-	-	(134,083)	(134,083)
		-	(134,083)	-	(968,428)	(1,102,511)	(1,102,511)
2010							
Financial assets							
Investments and loans							
- Equity securities	7	4,431,488	-	-	-	4,431,488	4,431,488
- Debt securities	7	6,837,550	-	-	-	6,837,550	6,837,550
- Collective investment schemes	7	8,700,687	-	-	-	8,700,687	8,700,687
- Derivative financial instruments	7		189,223	-	-	189,223	189,223
- Loans and receivables	7	-	-	630,240	-	630,240	630,240
Insurance and other receivables	8	-	-	151,862	-	151,862	151,862
Cash and cash equivalents	9	-	-	827,547	-	827,547	827,547
		19,969,725	189,223	1,609,649	-	21,768,597	21,768,597
Financial liabilities							
Insurance and other payables	11	-	-	-	(866,038)	(866,038)	(866,038)
Derivative financial instruments	12	-	(5,468)	-	-	(5,468)	(5,468)
		-	(5,468)	-	(866,038)	(871,506)	(871,506)

18 Premiums

	Gross premiums		Premiums ceded to reinsurers		Net premiums	
	2011	2010	2011	2010	2011	2010
	$'000	$'000	$'000	$'000	$'000	$'000
Life insurance par contracts	1,301,396	1,111,801	3,101	2,370	1,298,295	1,109,431
Life insurance non-par contracts	614,262	433,043	42,980	40,434	571,282	392,609
Investment-linked contracts	943,851	963,645	6,487	5,855	937,364	957,790
Total	2,859,509	2,508,489	52,568	48,659	2,806,941	2,459,830

19 Fees and commission income

	2011	2010
	$'000	$'000
Fee income	1,438	1,699
Reinsurance commission	14,387	10,515
Profit commission	137	444
	15,962	12,658

20 Investment income

	2011	2010
	$'000	$'000
Interest income		
- Debt securities	252,584	230,850
- Loans and receivables	27,307	28,820
- Cash and cash equivalents	761	654
Dividend income	155,798	162,077
Rental income	1,346	1,081
Net realised (losses)/gains and fair value changes on financial assets at fair value through profit or loss	(1,254,268)	966,571
Exchange losses	(5,086)	(2,561)
	(821,558)	1,387,492

21 Claims and benefits incurred

	2011 $'000	2010 $'000
Long-term insurance contracts:		
Life insurance par contracts (Including investment contracts with DPF)		
Death, maturity and surrender benefits	840,239	683,450
Increase in liabilities during the year	232,763	834,040
Life insurance non-par contracts		
Death, maturity and surrender benefits	238,791	141,349
Increase in liabilities during the year	181,623	74,386
Investment-linked contracts		
Death, maturity and surrender benefits	742,342	723,534
(Decrease)/increase in liabilities during the year	(1,140,682)	603,502
Shareholders fund claims expenses		
Death, maturity and surrender benefits	17	41
	1,095,093	3,060,302

22 Commission and distribution costs

	2011 $'000	2010 $'000
Commission expenses	298,199	246,976
Other acquisition costs	57,145	42,583
	355,344	289,559

Included in commission expenses is $1,074 (2010: $200) of the share based compensation expenses.

23 Staff costs

	Note	2011 $'000	2010 $'000
Wages, salaries and benefits in kind		52,563	48,674
Contributions to Central Provident Fund		3,677	4,287
Share based compensation expenses	26	3,778	1,282
		60,018	54,243

24 Other operating expenses

Included in other operating expenses are the following:

	2011 $'000	2010 $'000
Administrative expenses	13,124	13,779
Advertising and promotional expenses	7,050	6,503
Investment expenses	79,327	66,933
Operating lease expenses	23,454	24,078
Direct operating expenses arising from owner's occupied properties	803	770

25 Taxation

	Note	2011 $'000	2010 $'000
Current tax expense			
Current year		59,394	42,955
Adjustment for prior periods		(8,446)	(15,536)
		50,948	27,419
Deferred tax expense			
Origination and reversal of temporary differences	13	16,655	55,488
Total income tax expense		67,603	82,907

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

Reconciliation of effective tax charge

	2011 $'000	2010 $'000
Profit before tax	326,591	298,468
Income tax using domestic corporation tax rate of 17% (2010: 17%)	55,520	50,740
Taxation relating to insurance funds	44,332	65,427
Non-deductible expenses	1,925	1,133
Over provision in prior years	(8,446)	(15,536)
Non-taxable income	(18,094)	(10,915)
Others	(7,634)	(7,942)
	67,603	82,907

26 Share-based payment transactions

At 31 December 2011, the Company has the following share-based payment arrangements:

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

Prudential Public Limited Company, the ultimate holding company of the Company, established the Prudential International Savings-Related Share Option Scheme in which employees may participate. This is a share save scheme where members of staff put a fixed amount of money into a saving plan over set periods of 3 or 5 years. At the end of those periods, they have the option to use the savings to buy Prudential Public Limited Company shares at exercise price.

Share-based Compensation Plans (Cash settled)

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

a) Incentives Plans

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

The incentive plans vest subject to the employee being in employment at the time. One of the plans also vests on the basis of the Group's relative Total Shareholder Return (TSR) performance against a peer group of international insurers. These are discretionary and on a year by year basis determined by the Prudential Group'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 financial 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 3 years or more, will be granted, subject to the individual continuing to be a financial 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	2011 Number of options	2010 Number of options
Options outstanding	$		
Beginning of the year	6.76	295,962	308,792
- Granted	9.15	50,042	21,777
- Transfer (out)/in	6.31	(3,119)	18,093
- Vested	13.22	(4,653)	(14,295)
- Withdrawn	7.08	(47,216)	(38,405)
End of the year	7.02	291,016	295,962

	2011 Number of awards	2010 Number of awards
Awards outstanding		
Beginning of the year	743,132	225,592
- Granted	346,674	625,732
- Vested	(9,149)	(89,893)
- Withdrawn	(70,695)	(18,299)
End of the year	1,009,962	743,132

(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 25/4/2008	Options granted on 25/9/2008	Options granted on 27/4/2009	Options granted on 27/4/2009	Options granted on 25/9/2009	Options granted on 28/9/2010	Options granted on 16/9/2011
Fair value at measurement date ($)	5.84	5.20	3.34	3.10	5.79	6.13	5.17
Share price at grant date (($)	18.61	14.70	8.07	8.07	13.60	13.15	11.90
Exercise price ($)	14.65	11.16	6.31	6.31	9.94	9.60	9.15
Expected volatility	30.71%	38.02%	64.37%	51.96%	66.04%	67.65%	62.67%
Expected life	3 years	3 years	3 years	5 years	3 years	3 years	3 years
Expected dividend yield	2.53%	2.84%	4.57%	4.57%	4.99%	3.42%	3.33%
Risk-free interest rate	4.57%	4.37%	2.03%	2.45%	1.53%	0.89%	0.89%

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

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

The share price of Prudential Public Limited Company listed on the Singapore Stock Exchange and London Stock Exchange on the last trading day in 2011 was US$10.20 (2010: US$10.50) and £6.385 (2010: £6.680) respectively.

	2011 $'000	2010 $'000
Share-based compensation expense		
- Amount accounted for as cash settled	4,833	1,481
- Amount accounted for as equity settled	19	-
Carrying value at 31 December of liabilities arising from cash settled share-based payment transactions	5,055	1,559

27 Commitments

(a) Capital commitments

	2011 $'000	2010 $'000
Contracted at the balance sheet date but not provided for	1,020	1,777

(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.

At 31 December 2011, the Company had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2011 $'000	2010 $'000
Payable:		
- Within 1 year	20,894	20,131
- After 1 year but within 5 years	61,755	51,570
- After 5 years	63,100	87,095
	145,749	158,796

28 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:

	2011 $'000	2010 $'000
Charges for life administration and operation services rendered by a related corporation	20,217	22,792
Charges for management services provided to immediate holding company	150	150
Charges for management services rendered by a related corporation	9,813	13,278
Interest on investments in a related corporation	108	716
Interest on loans to key management personnel	5	27
Interest on loans to related companies	3,731	5,358
Interest written off on investments in a related corporation	-	(11,250)
Investment management fees (net) paid to a related corporation	25,943	13,455
Outstanding loans to key management personnel	30	665
Proceeds from disposal of debt securities in a related corporation	15,000	33,819
Recovery of expense from related corporations	1,660	1,407
Salaries and other short-term employee benefits to key management	4,586	4,693

The loan to key management personnel has an interest rate of 3% (2010: 3% to 4%) and is repayable monthly over 3 years (2010: 4 to 6 years). The outstanding loan to key management personnel is unsecured.