ANNUAL REPORT 2012

PRUDENTIAL
Always Listening. Always Understanding.

YOU ALWAYS COME FIRST

You are at the heart of what we do

CONTENTS

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 over S$8.2 billion funds managed under PruLink funds as at 31 December 2012. With a rich history that has spanned 81 years, Prudential Singapore now has a dedicated team of approximately 3,400 financial consultants and over 700 employees. We are committed to serving the needs of close to 740,000 policyholders with over 1.8 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 five consecutive years from 2007 to 2011 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. The company was also conferred the People Developer Award in 2012 by SPRING Singapore for the company's efforts in training and developing its staff.

Another **significant year** delivering **outstanding results.**

I am pleased to announce that Prudential Singapore enjoyed a successful year and delivered positive results in 2012: New business sales hit a record $597 million, up 26% versus year ago, and Regular Premium sales grew a strong 30% to S$518 million.

This success is due to several factors, notably our focus in meeting customer needs with innovative products and services, developing growth segments and leveraging our multi-channel distribution network.

We made significant strides in the growth of the High Net Worth segment, and our PruVantage series now offers a comprehensive suite of protection, savings and investment products catered to the needs of these customers. In addition, our partnership with Mercer Investments enables our PruVantage customers to benefit from the investment expertise of a leading global provider of investment consulting services.

This year, our multi-channel distribution network also continued to deliver strong results and we had healthy contributions from both the agency and bancassurance channels. Prudential Singapore's agency force remains one of the largest and most productive in Singapore. Having established strong relationships with our strategic partners also meant that we could effectively leverage the fastest growing bancassurance segment of the business.

On the product front, being innovative while staying relevant to our customers' changing needs continued to be the key principles in our product development strategies. In addition to the products and services for the more affluent customers, we also introduced several first-to-market protection, savings and investment products to fill gaps in the market and meet the evolving lifestyles of Singaporeans.

2012 was also significant as it marked Prudential Singapore's 20th anniversary of Investment Linked Life Insurance Policies (ILPs). In 1992, we were the first insurance company to launch a comprehensive range of ILPs. Today, with over S$8.2 billion funds under management, we remain one of the market leaders with a wide range of ILPs to meet our customers' varied protection needs and investment goals.

Social contribution remains high on the company's agenda, and we made deliberate efforts to continue to support worthy causes. For the fourth consecutive year, our participation in the Boys' Brigade Share-a-Gift 2012 programme saw our staff and agents bring cheer to beneficiaries during the year end festive season. Through *ChaChing*!, the first-of-its-kind animated musical "edutainment" series, we introduced money-smart values to thousands of school children. We also supported the arts in Singapore with the *Prudential Signature Series*, a sponsorship of major Broadway musicals at the Marina Bay Sands' Theaters.

In September, Singapore also hosted the Prudential plc Board and Group Executive Committee. The visit comprised a series of meetings and activities, underscoring the importance of the country to the Prudential global business.

2012 has been a fulfilling year, and we look forward to more success in the future. On this note, I would like to convey my heartfelt thanks for your continued support. As a company, we remain committed to meeting and helping you fulfill your protection and investment needs. Thank you for continuing to place your trust in us.

Tomas Urbanec
Chief Executive Officer

2012: A Successful Year

Annual Premium Equivalent New Business Premium[1]

+26% OVER 2011

2012	$597M
2011	$473M
2010	$368M

Total Funds under Management

+13% OVER 2011

2012	$23.4B
2011	$20.7B
2010	$20.8B

Net Profit for the Year

+60% OVER 2011

2012	$414M
2011	$259M
2010	$216M

Capital Adequacy Ratio

>120%

2012	257%
	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.*

A fruitful year with outstanding results.

Prudential Singapore enjoyed another successful year in 2012 with innovative new product launches and significant events.

We continued to lead the industry with exciting products that seek to fill gaps in the market and which met the changing needs of our customers. Our unique multi-channel distribution network, which features the Agency Distribution and bancassurance channel, Partnerships Distribution, consistently delivered spectacular results throughout the year.

The desire for excellence was apparent at all levels in Prudential. Both our tied agency force and our financial services consultants in our bancassurance division displayed great commitment to delivering the highest standards of customer excellence and professionalism in their work. Our Agency Distribution consistently delivered exceptional performances throughout the year, while on the Partnerships front, our strong relationships with our strategic bancassurance partners – Maybank, Standard Chartered Bank, United Overseas Bank and SingPost – continued to grow from strength to strength.

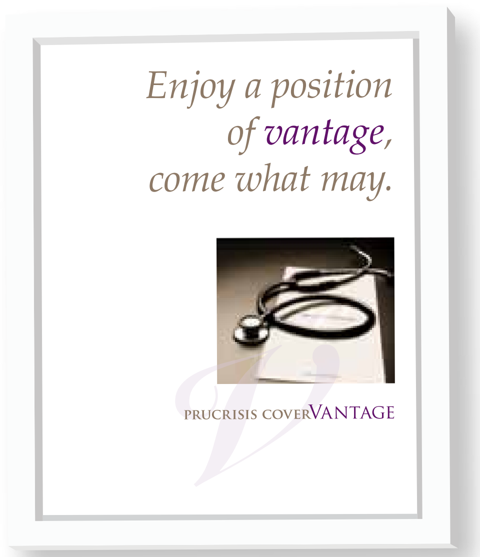
This year was also memorable as the annual Prudential plc Board of Directors meeting was held in Singapore. The visit was marked by a week of productive meetings and activities that were of great benefit to guests and hosts.

Product Innovation

As one of the pillars at Prudential Singapore, innovation was again at the heart of product development in 2012. We continued to develop products that respond to the changing needs of customers and we stayed progressive with the launch of new products and enhancements that are designed to meet the varied needs of our customers.

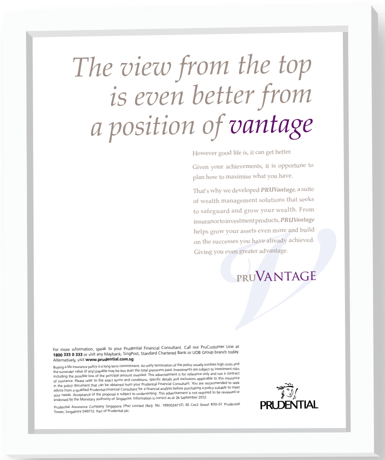
In the Accident & Health category, we introduced **PRU***crisis cover vantage* to supplement the **PRU***Vantage* suite of Wealth Management Products. For customers who value high cover, this product offers the highest coverage in the market of up to S$3.6 million for Critical Illness and the highest payout in the market of up to S$500,000 for Early Stage Medical Conditions at the time of its launch. Also introduced was Early Stage Crisis Waiver which is designed to waive premiums of covered benefits upon the diagnosis of Early Stage Medical Condition for 5 years, or upon the diagnosis of Intermediate Stage Medical Conditions for up to 10 years. There is also Crisis Waiver III which allows the waiver of future premiums of covered benefits up to age 85 upon the diagnosis of any one of the Critical Illnesses. These ensure that the customer is not overwhelmed by expenses especially at a time when the insured is experiencing higher expenses due to the illness.

PRU*flexicash protection plus* was also launched to offer protection against Death, Accelerated Terminal Illness and Accelerated Disability, with up to four times the sum assured of **PRU***flexicash protection plus* and any accumulated bonus payable in a lump sum. There was also **PRU***save privilege accelerator* which is an endowment plan to potentially help customers realise their savings goal. The three-year premium payment term and 10-year maturity period helps to diversify and secure the customers' savings while they are able to and helps ease financial commitments in later years.



PRU*crisis cover vantage*

Customers enjoy high coverage of up to S$3.6 million for critical illness and high payout of up to S$500,000 for Early Stage Medical Conditions.



PRU*Vantage*

A suite of wealth management solutions that helps customers to safeguard and grow their wealth.

Celebrating 20 years of helping customers achieve their investment goals.

To cater to the growing high net worth segment in Singapore, the company revamped the entire **PRU***Vantage* suite of Wealth Management Products which gave a sophisticated new look for all its branding and advertising materials.

Prudential Singapore also continues to offer a comprehensive range of products and services to cater to the protection, savings and investment needs of this market.

20th Anniversary of Investment-Linked Life Insurance Policies (ILPs)

In 1992, Prudential Singapore became the first insurance company in Singapore to launch a comprehensive range of ILPs. The company marked the occasion by remaining one of the market leaders in investment-linked plans with over S$8.2 billion funds managed under PruLink funds as at 31 December 2012.

The ILP segment remains one of our core businesses and we continue to be innovative in this aspect.

Prudential plc Board Meeting

Prudential Singapore also played host to the annual Prudential plc Board and Group Executive Committee meetings in September 2012. The Board and members of the Group and Regional offices conducted important discussions over a series of meetings in the week of the visit, and in the process, were introduced to the local offices and operations. It was an opportunity to showcase Singapore to our Board members and significant events were held in line with the visit to commemorate the occasion.

Main sponsor of the Boys' Brigade Share-A-Gift charity event to help the less fortunate.

The first-of-its-kind animated musical edutainment series aims to introduce money-smart values to children in a fun and interactive manner.

Corporate Social Responsibility

Prudential Singapore continued to actively participate in the Boys' Brigade Share-A-Gift charity event. For the fourth year running, staff and members of our agency force enthusiastically participated in the programme's various activities to help the less fortunate. We helped to pack around 2,000 food hampers for the programme's beneficiaries, volunteered in the Car Flag Off and Delivery where more than 100 cars and drivers helped to deliver food hampers of household items to the beneficiaries. We also adopted around 200 wishes of the Adopt-A-Wish programme and ensured that beneficiaries got what they wished for over the festive season.

In line with our CSR philosophy to promote education, especially financial literacy for children, Prudential Singapore brought the first-of-its-kind animated musical edutainment series "Cha-Ching" to primary school children in Singapore, which was launched regionally last September. The interactive series aims to introduce money-smart values to children between the ages of 7 and 12 in a fun and interactive manner.

To support the arts in Singapore, Prudential also partnered with Base Entertainment – the operators of Marina Bay Sands Theatres – to sponsor three of the venue's big Broadway musicals under the "Prudential Signature Series". The association with top Broadway productions *Wicked*, *Annie* and *Jersey Boys* allowed the company to show its support for these artistic highlights and to create a platform for marketing activities around them.

The guiding light

Tony Wilkey
Chairman

Tomas Urbanec
Executive Director

Dr Tan Ng Chee
Non-Executive Director

Kevin Wong Kingcheung
Non-Executive Director

Sir Alan Stanley Collins
Non-Executive Director

Tony Wilkey
Chairman

Tony Wilkey 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 13 markets in Asia: Malaysia, Singapore, Hong Kong, Taiwan, China, India, Vietnam, Indonesia, Korea, Japan, Thailand, the Philippines and Cambodia.

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

He is a 27-year veteran of the insurance industry. Prior to joining Prudential, Tony was Deputy President and Chief Operating Officer of American International Assurance (AIA), based in Hong Kong, overseeing AIA's Life Companies in South East Asia.

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

Tomas Urbanec
Executive Director

Tomas Urbanec is an Executive Director of the Board and Chief Executive Officer of Prudential Singapore. Before joining Prudential Singapore, he distinguished himself as a Director at Prudential Corporation Asia in 2008. Tomas brings with him both depth and breadth of experience, having been in the insurance industry for over 20 years, of which 13 years have been in Asia.

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

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

Dr Tan Ng Chee
Non-Executive Director

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

Currently, Dr Tan 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.

Kevin Wong Kingcheung
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 was Group Chief Executive Officer of Keppel Land Limited from 2000 to 2012. He was also the Deputy Chairman and Director of K-REIT Asia Management Limited, 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.

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

Sir Alan Stanley Collins KCVO CMG
Non-Executive Director

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

Sir Alan is currently a Non-Executive Director at Amlin plc, JPMorgan American Investment Trust plc and ICICI Bank UK plc. He is also a Non-Executive Chairman of Powertec Energy Ltd and Nair&Co Ltd.

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

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

A team effort

Tomas Urbanec
Chief Executive Officer

Goh Geok Cheng
Chief Financial Officer

Michael Ho
Chief Agency Officer

Gan Peck Yeow
Chief Human Resources Officer

Theresa Nai
Chief Operating Officer

Lionel King
Chief Risk Officer

Tomas Urbanec
Chief Executive Officer

Tomas Urbanec is an Executive Director of the Board and Chief Executive Officer of Prudential Singapore. Before joining Prudential Singapore, he distinguished himself as a Director at Prudential Corporation Asia in 2008. Tomas brings with him both depth and breadth of experience, having been in the insurance industry for over 20 years, of which 13 years have been in Asia.

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

Goh Geok Cheng
Chief Financial Officer

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

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

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

Michael Ho
Chief Agency Officer

Michael Ho joined the company in February 2011 as Chief Agency Officer. He began his career in the consumer marketing business before establishing himself in the insurance industry.

At Prudential Singapore, Michael is responsible for overseeing the Agency Distribution business of the company, which covers the Agency Distribution Channel, Group Business, Academy of Competence & Excellence, Distribution Support Services, as well as managing a tied agency force of approximately 3,400 financial consultants.

Michael holds a Bachelor of Business from the Nanyang Technological University. He also holds a postgraduate Degree in Business Administration from the National University of Singapore and the University of California, Los Angeles (UCLA).

Gan Peck Yeow
Chief Human Resources Officer

Gan Peck Yeow joined the company in January 2011 as Chief Human Resources Officer. In this position, she is responsible for developing and implementing strategic Human Resources policies and procedures including amongst others, Human Capital Planning, Resourcing and Employee Engagement, Talent Management and Development, as well as Succession Planning.

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

Peck Yeow has a Bachelor of Arts (Honours) from the National University of Singapore and a Master of Business Administration from the University of Warwick, United Kingdom. She also holds a postgraduate Diploma in Human Resources from Singapore Institute of Management.

Theresa Nai
Chief Operating Officer

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

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

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

Lionel King
Chief Risk Officer

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

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

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

Putting integrity first

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

This report describes Prudential Singapore's approach to corporate governance.

BOARD'S CONDUCT OF AFFAIRS

Board Responsibility and Accountability

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

Board Committees

Prudential Singapore is an indirect wholly-owned subsidiary of Prudential plc. On its behalf, the Board at Prudential Singapore performs the role of the Nominating, Remuneration and Risk Management Committees.

In addition to these Committees, the Board has also established a separate Audit Committee, which has been constituted with a written terms of reference.

Board/Committee Meetings and Attendance

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

The table below lists the number of Board and Audit Committee meetings attended by each Director throughout 2012.

Board/Committee Meetings and Attendance	Board Meetings (Include 1 Special meeting)	Audit Committe Meetings
Number of meetings held in 2012	5	4
Chairman		
Tony Wilkey	5	–
Chief Executive Officer		
Kevin Holmgren *(Note 1)*	5	–
Tomas Urbanec *(Note 2)*	–	–
Independent Director		
Dr Tan Ng Chee *(Note 3)*	5	4
Kevin Wong Kingcheung	4	4
Chin Phick Fui *(Note 4)*	4	-
Sir Alan Stanley Collins *(Note 5)*	2	1

Note 1: Retired from the Board in January 2013
Note 2: Appointed to the Board in January 2013
Note 3: Audit Committee Chairman
Note 4: Retired from the Board in March 2013
Note 5: Appointed to the Board in August 2012

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).

BOARD COMPOSITION

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

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

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

CHAIRMAN AND CEO

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

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

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

BOARD MEMBERSHIP

Role of the Nominating Committee

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

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

Process for Appointment of New Directors

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

Induction

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

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

Continuous Professional Development

Prudential Singapore has developed a continuous professional training programme which commences with a regular gap analysis on the required skill-sets based on the expected business operating environment of the year.

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

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

BOARD PERFORMANCE

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

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

ACCESS TO INFORMATION

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

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

REMUNERATION

Development of Policies

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

Director/Management ExCo Remuneration

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

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

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

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

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

Disclosure on Remuneration

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

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 2012, the Audit Committee (AC) comprised Dr Tan Ng Chee (Chairman), Mr Kevin Wong Kingcheung and Sir Alan Stanley Collins who are all non-executive Directors. All the AC members have significant financial management expertise and experience.

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

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

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

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

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

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

The AC believes that the system of internal controls (which covers financial, operational 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 encompass the examination and evaluation of the adequacy and effectiveness of the Prudential Group's system of internal controls and the quality of performance in carrying out assigned responsibilities. This includes performing an independent assessment of the risk and the adequacy of controls to ensure that the control environments are operating in a manner that commensurates with the risk appetite of the organisation.

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

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

GwIA Asia provides its services through Regional Teams located across the region, whose structure reflects its independence through direct reporting lines within GwIA, and, where required by local regulations, to the AC of the local unit, including Prudential Singapore. Being a group-wide function, the appointment, remuneration, resignation or dismissal of the Regional Audit Director of GwIA Asia is made by the AC at the Regional Head Office in Hong Kong.

On an annual basis, GwIA Asia will prepare and present audit plans to the Group and Regional Head Office Audit Committees, as well as the AC of various Prudential entities, including Prudential Singapore, for approval.

SHAREHOLDER COMMUNICATION

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

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

BOARD EXECUTIVE COMMITTEE

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

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 risk management function is led by the Chief Risk Officer who 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.

The sum of it all

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 2012.

Directors

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

Tony Paul Wilkey
Tomas Urbanec *(Appointed on 29 January 2013)*
Dr. Tan Ng Chee
Kevin Wong Kingcheung
Sir Alan Stanley Collins *(Appointed on 17 August 2012)*

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 27 to the financial statements, since the end of the last financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member or with a company in which he has a substantial financial interest.

Share options

During the financial year, there were:

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

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

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

Auditors

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

On behalf of the Board of Directors

Tomas Urbanec
Director

Tony Paul Wilkey
Director
19 March 2013

In our opinion:

(a) the financial statements set out on pages 22 to 62 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2012 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 19 March 2013, authorised these financial statements for issue.

On behalf of the Board of Directors

Tomas Urbanec
Director

Tony Paul Wilkey
Director
19 March 2013

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 2012, 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 62.

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 2012 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
19 March 2013

Balance sheet

As at 31 December 2012

	Note	2012 $'000	2011 $'000
Assets			
Property and equipment	5	37,374	40,800
Intangible assets	6	354,850	365,135
Investments and loans			
– Equity securities	7	3,621,682	3,087,053
– Debt securities	7	7,496,843	7,709,458
– Collective investment schemes	7	11,328,694	9,013,438
– Derivative financial instruments	7	192,147	23,930
– Loans and receivables	7	501,798	613,519
Reinsurer's share of insurance contract liabilties	8	93,106	–
Insurance and other receivables	9	141,355	161,841
Cash and cash equivalents	10	909,660	776,473
Total assets		24,677,509	21,791,647
Liabilities			
Gross insurance contract liabilities	11	20,802,820	18,171,407
Investment contracts with discretionary participating features	11	500,759	608,018
Insurance and other payables	12	1,366,970	968,428
Derivative financial instruments	13	35,944	134,083
Provision for tax		76,454	80,234
Deferred tax liabilities	14	763,254	699,894
Total liabilities		23,546,201	20,662,064
Net assets		1,131,308	1,129,583
Shareholders' equity			
Share capital	15	526,557	526,557
Capital contribution reserve	16	138	19
Revaluation reserve		3,649	2,991
Accumulated surplus	17		
– Maintained for solvency purposes		496,098	411,481
– Available for distributions		104,866	188,535
Total shareholders' equity		1,131,308	1,129,583

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

	Note	2012 $'000	2011 $'000
Insurance premium revenue	19	3,157,433	2,859,509
Reinsurance premiums	19	(53,298)	(52,568)
Net insurance premium revenue	19	3,104,135	2,806,941
Fees and commission income	20	14,402	15,962
Investment income/(loss)	21	2,276,357	(821,558)
Other operating income		763	199
Net income before claims, benefits and expenses		5,395,657	2,001,544
Gross death, maturity and surrender benefits		(1,804,923)	(1,852,007)
(Increase)/decrease in insurance contract (including investment contracts with discretionary participating features) liabilities during the year		(2,420,746)	726,296
Reinsurer's share of claims and benefits incurred		31,497	30,618
Net claims and benefits incurred	22	(4,194,172)	(1,095,093)
Commission and distribution costs	23	(448,040)	(355,344)
Staff costs	24	(74,358)	(60,018)
Depreciation of property and equipment	5	(9,309)	(8,488)
Impairment write-back on leasehold properties	5	–	1,834
Other operating expenses	25	(155,776)	(157,844)
Claims, benefits and expenses		(4,881,655)	(1,674,953)
Profit before tax		514,002	326,591
Taxation expense	26	(100,054)	(67,603)
Profit for the year		413,948	258,988
Other comprehensive income			
Gain on revaluation of leasehold property	5	658	2,991
Total other comprehensive income		658	2,991
Total comprehensive income for the year		414,606	261,979

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

	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 2011		526,557	–	–	375,637	144,641	1,046,835
Total comprehensive income for the year							
Profit for the year		–	–	–	–	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	27	–	19	–	–	–	19
Dividends to equity holders	17	–	–	–	–	(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
At 1 January 2012		526,557	19	2,991	411,481	188,535	1,129,583
Total comprehensive income for the year							
Profit for the year		–	–	–	–	413,948	413,948
Other comprehensive income							
Net gain on revaluation of leasehold properties	5	–	–	658	–	–	658
Total comprehensive income for the year		–	–	658	–	413,948	414,606
Change in solvency requirements		–	–	–	84,617	(84,617)	–
Transaction with owners, recorded directly in equity							
Value of employee services received for issue of options	27	–	119	–	–	–	119
Dividends to equity holders	17	–	–	–	–	(413,000)	(413,000)
Total transactions with owners		–	–	–	–	(413,000)	(413,000)
At 31 December 2012		526,557	138	3,649	496,098	104,866	1,131,308

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

	Note	2012 $'000	2011 $'000
Operating activities			
Profit before tax		514,002	326,591
Adjustments for:			
Amortisation of club membership		85	12
Amortisation of intangible assets	6	10,285	6,206
Depreciation of property and equipment	5	9,309	8,488
Equity settled share-based compensation expense	27	119	19
Gain on sale of property and equipment		–	(49)
Interest, rental and other investment income		(427,465)	(437,795)
Realised (gain)/loss and fair value changes on financial assets at fair value through profit or loss	21	(1,864,434)	1,254,268
Write-back on leasehold properties	5	–	(1,834)
		(1,758,099)	1,155,906
Changes in operating assets and liabilities:			
Loans and receivables and insurance and other receivables		14,184	(24,525)
Reinsurer's share of insurance contract liabilities	8	(93,106)	–
Insurance contract liabilities		2,631,413	(660,281)
Investment contract liabilities		(107,259)	(62,880)
Insurance and other payables		398,542	102,390
Cash generated from operations		1,085,675	510,610
Income taxes paid		(40,480)	(38,136)
Cash flows from operating activities		1,045,195	472,474
Investing activities			
Dividends received		153,616	158,034
Increase in loan to intermediate holding company		–	(115,000)
Interest received		275,552	281,226
Proceeds from sale of investments		8,700,675	11,916,895
Proceeds from sale of property and equipment		–	50
Purchase of club membership		(52)	(23)
Purchase of investments		(9,739,868)	(12,717,378)
Purchase of property and equipment	5	(5,225)	(10,448)
Rental received		1,294	1,346
Repayment of loan from related companies		115,000	141,000
Cash flows used in investing activities		(499,008)	(344,298)
Financing activity			
Dividends paid	17	(413,000)	(179,250)
Cash flows used in financing activity		(413,000)	(179,250)
Net increase/(decrease) in cash and cash equivalents		133,187	(51,074)
Cash and cash equivalents at beginning of the year		776,473	827,547
Cash and cash equivalents at end of the year	10	909,660	776,473

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

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 19 March 2013.

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 of the Act 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.

Changes in accounting policies

In January 2012, the Company adopted the new or amended FRS and Interpretation to FRS that are applicable to the Company and that are mandatory for application from that date. The adoption of these new or amended FRS or Interpretations to FRS did not result in substantial changes to the Company's accounting policies and had no material effect to the amounts reporting for the current or prior financial years.

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 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

(c) Business combination

Acquisitions from entities under common control

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

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

(d) Insurance contracts – classification

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Life insurance non-par contracts

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

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

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

(iii) Investment-linked contracts

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

(e) Insurance contracts – recognition and measurement

(i) Premiums and commission

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

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

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

(ii) Claims and benefits incurred

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

Benefits are recorded as an expense when they are incurred.

(iii) Insurance contract liabilities

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

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.

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

In respect of policies within the non-participating fund which are not universal life, the Company values the insurance contract liabilities using best estimate assumptions and discounting the future cash flows at interest rates prescribed by Monetary Authority of Singapore ("MAS") Notice 319 and guidance note issued by the Singapore Actuarial Society ("SAS GNL02").

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

(a) the value obtained by projecting the liabilities under the policy at the minimum guaranteed crediting rate and discounting at the risk-free rate;

(b) the value obtained by projecting the liabilities under the policy at the current crediting rate and discounting at the best estimate investment return; or

(c) surrender value.

Insurance contract liabilities – Investment-linked contracts

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

(a) the unit reserves, calculated as the value of the underlying assets backing the units relating to the policy; and

(b) the non-unit reserves, calculated as the value of expected future payments arising from the policy (other than those relating to the unit reserves), including any expense that the insurer expects to incur in administering the policies and settling the relevant claims and any provision made for any adverse deviation from the expected experience, less expected future receipts arising from the policy (other than those relating to the unit reserves).

(f) Insurance contracts – embedded derivatives

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

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

(g) Insurance contracts – reinsurance

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

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

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

(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 DPF as classified under FRS 104 *Insurance Contracts*. Acquired value in-force business is initially measured at fair value at acquisition, and subsequently measured at cost less amortisation and any accumulated impairment losses. The present value of 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 and are measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated based on sales emergence over the duration of the distribution agreements.

(m) Financial instruments

(i) Non-derivative financial assets

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

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

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

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

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 or loss are measured at fair value, and changes therein are recognised in profit or loss in the statement of comprehensive income. Regular way purchases and sales of investments are recognised on trade date – the date on which the Company commits to purchase or sell the asset. These investments are measured at fair value, and changes therein are recognised in the statement of comprehensive income.

Loans and receivables

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

Loans and receivables comprise 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 expired.

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 leases. Lease incentives received are recognised in profit or loss in the statement of comprehensive income, as appropriate, as an integral part of the total lease payments made.

Employee benefits – defined contribution plans

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

Short-term benefits

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

(r) Share-based payment

The Company offers share-based compensation plans to its employees and non-employee Prudential Advisor. The arrangements for distribution to its employees and non-employee Prudential Advisor 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.

(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 11.

(i) Process used to determine assumptions

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

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

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

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

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. During the year, the Company changed the derivation of risk free rates from coupon bearing bond yield to zero coupon bond yield which decreased the policy liabilities. The derivation of the risk free rates is in accordance with the MAS Notice 319 and guidance note issued by the Singapore Actuarial Society (SAS GNL02). The liability of each policy in the participating fund is as defined in Note 2e(iii).

SGD denominated liabilities	2012 %	2011 %
1 year	0.26	0.37
2 years	0.26	0.35
3 years	0.32	0.43
4 years	0.38	0.52
5 years	0.44	0.60
6 years	0.63	0.81
7 years	0.82	1.01
8 years	1.01	1.22
9 years	1.20	1.42
10 years	1.39	1.63
11 years	1.81	2.00
12 years	2.24	2.38
13 years	2.66	2.75
14 years	3.08	3.13
15 years and above	3.50	3.50

USD denominated liabilities	2012 %	2011 %
1 year	0.15	0.12
2 years	0.25	0.25
3 years	0.36	0.36
4 years	0.55	0.60
5 years	0.73	0.83
6 years	0.97	1.09
7 years	1.21	1.35
8 years	1.42	1.53
9 years	1.63	1.71
10 years	1.84	1.89
11 years	1.91	1.96
12 years	1.98	2.03
13 years	2.04	2.09
14 years	2.11	2.16
15 years	2.18	2.23
16 years	2.25	2.30
17 years	2.32	2.37
18 years	2.39	2.43
19 years	2.45	2.50
20 years	2.52	2.57
21 years	2.61	2.60
22 years	2.70	2.63
23 years	2.78	2.67
24 years	2.87	2.70
25 years	2.95	2.73
26 years	3.04	2.76
27 years	3.13	2.79
28 years	3.21	2.83
29 years	3.30	2.86
30 years and above	3.39	2.89

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% (2011: 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% (2011: 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 DPF defined under FRS104)

Variable	Change in variable	Change in liability 2012 $'000	Change in liability 2011 $'000
Worsening of mortality and morbidity	+10%	–	–
Lowering of investment returns	-1%	935,961	1,596,905
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 2012 $'000	Change in profit/equity 2012 $'000	Change in liability 2011 $'000	Change in profit/equity 2011 $'000
Worsening of mortality and morbidity	+10%	35,312	(29,309)	19,728	(16,375)
Lowering of investment returns	-1%	123,557	(102,552)	71,606	(59,433)
Worsening of base renewal expense level	+10%	2,011	(1,669)	1,768	(1,467)
Worsening of renewal expense inflation rate	+2%	1,820	(1,511)	1,759	(1,460)
Worsening of lapse rate	-10%	15,224	(12,636)	11,095	(9,209)

Investment-linked contracts (non-unit reserves)

Variable	Change in variable	Change in liability 2012 $'000	Change in profit/equity 2012 $'000	Change in liability 2011 $'000	Change in profit/equity 2011 $'000
Worsening of mortality and morbidity	+10%	651	(540)	1,075	(893)
Lowering of investment returns	-1%	240	(199)	296	(246)
Worsening of base renewal expense level	+10%	1,818	(1,509)	2,177	(1,807)
Worsening of renewal expense inflation rate	+2%	2,912	(2,417)	3,512	(2,915)
Worsening of lapse rate	-10%	590	(489)	744	(618)

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

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

Goodwill

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

4 Capital, insurance and financial risk management

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

(a) Capital management

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

Under 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 2012, the minimum condition liability, which includes only guaranteed benefits, is $6.3 billion (2011: $5.9 billion), and is significantly below the policy assets of $11.8 billion (2011: $10.3 billion). The corresponding policy liability, which would include future bonuses at a level which meets policyholders' reasonable expectations, is $10.5 billion (2011: $9.8 billion). The policy assets in excess of the policy liabilities, amounting to $1.3 billion, are available to meet the insurance fund's solvency requirements and any adverse deviations in the Company's operating experience.

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

Life insurance non-par contracts

The life insurance non-par contracts consist of individual term insurance, annuity, universal life, health business and group business. The major health 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 and universal life contracts, the duration of the liability is usually longer than the duration of the assets available in the market. As such, the Company is exposed to the risk of interest rates fluctuation. 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
2012				
Financial assets				
Equity securities	–	–	3,621,682	3,621,682
Debt securities	6,962,073	534,770	–	7,496,843
Collective investment schemes	–	–	11,328,694	11,328,694
Derivative financial instruments	–	–	192,147	192,147
Loans and receivables	419,579	–	82,219	501,798
Reinsurer's share of insurance contract liabilities	93,106	–	–	93,106
Insurance and other receivables	–	–	141,355	141,355
Cash and cash equivalents	909,660	–	–	909,660
	8,384,418	534,770	15,366,097	24,285,285
Financial liabilities				
Gross insurance contract liabilities *(Including investment contracts with DPF)*	(9,023,246)	(3,244,846)	(9,035,487)	(21,303,579)
Insurance and other payables	(941,842)	–	(425,128)	(1,366,970)
Derivative financial instruments	–	–	(35,944)	(35,944)
	(9,965,088)	(3,244,846)	(9,496,559)	(22,706,493)
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
Reinsurer's share of insurance contract liabilities	–	–	–	–
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	(757,401)	–	(211,027)	(968,428)
Derivative financial instruments	–	–	(134,083)	(134,083)
	(9,171,084)	(2,885,015)	(7,825,837)	(19,881,936)

(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
2012						
Assets						
Property and equipment	37,374	–	–	–	–	37,374
Intangible assets	354,850	–	–	–	–	354,850
Investments and loans						
– Equity securities	2,554,474	107,454	–	–	959,754	3,621,682
– Debt securities	6,412,466	966,562	44,449	7,063	66,303	7,496,843
– Collective investment schemes	3,344,268	6,609,393	340,946	1,024,259	9,828	11,328,694
– Derivative financial instruments	4,675,625	(4,429,797)	110,360	–	(164,041)	192,147
– Loans and receivables	453,329	48,469	–	–	–	501,798
Reinsurer's share of insurance contract liabilities	93,106	–	–	–	–	93,106
Insurance and other receivables	140,672	683	–	–	–	141,355
Cash and cash equivalents	800,448	94,554	844	2,303	11,511	909,660
	18,866,612	3,397,318	496,599	1,033,625	883,355	24,677,509
Liabilities						
Gross insurance contract liabilities *(Including investment contracts with DPF)*	(20,837,735)	(465,844)	–	–	–	(21,303,579)
Insurance and other payables	(1,326,015)	(33,521)	–	(7,434)	–	(1,366,970)
Derivative financial instruments	870,959	(183,288)	(515,881)	(203,243)	(4,491)	(35,944)
Provision for tax	(76,454)	–	–	–	–	(76,454)
Deferred tax liabilities	(763,254)	–	–	–	–	(763,254)
	(22,132,499)	(682,653)	(515,881)	(210,677)	(4,491)	(23,546,201)

	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	918,232	(382,776)	(310,947)	(80,049)	(120,530)	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
	14,345,512	6,271,363	62,164	429,890	682,718	21,791,647
Liabilities						
Gross 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	3,981,430	(4,063,663)	–	–	(51,850)	(134,083)
Provision for tax	(80,234)	–	–	–	–	(80,234)
Deferred tax liabilities	(699,894)	–	–	–	–	(699,894)
	(16,321,195)	(4,281,242)	–	–	(59,627)	(20,662,064)

The main exposure to other foreign currencies includes Hong Kong Dollar, South Korean Won, Japanese Yen 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 2012 $'000	Change in equity 2012 $'000	Change in profit 2011 $'000	Change in equity 2011 $'000
Equity prices				
+10%	6,362	5,280	5,965	4,951
-10%	(6,636)	(5,508)	(6,189)	(5,137)
Interest rates				
+10 basis points	(8,148)	(6,763)	(4,288)	(3,599)
-10 basis points	7,883	6,542	4,155	3,449
Foreign currency				
+5%	3	2	2	2
-5%	(3)	(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
2012					
Gross insurance contract liabilities					
(Including investment contracts with DPF)	8,223,613	584,229	2,579,301	9,916,436	21,303,579
Insurance and other payables	–	1,363,364	3,606	–	1,366,970
Derivative financial instruments	608	31,566	3,770	–	35,944
	8,224,221	1,979,159	2,586,677	9,916,436	22,706,493
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	–	966,004	2,424	–	968,428
Derivative financial instruments	12,308	104,546	17,229	–	134,083
	7,302,495	1,540,174	2,261,462	8,777,805	19,881,936

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 and a reinsurance arrangement that was entered into during the year. 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 and reinsurer's share of insurance contract liabilities is summarised below:

	Credit ratings (from S&P or equivalents)					
	AAA $'000	AA+ to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Below BBB- or not rated $'000	Total $'000
2012						
Debt securities						
– Government bonds	3,309,269	66,607	122,328	14,033	395,665	3,907,902
– Corporate and other bonds	284,392	260,145	935,124	886,171	1,223,109	3,588,941
Loans and receivables	–	–	–	–	501,798	501,798
Reinsurer's share of insurance contract liabilities	–	93,106	–	–	–	93,106
	3,593,661	419,858	1,057,452	900,204	2,120,572	8,091,747
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
Reinsurer's share of insurance contract liabilities	–	–	–	–	–	–
	3,640,998	360,339	1,305,022	853,122	2,163,496	8,322,977

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 reinsurance contracts, none of the Company's receivables due from policyholders are past due (2011: nil).

In accordance with the Reinsurance Management Strategy approved by the Board, the Company maintains a panel of reinsurers that the Company is allowed to transact business with. The reinsurers must either be registered or authorised to carry out (re)insurance business in Singapore by the Monetary Authority of Singapore and are of high credit quality.

(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.

	Notional amount (Assets) $'000	Notional amount (Liabilities) $'000	Positive revaluation $'000	Negative revaluation $'000
2012				
Forward exchange contracts	4,591,695	1,935,147	155,162	(28,779)
Futures contracts	495,965	430	9,340	(5,337)
Currency swap contracts	355,147	55,514	26,664	(1,828)
Options contracts	65,964	–	981	–
	5,508,771	1,991,091	192,147	(35,944)
2011				
Forward exchange contracts	753,616	3,749,967	5,874	(111,074)
Futures contracts	217,327	64,883	3,593	(7,396)
Currency swap contracts	201,098	234,007	12,296	(15,613)
Options contracts	65,964	–	2,167	–
	1,238,005	4,048,857	23,930	(134,083)

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
2012				
Equity securities	3,611,960	–	9,722	3,621,682
Debt securities	6,376,393	1,056,063	64,387	7,496,843
Collective investment schemes	11,328,680	–	14	11,328,694
Derivative financial assets	9,340	182,807	–	192,147
Derivative financial liabilities	(5,337)	(30,607)	–	(35,944)
	21,321,036	1,208,263	74,123	22,603,422
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

Financial assets measured at fair value based on Level 3

	Equity securities $'000	Debt securities $'000	Collective investment schemes $'000	Total $'000
At 1 January 2012	–	225,673	18	225,691
Net losses included in profit or loss for the period presented in investment income/(loss)	(187)	(928)	(4)	(1,119)
Purchases	9,909	5,250	–	15,159
Sales	–	(5,933)	–	(5,933)
Settlements	–	(144,000)	–	(144,000)
Transfers into Level 3	–	–	–	–
Transfers out of Level 3	–	(15,675)	–	(15,675)
At 31 December 2012	9,722	64,387	14	74,123
At 1 January 2011	–	204,833	–	204,833
Net gains included in profit or loss for the period presented in investment income/(loss)	–	3,732	–	3,732
Purchases	–	19,478	18	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	–	225,673	18	225,691

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 2011	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
Additions	–	–	338	2,930	–	1,957	5,225
Gain on revaluation	–	658	–	–	–	–	658
Disposals	–	–	–	–	–	–	–
Reversal of depreciation on revaluation	–	(658)	–	–	–	–	–
At 31 December 2012	1,440	23,800	2,538	25,754	529	21,419	75,480
Accumulated depreciation							
At 1 January 2011	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
Depreciation charge for the year	29	658	459	4,371	52	3,740	9,309
Disposals	–	–	–	–	–	–	–
Reversal of depreciation on revaluation	–	(658)	–	–	–	–	(658)
At 31 December 2012	576	–	1,737	21,727	372	13,694	38,106
Carrying amount							
At 1 January 2011	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
At 31 December 2012	864	23,800	801	4,027	157	7,725	37,374

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 2012. 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.

$658,000 (2011: $2,991,000) of revaluation gain was credited to the revaluation reserve. In 2011, $1,834,000 of revaluation gain was credited to the profit or loss account to reverse previously recognised revaluation loss on the leasehold properties.

The approximate carrying amount of leasehold properties would have been $15,484,000 (2011: $15,793,000) 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 2011	231,279	29,787	133,095	394,161
At 31 December 2011	231,279	29,787	133,095	394,161
At 31 December 2012	231,279	29,787	133,095	394,161
Accumulated amortisation				
At 1 January 2011	–	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
Amortisation charge for the year	–	1,489	8,796	10,285
At 31 December 2012	–	4,467	34,844	39,311
Carrying amount				
At 1 January 2011	231,279	28,298	111,764	371,341
At 31 December 2011	231,279	26,809	107,047	365,135
At 31 December 2012	231,279	25,320	98,251	354,850

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 2.82% to 5.00% (2011: 3.24% to 5.45%).

(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 0.55% to 7.35% (2011: 0.89% to 7.68%).

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	2012 $'000	2011 $'000
Financial assets designated at fair value through profit or loss			
Equity securities			
– Listed equity securities		3,621,682	3,087,053
Debt securities			
– Government bonds		3,907,902	4,014,500
– Listed corporate and other bonds		2,986,008	2,924,063
– Unlisted corporate and other bonds		602,933	770,895
		7,496,843	7,709,458
Collective investment schemes		11,328,694	9,013,438
Derivative financial instruments	4 (d)	192,147	23,930
Loans and receivables			
– Investment income receivables		82,219	85,216
– Policy loans		419,579	412,130
– Amounts due from related companies		–	116,173
		501,798	613,519
Total investments and loans		23,141,164	20,447,398
Current portion		15,805,723	13,020,173
Non-current portion		7,335,441	7,427,225
		23,141,164	20,447,398

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 2012 and 2011, 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	
2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 %	2011 %
9,985	14,594	10,484	14,885	105	102

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.

A loan to the Company's intermediate holding company of $115,000,000 in the prior year recorded under amounts due from related companies matured on 23 June 2012. The loan to the Company's intermediate holding company was unsecured and bore interest at 1.95% (2011: 1.95%) per annum.

8 Reinsurer's share of insurance contract liabilities

	2012 $'000	2011 $'000
Reinsurance receivables	93,106	–

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

	2012 $'000	2011 $'000
At 1 January	–	–
Increase in reinsurer's share of insurance contract liabilities	93,106	–
At 31 December	93,106	–
Current portion	–	–
Non-current portion	93,106	–
	93,106	–

9 Insurance and other receivables

	2012 $'000	2011 $'000
Receivables arising from insurance and reinsurance contracts		
– Due from policyholders	62,969	54,965
– Due from advisors	6,084	6,289
– Due from reinsurers	3,803	50
	72,856	61,304
Other receivables		
– Prepayments	30,429	35,196
– Amounts due from related companies (non-insurance)	1	72
– Other receivables	38,069	45,269
– Swap collateral placed with a financial institution	–	20,000
	141,355	161,841
Receivables arising from insurance and reinsurance contracts		
Current portion	137,136	157,977
Non-current portion	4,219	3,864
	141,355	161,841

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

10 Cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank and in hand	580,414	294,379
Short-term time deposits	329,246	482,094
	909,660	776,473

The effective interest rate on short-term time deposits was 0.37% (2011: 0.34%) and the deposits have an average maturity of less than 86 days (2011: less than 71 days).

11 Gross insurance contract liabilities

	Note	2012 $'000	2011 $'000
Long term insurance contracts:			
– Life insurance non-par contracts	(i)	1,974,474	1,760,703
– Life insurance par contracts	(ii)	10,490,206	9,015,719
– Investment-linked contracts			
– Unit reserves	(iii)	8,223,613	7,290,187
– Non-unit reserves	(iv)	21,518	22,091
		20,709,811	18,088,700
Provision for outstanding claims		93,009	82,707
Total insurance contract liabilities		20,802,820	18,171,407
Long term investment contracts:			
– Life investment contracts with DPF	(v)	500,759	608,018
Total insurance contract liabilities (including investment contracts with DPF)		21,303,579	18,779,425
Current portion		93,009	82,707
Non-current portion		21,210,570	18,696,718
		21,303,579	18,779,425

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

– An amount of $622.3 million (2011: $567.7 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 $224.9 million (2011: $224.5 million).

Movements in insurance contract liabilities

(i) Life insurance non-par contracts

	2012 $'000	2011 $'000
At 1 January	1,760,703	1,579,080
Valuation premiums	18,245	33,896
Liabilities released for payments on death and other terminations	(108,949)	(163,162)
Accretion of interest	12,743	6,342
Other movements	(3,993)	(5,444)
New business	277,376	241,007
Change in valuation basis:		
– Discount rate	28,685	77,937
– Others	(10,336)	(8,953)
At 31 December	1,974,474	1,760,703

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

	2012 $'000	2011 $'000
At 1 January	9,015,719	8,720,076
Premiums received, net of reinsurance	1,456,407	1,298,295
Claims and surrenders	(697,606)	(755,050)
Expenses:		
– Operating	(275,374)	(205,355)
– Non-operating	(25,538)	(32,359)
Movement in deferred tax	(63,808)	(16,404)
Income:		
– Investment income	1,108,930	56,436
– Other expense	(5,335)	(24,711)
Transfer to shareholder's fund	(23,189)	(25,209)
At 31 December	10,490,206	9,015,719

(iii) Investment-linked contracts (unit reserves)

	2012 $'000	2011 $'000
At 1 January	7,290,187	8,438,861
Premiums received	960,420	943,851
Fees deducted from account balances of investment-linked contracts	(302,593)	(293,267)
Liabilities released for payments on death, surrender and other terminations	(712,128)	(722,582)
Changes in unit prices	995,509	(1,077,360)
Other movements	(7,782)	684
At 31 December	8,223,613	7,290,187

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

	2012 $'000	2011 $'000
At 1 January	22,091	14,099
Premiums received	685	31
Fees deducted from account balances	2,377	2,256
Liabilities released for payments on death, surrender and other terminations	(3,557)	(1,001)
Accretion of interest	39	87
Changes in unit prices (within insurance benefits)	(1,246)	2,611
Other movements (within insurance benefits)	–	1,365
New business	1,056	3,167
Change in valuation basis:		
– Discount rate	231	229
– Others	(158)	(753)
At 31 December	21,518	22,091

(v) Life investment contracts with DPF

	2012 $'000	2011 $'000
At 1 January	608,018	670,898
Claims and surrenders	(117,037)	(85,547)
Investment income	19,579	27,280
Others	(9,801)	(4,613)
At 31 December	500,759	608,018

12 Insurance and other payables

	Note	2012 $'000	2011 $'000
Insurance contract payables		1,035,267	841,533
Reinsurance payables		15,055	8,176
Provision for agency expenses		12,718	10,405
Share-based payment liability	27(b)	6,603	5,055
Other payables and accrued expenses		286,066	92,413
Amount due to related companies (non-insurance)		11,261	10,846
		1,366,970	968,428
Current portion		1,363,364	966,004
Non-current portion		3,606	2,424
		1,366,970	968,428

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.

13 Financial liabilities

	Note	2012 $'000	2011 $'000
Derivative financial instruments	4(d)	35,944	134,083
Current portion		32,173	116,854
Non-current portion		3,771	17,229
		35,944	134,083

14 Deferred tax liabilities

	Note	2012 $'000	2011 $'000
At 1 January		699,894	683,239
Net provision made during the year	26	63,360	16,655
At 31 December		763,254	699,894

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

	Assets		Liabilities		Net	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Unrealised foreign exchange losses	(437)	(153)	–	–	(437)	(153)
Capital allowances for property and equipment	–	–	607	1,401	607	1,401
Tax on future distributions	–	–	763,084	698,646	763,084	698,646
Deferred tax (assets)/liabilities	(437)	(153)	763,691	700,047	763,254	699,894

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

Deferred tax liabilities are non-current.

15 Share capital

	2012 No. of shares ('000)	2011 No. of shares ('000)
Fully paid ordinary shares, with no par value:		
Ordinary shares (At the beginning and end of the year)	526,557	526,557

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

16 Capital contribution reserve

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

17 Accumulated surplus

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

Dividends

The following dividends were declared and paid by the Company:

	2012 $'000	2011 $'000
Interim dividends (2012: $0.78 per qualifying share; 2011: $0.34 per qualifying share)	413,000	179,250

18 Classification and fair values of financial instruments

	Note	Designated at fair value $'000	Trading $'000	Loans and receivables $'000	Other financial liabilities within the scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
2012							
Financial instrument assets							
Investments and loans							
– Equity securities	7	3,621,682	–	–	–	3,621,682	3,621,682
– Debt securities	7	7,496,843	–	–	–	7,496,843	7,496,843
– Collective investment schemes	7	11,328,694	–	–	–	11,328,694	11,328,694
– Derivative financial instruments	7	–	192,147	–	–	192,147	192,147
– Loans and receivables	7	–	–	501,798	–	501,798	501,798
Insurance and other receivables	9	–	–	141,355	–	141,355	141,355
Cash and cash equivalents	10	–	–	909,660	–	909,660	909,660
		22,447,219	192,147	1,552,813	–	24,192,179	24,192,179
Financial instrument liabilities							
Insurance and other payables	12	–	–	–	(1,366,970)	(1,366,970)	(1,366,970)
Derivative financial instruments	13	–	(35,944)	–	–	(35,944)	(35,944)
		–	(35,944)	–	(1,366,970)	(1,402,914)	(1,402,914)
2011							
Financial instrument 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	9	–	–	161,841	–	161,841	161,841
Cash and cash equivalents	10	–	–	776,473	–	776,473	776,473
		19,809,949	23,930	1,551,833	–	21,385,712	21,385,712
Financial instrument liabilities							
Insurance and other payables	12	–	–	–	(968,428)	(968,428)	(968,428)
Derivative financial instruments	13	–	(134,083)	–	–	(134,083)	(134,083)
		–	(134,083)	–	(968,428)	(1,102,511)	(1,102,511)

19 Premiums

	Gross premiums 2012 $'000	Gross premiums 2011 $'000	Premiums ceded to reinsurers 2012 $'000	Premiums ceded to reinsurers 2011 $'000	Net premiums 2012 $'000	Net premiums 2011 $'000
Life insurance par contracts	1,459,657	1,301,396	(3,251)	(3,101)	1,456,406	1,298,295
Life insurance non-par contracts	737,356	614,262	(42,076)	(42,980)	695,280	571,282
Investment-linked contracts	960,420	943,851	(7,971)	(6,487)	952,449	937,364
	3,157,433	2,859,509	(53,298)	(52,568)	3,104,135	2,806,941

20 Fees and commission income

	2012 $'000	2011 $'000
Fee income	2,744	1,438
Reinsurance commission	11,418	14,387
Profit commission	240	137
	14,402	15,962

21 Investment income

	2012 $'000	2011 $'000
Interest income		
– Debt securities	246,102	252,584
– Loans and receivables	25,465	27,307
– Cash and cash equivalents	1,129	761
Dividend income	153,474	155,798
Rental income	1,294	1,346
Net realised gains/(losses) and fair value changes on financial assets at fair value through profit or loss	1,864,434	(1,254,268)
Exchange losses	(15,541)	(5,086)
	2,276,357	(821,558)

22 Claims and benefits incurred

	2012 $'000	2011 $'000
Long-term insurance contracts:		
Life insurance non-par contracts		
Death, maturity and surrender benefits	224,969	238,791
Increase in liabilities during the year	213,771	181,623
Reinsurer's share of increase in liabilities during the year	(93,106)	–
Life insurance par contracts (Including investment contracts with DPF)		
Death, maturity and surrender benefits	814,643	840,239
Increase in liabilities during the year	1,367,227	232,763
Investment-linked contracts		
Death, maturity and surrender benefits	733,805	742,342
Increase/(decrease) in liabilities during the year	932,854	(1,140,682)
Shareholders fund claims expenses		
Death, maturity and surrender benefits	9	17
	4,194,172	1,095,093

23 Commission and distribution costs

	2012 $'000	2011 $'000
Commission expenses	373,371	298,199
Other acquisition costs	74,669	57,145
	448,040	355,344

Included in commission expenses is $1,642,000 (2011: $1,074,000) of the share-based compensation expenses.

24 Staff costs

	Note	2012 $'000	2011 $'000
Wages, salaries and benefits in kind		65,180	52,563
Contributions to Central Provident Fund		4,910	3,677
Share-based compensation expenses	27	4,268	3,778
		74,358	60,018

25 Other operating expenses

Included in other operating expenses are the following:

	2012 $'000	2011 $'000
Administrative expenses	12,100	13,124
Advertising and promotional expenses	11,181	10,221
Investment expenses	67,637	79,327
Operating lease expenses	22,021	23,454
Direct operating expenses arising from owner's occupied properties	1,016	803

26 Taxation

	Note	2012 $'000	2011 $'000
Current tax expense			
Current year		85,021	59,394
Adjustment for prior periods		(48,327)	(8,446)
		36,694	50,948
Deferred tax expense			
Origination and reversal of temporary differences	14	63,360	16,655
Total income tax expense		100,054	67,603

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

	2012 $'000	2011 $'000
Profit before tax	514,002	326,591
Income tax using domestic corporation tax rate of 17% (2011: 17%)	87,380	55,520
Taxation relating to insurance funds	73,991	44,332
Non-deductible expenses	4,372	1,925
Over provision in prior years	(48,327)	(8,446)
Non-taxable income	(9,648)	(18,094)
Others	(7,714)	(7,634)
	100,054	67,603

27 Share-based payment transactions

The Company has the following share-based payment arrangements:

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

Prudential Public Limited Company, the ultimate holding company of the Company, established the Prudential International Savings-Related Share Option Scheme in which employees may participate. This is a share save scheme where members of staff put a fixed amount of money into a saving plan over set periods of 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:

Options outstanding	Weighted average exercise price $	2012 Number of options	2011 Number of options
At 1 January	7.02	291,016	295,962
– Granted	12.48	101,285	50,042
– Transfer in/(out)	12.48	1,431	(3,119)
– Vested	6.39	(219,488)	(4,653)
– Withdrawn	9.44	(11,248)	(47,216)
At 31 December	11.14	162,996	291,016

Awards outstanding	2012 Number of awards	2011 Number of awards
At 1 January	1,009,962	743,132
– Granted	372,302	346,674
– Vested	(256,020)	(9,149)
– Withdrawn	(25,713)	(70,695)
At 31 December	1,100,531	1,009,962

(ii) Fair value of share options and share awards

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

Fair value of share options and assumptions	Options granted on 27/4/2009	Options granted on 27/4/2009	Options granted on 25/9/2009	Options granted on 28/9/2010	Options granted on 16/9/2011	Options granted on 21/9/2012
Fair value at measurement date ($)	3.34	3.10	5.79	6.13	5.17	4.48
Share price at grant date (($)	8.07	8.07	13.60	13.15	11.90	16.39
Exercise price ($)	6.31	6.31	9.94	9.60	9.15	12.48
Expected volatility	64.37%	51.96%	66.04%	67.65%	62.67%	34.27%
Expected life	3 years	5 years	3 years	3 years	3 years	3 years
Expected dividend yield	4.57%	4.57%	4.99%	3.42%	3.33%	3.63%
Risk-free interest rate	2.03%	2.45%	1.53%	0.89%	0.89%	0.33%

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 2012 was US$12.30 (2011: US$10.20) and £8.655 (2011: £6.385) respectively.

	2012 $'000	2011 $'000
Share-based compensation expense		
– Amount accounted for as cash settled	5,791	4,833
– Amount accounted for as equity settled	119	19
Carrying value at 31 December of liabilities arising from cash settled share-based payment transactions	6,603	5,055

28 Commitments

(a) Capital commitments

	2012 $'000	2011 $'000
Contracted at the balance sheet date but not provided for	2,324	1,020

(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 2012, the Company had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2012 $'000	2011 $'000
Payable:		
– Within 1 year	19,741	20,894
– After 1 year but within 5 years	54,946	61,755
– After 5 years	62,057	63,100
	136,744	145,749

29 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:

	2012 $'000	2011 $'000
Charges for life administration and operation services rendered by a related corporation	24,309	20,217
Charges for management services provided to immediate holding company	150	150
Charges for management services rendered by a related corporation	9,189	9,813
Interest on investments in a related corporation	–	108
Interest on loans to key management personnel	1	5
Interest on loans to related companies	1,069	3,731
Investment management fees (net) paid to a related corporation	19,843	25,943
Outstanding loans to key management personnel	21	30
Proceeds from disposal of debt securities in a related corporation	–	15,000
Recovery of expense from related corporations	2,377	1,660
Salaries and other short-term employee benefits to key management	4,371	4,586

The loan to key management personnel has an interest rate of 3% (2011: 3%) and is repayable monthly over 2 years (2011: 3 years). The outstanding loan to key management personnel is unsecured.

30 Subsequent event

Effective from 1 January 2013, the MAS Notice 319 (Amendment) dated 14 May 2012 requires direct insurers to adopt the new long term risk free discount rate basis in valuing Singapore Dollar denominated liabilities of non-participating policies, non-unit reserves of investment-linked policies and the minimum condition liability of participating funds. Based on the Company's position as at 31 December 2012, the insurance contract liabilities will increase by $38,531,000 with a corresponding decrease in profit before tax.