HSBC Insurance (Singapore) Pte. Limited

Registration Number: 195400150N

Annual Report
Year ended 31 December 2013

Corporate Governance

Board of Directors

The Board, led by the Chairman, provides entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risks to be assessed and managed. The Board is collectively responsible for the long-term success of the Company and delivery of sustainable value to shareholder. It sets the strategy and risk appetite for the Company and approves capital and operating plans presented by management for the achievement of the strategic objectives it has set.

Directors' Key Information

Guy Daniel Harvey-Samuel
Chairman/Non-Executive Director

Guy has been a Non-Executive Director of the Company since April 2013 and was appointed as a Chairman on 25 February 2014. Guy sits as a Non-Executive Director and Chairman on various HSBC Group companies in Singapore. Guy is also a director of HSBC Bank Australia Limited.

Currently, Guy is the Group General Manager, Chief Executive Officer of Singapore, The Hongkong and Shanghai Banking Corporation Limited (HBAP). A Permanent Resident of Singapore, Guy is a member of HBAP's Executive Committee and has direct responsibility for all HSBC operations based in Singapore.

In his previous role as Group General Manager and Head of International, Asia Pacific based in Hong Kong, Guy was responsible for 12 markets in Asia Pacific including Indonesia, Vietnam and Taiwan.

Guy has worked and lived in Singapore in the past and was a board member of the National Parks Board, the National Arts Council and the Public Guardian Board. He is currently a member of the Advisory Board of the National Youth Achievement Award Singapore.

Guy joined HSBC in 1978 and was appointed an International Manager in 1979. He has since worked in 12 different countries across the world. Guy's various postings have seen him take on senior management roles in Australia, the United Kingdom, Malaysia, Singapore and Hong Kong and he has spent a considerable part of his career performing roles in Global Markets, Consumer Banking and Corporate and Commercial Banking.

Walter de Oude
Chief Executive Officer and Executive Director

Walter joined the Company on 1st August 2007 as Chief Actuary and Head of Products and was appointed as an Executive Director on 4 January 2010. In June 2010, Walter took on the role of the Chief Executive Officer (CEO). The CEO role covers all operations, finance, distribution management, agency and third-party business under his responsibility. Walter also sits on the Board of HSBC Global Asset Management (Singapore) Limited and HBSC Insurance (Asia Pacific) Holdings Limited as well is a member of the HBAP Singapore senior management team.

Walter has been instrumental in growing the Company's market share in Singapore, and the Company's market share tripled from 2010 to 2012 under his care.

Prior to joining HSBC Group, Walter had taken on various positions in both reinsurance and consulting firms which have led to a very broad level of expertise and experience - ranging from M&A work to business optimisation. This experience is gained in multiple countries where he has resided, including Singapore, Japan and India.

Walter obtained a Bachelor of Economic Science degree from the University of the Witwatersrand in South Africa. He is a Fellow of the Faculty of Actuaries (FFA) in Scotland, and a Fellow of the Actuarial Societies of India, South Africa and Singapore.

Patrick Goh Kok Leong
Chief Financial Officer and Executive Director

Patrick was appointed as an Executive Director of the Company on 1 August 2011 and is the Chief Financial Officer (CFO) of the Company with overall responsibilities for the Company's accounting, finance and investment.

Patrick joined the Company on 1 February 2007. Prior to joining the Company, he was a Senior Finance Manager with American International Assurance (Singapore Branch) and oversaw various aspects of the company's financial reporting, finance operations and controls. He has been in the insurance industry for over 18 years.

Patrick holds a professional accounting qualification and is a Fellow of the Association of Chartered Certified Accountants in United Kingdom. He is also a Chartered Accountant of the Institute of Singapore Chartered Accountants.

Kelvin Tan
Non-Executive Director

Kelvin was appointed as a Non-Executive Director of the Company on 14 January 2013. He is also a Director of HSBC Institutional Trust Services (Singapore) Limited. Kelvin is the Head of Commercial Banking Singapore for HBAP, since June 2012. In this role, he is responsible for growing HBAP's trade business and managing its relationship with all middle market corporates and small and medium enterprises in Singapore.

Previously Head of Large Corporates and Conglomerates in the Singapore Global Banking client management team, Kelvin was responsible for managing a team that oversees HBAP's corporate relationships including the large Singapore Corporations; Public Sector Institutions; Real Estate and Shipping Conglomerates and Reserve Manager.

Kelvin's banking career spans over two decades; with a focus on corporates and MNCs across industries in Singapore and Asia Pacific. Prior to joining the Bank in 2009, he started his career with Citibank and had worked in JP Morgan and Societe Generale.

Kelvin holds an MBA from Nanyang Technological University and a Bachelor of Business Administration degree from the National University of Singapore.

Marcelo Teixeira
Non-Executive Director

Marcelo was appointed as a Non-Executive Director of the Company on 1 October 2012. Marcelo was appointed Group Head of Insurance for HSBC in October 2011. In this role he has global responsibility for the insurance businesses of HSBC. As a vital part of HSBC's Retail Banking and Wealth Management unit, Insurance utilises an integrated bancassurance model in its seven core life manufacturing markets – Hong Kong, Singapore, Argentina, Brazil, Mexico, United Kingdom and France.

Marcelo joined HSBC in April 2006 as the Chief Executive Officer of HSBC Insurance in Brazil. Two years later, he was appointed as Chief Executive Officer of HSBC Insurance Latin America, responsible for managing all HSBC Insurance operations in Mexico, Central and South America, Argentina and Brazil including life and non-life, pension, reinsurance, agency and broking, and captive management.

Prior to HSBC, Marcelo has served in various managerial capacities with MasterCard International, Santander and Banco do Brasil in Brazil, specializing in credit card, retail banking and bancassurance. Between 1986 and 1993, he served in various managerial roles in the Ministry of Finance, Brazil.

Marcelo is also Chairman of HSBC Insurance (Asia-Pacific) Holdings Limited and Director of HSBC Insurance Holdings Limited, Hang Seng Insurance Company Limited and HSBC Assurance Vie (France).

Alvinos Micromatis
Non-Executive Director

Alvinos was appointed as a Non-Executive Director of the Company on 9 July 2012. He is also a Director of HSBC Insurance (Asia-Pacific) Holdings Limited. Currently he is Head of Business Performance and Planning for HSBC Insurance in Hong Kong, with a broad range of business management responsibilities.

Alvinos joined the HSBC Group in 2007 in London, as Global Head of Management Information, Planning and Analysis for Insurance. In 2010 he was appointed Chief Financial Officer for the Hong Kong Insurance business and later took on extended finance responsibilities for Insurance businesses in Asia before moving to his current role within the Hong Kong Insurance business.

Other than his insurance experience in HSBC Group, Alvinos has gained experience in insurance having worked for PricewaterhouseCoopers in the United Kingdom, where he was exposed to a variety of insurance businesses, including Lloyd's and London Market, insurance and reinsurance, life and general insurance. He is a Fellow Chartered Accountant and a member of the Institute of Chartered Accountants in England and Wales. He holds a Bachelor's degree in Engineering with First Class Honours from the University of Liverpool.

Delegation of authority by the Board

The Board has delegated certain authorities to the Chairman, Chief Executive Officer, Compliance Officer and other persons, with powers of sub-delegation, which have been passed by way of board resolutions. All other matters are reserved to the Board.

Number of meetings of the Board held in 2013 and attendance

	Board meetings held in 2013
Number of meetings	4
Directors	
Mr Paul Martin Arrowsmith (Chairman) [note 1]	3/4
Mr Guy Daniel Harvey-Samuel [note 2]	2/3
Mr Walter Mark de Oude	4/4
Mr Patrick Goh Kok Leong	4/4
Mr Marcelo Gomes Teixeira	4/4
Mr Alvinos Christos Micromatis	4/4
Mr Tan Swee Beng Kelvin	4/4
Mr Alexander Charles Hungate [note 3]	1/1

Note 1 Mr Paul Martin Arrowsmith resigned as Chairman and Director of the Company on 1 January 2014.
Note 2 Mr Guy Daniel Harvey-Samuel was appointed as Director of the Company on 22 April 2013.
Note 3 Mr Alexander Charles Hungate resigned as Director of the Company on 18 March 2013.

Material transactions that require board approval

All material transactions are reserved to the Board unless authorised by way of written board resolutions to certain directors or senior management.

Directors' training and continuous training

All new directors are trained on their duties and liabilities as a Director of the Company. All directors are also issued the terms of reference of the Board and the Corporate Governance Code for HSBC Group companies, which covers internal policies oversight on corporate governance activities.

The Directors are also regularly updated and/or briefed on the Company's businesses and the regulatory changes on industry specific issues in which the Company operates during quarterly board meetings. These updates are usually in written form and presented by senior management of the Company.

Board committees

The Board has established various committees consisting of Executive Directors and senior management. The Board and each Board committee have terms of reference to document their responsibilities and governance procedures. The key roles of the committees are described in the paragraphs below.

Management Executive Committee (EXCO)

The EXCO is chaired by the CEO and operates as a direct management committee under authority of the Board and is responsible for overall delivery of insurance strategy and implementation priorities as agreed with Retail Banking and Wealth Management (RBWM), Commercial Banking (CMB), Group Insurance and Senior Management.

The current members of the EXCO are as follows:

Walter de Oude (Chair)	Chief Executive Officer
Alasdair Spry	Chief Risk Officer / Chief Actuary
Patrick Goh	Chief Financial Officer
Fong Chun Keong	Chief Operating Officer
Colin Ngeow	Head of Change Delivery
Ng Kar Hee	Head of Business Performance Management
Adrian Vincent	Head of Wealth Insurance Management
Lionel Chee	Head of High-Net-Worth Business
Steven Tan	Head of Protection Business
Max Ng	Head of Compliance

Risk Management Committee (RMC)

The RMC is chaired by the Chief Risk Officer and its responsibilities extend to all risks to which the Insurance business is exposed, including Insurance Risk, Market Risk, Credit Risk, Operational Risk, Compliance and Reputational Risk. It provides independent risk oversight over the risk management activities in the business and should fulfil the requirements of a "second line of defence". It has the authority to report and escalate issues to the Board independently of EXCO.

Asset and Liability Committee (ALCO).

The ALCO is chaired by the CEO and its primary responsibilities are to report to and advise EXCO on all matters pertaining to the balance sheet (asset and liabilities) and investment of Insurance monies. ALCO is also responsible for managing balance sheets and earnings (Economic, IFRS and Local GAAP) and capital levels (both Economic and Regulatory) to achieve performance objectives within prescribed risk parameters. ALCO will support the development of RBC and embedding it into regular decision making within the business.

Actuarial Controls Committee (ACC)

The ACC is chaired by the Global Insurance CFO & Country CFO and its main function is to exercise oversight over actuarial activities that are signed-off by the Chief Actuary and could materially affect current or future HSBC Group IFRS / Local Statutory earnings, balance sheets or capital requirements. It also supports HSBC Group Finance and the Finance Functions of HBAP to review and approve actuarial work carried out to determine the valuation of assets and liabilities in the financial statements. Specifically, the ACC should approve all changes to actuarial methodology, assumptions, data or processes that could materially impact the financial statements of the HSBC Group or HBAP.

Product Committee (PC)

The PC is chaired by the CEO and approves or oversees the approval for the launch of all new insurance and third party insurance products within the risk appetite, the implementation of new pricing or policies for existing products and the use of additional distribution channels for the sale of existing products. Post Launch Monitoring including management of a Post Implementation Review process, which should ensure the product is operating as originally envisaged and that all risks were fully considered in the original approval process.

Role of Chairman and CEO

The roles of Chairman and CEO are separate and held by experienced full-time employees of the HSBC Group. There is a clear division of responsibilities between leading the Board and the executive responsibility for running the Company's business.

The Chairman provides leadership to the Board and is responsible for the overall effective functioning of the Board. The Chairman is responsible for the development of strategy and the oversight of implementation of Board approved strategies and direction. The CEO is responsible for ensuring implementation of the strategy and policy as established by the Board and managing the day-to-day running of the Singapore operations.

Board representations which directors may hold to be disclosed

All directors' directorships are tabled at each board meeting on a quarterly basis. In compliance with *MAS Notice 106 - Appointment of Director, Chairman and Key Executive Person*, all directors have been informed to notify Chairman or Company Secretary before taking up any new directorships with other companies (including HSBC group companies).

Appointment and resignation of Directors

The Company is a wholly-owned subsidiary of HSBC Insurance (Asia-Pacific) Holdings Limited. All selection and appointment of new directors are recommended by the shareholder or the Regional office in Hong Kong. As at the date of this report, the following directors resigned from the Board:

(i) Alexander Charles Hungate on 11 March 2013; and
(ii) Paul Martin Arrowsmith on 1 January 2014

Remuneration matters

The Board of the Company's ultimate parent company, HSBC Holdings plc, has established a Group Remuneration Committee comprising independent non-executive directors. The Committee is responsible for approving remuneration policy.

Remuneration policy

A global reward strategy for the HSBC Group, which is applicable to the Company, has been approved by the Group Remuneration Committee. It aims to reward success, not failure, and to be properly aligned with the risk management framework and risk outcomes. In order to ensure alignment between remuneration and business strategy, individual remuneration is determined through assessment of performance, delivered against both annual and long-term objectives summarized in performance scorecards, as well as adherence to HSBC Values. Altogether, performance is judged not only on what is achieved over the short and long term, but also on how it is achieved, as the latter contributes to the sustainability of the organisation. The financial and non-financial measures incorporated in the annual and long-term scorecards are carefully considered to ensure alignment with the long-term strategy of the HSBC Group.

Internal controls and risk management systems

The Directors are responsible for internal control in the Company and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage and mitigate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud.

As a requirement under the Group annual CEO Attestation process, the CEO of the Company confirms that the internal control framework of the Company has been assessed and any significant open issues have been identified, with action plans in place to address weaknesses.

In addition, the CEO and CFO of the Company issue an Internal Control Certificate (ICC) to the CEO of the immediate holding company and the Regional Insurance Head of Finance Control. The ICC confirms that, in respect of internal controls over the financial reporting,

- the Company's internal financial control system has been designed and operated such that there is a less than reasonable possibility of a material misstatement in its financial reporting remaining undetected;
- the Company complies with the requirements of Group's policies insofar as it is necessary to support Management's assessment of Internal Control over Financial Reporting;
- an assessment of the effectiveness of the Company's internal control over financial reporting has been completed in a process which the CEO and CFO have supervised and reviewed;
- based on the assessment performed, the CEO and CFO are satisfied with the conclusion that the Company's internal control over financial reporting was effective

Whistle-blowing policy

Our employees should have every opportunity to escalate concerns or known violations of company ethics or workplace policies. In the very rare circumstance when an employee witnesses or experiences a possible incident of alleged wrongdoing or violation of Company policy, he/she can report it to a manager, a senior manager, human resources or compliance, without fear of retaliation.

Employees may report actual or suspected unlawful activity or violation of Company policy to:

- the Integrity Tip Line, either anonymously or by identifying him/herself
- the Group Compliance Disclosure Line
- a Human Resources professional
- via Human Resources Solutions
- his/her manager (where appropriate)

Material related party transactions

Policies on material related party transactions are established at Group level for all HSBC entities and the Company also complies with the local regulatory requirements. Material related party transactions are disclosed in the notes to the financial statements in this annual report.

Directors' report

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2013.

Directors

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

Walter Mark de Oude	
Patrick Goh Kok Leong	
Alvinos Christos Micromatis	
Marcelo Gomes Teixeira	
Tan Swee Beng Kelvin	(Appointed on 14 January 2013)
Guy Daniel Harvey Samuel	(Appointed on 22 April 2013)

Directors' interests

The directors who held office at the end of the financial year have been granted exemption from compliance with Section 201(6)(g) of the Companies Act, Chapter 50 (the Act). Full detailed information regarding directors' interests in shares or debentures of the Company or of related corporations, either at the beginning of the financial year, or the date of appointment, if later, or at the end of the financial year, can be obtained at the registered office of the Company, at 21 Collyer Quay, #10-02, HSBC Building, Singapore 049320, in accordance with Section 164(8) and (9) of the Act.

HSBC Holdings plc (the ultimate holding company) maintains share option schemes, under which eligible employees including directors of the Company were granted share options of shares in HSBC Holdings plc.

Except for the share options, 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 this report and 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:

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

(ii) 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

Walter Mark de Oude
Director

Patrick Goh Kok Leong
Director

25 March 2014

Statement by Directors

In our opinion:

(a) the financial statements set out on pages FS1 to FS66 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2013 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 Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and

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

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors

Walter Mark de Oude
Director

Patrick Goh Kok Leong
Director

25 March 2014

KPMG
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

Telephone +65 6213 3388
Fax +65 6225 0984
Internet www.kpmg.com.sg

Independent auditors' report

Members of the Company
HSBC Insurance (Singapore) Pte. Limited

Report on the financial statements

We have audited the accompanying financial statements of HSBC Insurance (Singapore) Pte. Limited (the Company), which comprise the statement of financial position as at 31 December 2013, 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 information, as set out on pages FS1 to FS66.

Management's responsibility for the financial statements

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

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

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

Opinion

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Company as at 31 December 2013 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
Public Accountants and
Chartered Accountants

Singapore

25 March 2014

Statement of comprehensive income
Year ended 31 December 2013

	Note	2013 $'000	2012 $'000
Continuing operations			
Gross written premiums	6	677,530	600,074
Gross written premiums ceded to reinsurers	6	(6,551)	(4,964)
Net premiums	6	670,979	595,110
Fees and commission income	7	7,674	5,926
Investment income	8	128,745	123,652
Other operating income/(expense)		3,042	(988)
Net income before policyholder claims, benefits incurred and expenses		810,440	723,700
Gross policyholder claims and benefits incurred	9	(609,127)	(548,320)
Reinsurers' share of policyholder claims and benefits incurred	9	994	766
Net policyholder claims and benefits incurred	9	(608,133)	(547,554)
Acquisition costs	10	(71,580)	(75,186)
Investment expenses		(6,471)	(5,650)
Administrative and other expenses		(42,696)	(44,387)
Profit before tax		81,560	50,923
Tax expense	12	(12,877)	(8,436)
Profit from continuing operations		68,683	42,487
Discontinued operations			
Profit from discontinued operations (net of tax)	26	15,367	14,496
Profit for the year	11	84,050	56,983
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		(117,879)	70,189
Net change in fair value of available-for-sale financial assets reclassified to profit or loss		–	–
Tax on other comprehensive income		20,040	(11,931)
Other comprehensive income for the year, net of tax		(97,839)	58,258
Total comprehensive income for the year		(13,789)	115,241

Statement of financial position
As at 31 December 2013

	Note	2013 $'000	2012 $'000
Assets			
Property, plant and equipment	14	548	1,338
Financial assets	15		
- Equities		–	12,638
- Debt securities		2,050,458	1,673,957
- Collective investment schemes		838,017	709,659
- Policy loans		11,464	10,955
- Derivative financial instruments		1,945	6,883
Reinsurers' share of insurance and investment contracts with DPF provisions	19	–	77
Insurance receivables	16	4,583	4,208
Other receivables	17	34,108	25,300
Cash and cash equivalents	18	124,290	203,653
Disposal group classified as held for sale	26	–	6,579
Total assets		3,065,413	2,655,247
Equity			
Share capital	22	75,000	75,000
Fair value reserve	23	(21,516)	76,323
Capital reserve	23	1,401	1,390
Retained earnings		245,226	161,176
Total equity		300,111	313,889
Liabilities			
Insurance and investment contracts with DPF provisions	19	2,667,312	2,212,950
Financial liabilities			
- Derivative financial instruments		9,317	–
Insurance payables	20	53,901	55,067
Other payables	21	10,631	13,399
Deferred tax liabilities	13	10,549	30,844
Current tax payable		13,592	4,379
Liabilities directly associated with disposal group classified as held for sale	26	–	24,719
Total liabilities		2,765,302	2,341,358
Total equity and liabilities		3,065,413	2,655,247

Statement of changes in equity
Year ended 31 December 2013

	Share capital $'000	Fair value reserve $'000	Capital reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2012	75,000	18,065	1,340	104,192	198,597
Total comprehensive income for the year					
Profit for the year	–	–	–	56,983	56,983
Other comprehensive income					
Net change in fair value of available-for-sale financial assets	–	70,189	–	–	70,189
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	–	–	–	–	–
Tax on other comprehensive income	–	(11,931)	–	–	(11,931)
Total other comprehensive income	–	58,258	–	–	58,258
Total comprehensive income for the year	–	58,258	–	56,983	115,241
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners					
Value of employee services received for issue of share options	–	–	51	–	51
Vesting of share awards	–	–	(1)	1	–
Total contributions by and distributions to owners	–	–	50	1	51
At 31 December 2012	75,000	76,323	1,390	161,176	313,889

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

Statement of changes in equity (cont'd)
Year ended 31 December 2013

	Share capital $'000	Fair value reserve $'000	Capital reserve $'000	Retained earnings $'000	Total $'000
At 1 January 2013	75,000	76,323	1,390	161,176	313,889
Total comprehensive income for the year					
Profit for the year	–	–	–	84,050	84,050
Other comprehensive income					
Net change in fair value of available-for-sale financial assets	–	(117,879)	–	–	(117,879)
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	–	–	–	–	–
Tax on other comprehensive income	–	20,040	–	–	20,040
Total other comprehensive income	–	(97,839)	–	–	(97,839)
Total comprehensive income for the year	–	(97,839)	–	84,050	(13,789)
Transactions with owners, recognised directly in equity					
Contributions by and distributions to owners					
Value of employee services received for issue of share options	–	–	11	–	11
Total contributions by and distributions to owners	–	–	11	–	11
At 31 December 2013	75,000	(21,516)	1,401	245,226	300,111

Statement of cash flows
Year ended 31 December 2013

	Note	2013 $'000	2012 $'000
Cash flows from operating activities			
Profit before tax		97,171	65,040
Adjustments for:			
Equity-settled share-based payment transactions		58	181
Depreciation of property, plant and equipment	14	433	664
Property, plant & equipment written off		492	975
Gain on disposal of discontinued operations	26	(16,042)	(802)
Loss/(gain) on sale of investments, including exchange		2,604	(15,238)
Dividend income		(2,625)	(2,246)
Interest income		(84,379)	(66,891)
Fair value gain on financial assets		(44,370)	(41,056)
		(46,658)	(59,373)
Changes in working capital:			
Net insurance and investment contract with DPF provisions		464,346	435,794
Insurance receivables		(6,048)	(1,268)
Other receivables		(3,096)	(2,267)
Insurance payables		(1,371)	12,132
Other payables		(2,815)	(1,059)
Policy loans		(509)	(3)
		403,849	383,956
Dividends received		2,625	2,246
Acquisition of investments		(819,900)	(567,947)
Proceeds from sale of investments		280,099	145,531
Interest received		78,581	64,141
Cash (used in)/generated from operations		(54,746)	27,927
Tax paid		(4,822)	–
Net cash (used in)/from operating activities		(59,568)	27,927
Cash flows from investing activities			
Acquisition of investments		(16,908)	(3,757)
Acquisition of property, plant and equipment	14	(135)	(349)
Disposal of discontinued operation, net of cash disposed of	26	(5,467)	(15,941)
Interest received		1,018	747
Proceeds from sale of investments		1,697	7,294
Proceeds from sale of property, plant and equipment		–	5
Net cash used in investing activities		(19,795)	(12,001)
Net (decrease)/increase in cash and cash equivalents		(79,363)	15,926
Cash and cash equivalents at 1 January		203,653	187,727
Cash and cash equivalents at 31 December	18	124,290	203,653

Notes to the financial statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the directors on 25 March 2014.

1 Domicile and activities

HSBC Insurance (Singapore) Pte. Limited (the Company) is incorporated in the Republic of Singapore and has its registered office at 21 Collyer Quay #10-02, HSBC Building, Singapore 049320.

The principal activities of the Company are those of transacting general and life insurance business. The Company has ceased underwriting group term life and employee benefits insurance business and general insurance business on 31 July 2013 and 5 November 2012 respectively. These insurance businesses, together with certain associated assets and liabilities were transferred to AXA Life Insurance Singapore Pte Ltd and AXA Insurance Singapore Pte Ltd respectively. These transfers were carried out pursuant to a scheme for the transfer of insurance business under Section 49 FD of the Singapore Insurance Act, Chapter 142 (see note 26).

In line with the HSBC Group strategic direction, the Company will continue only to underwrite long term and wealth life insurance business. Accordingly, the general insurance license with the Monetary Authority of Singapore (MAS) has been cancelled with effect from 1 November 2013.

The immediate holding company is HSBC Insurance (Asia-Pacific) Holdings Limited, a company incorporated in Hong Kong SAR. The ultimate holding company is HSBC Holdings plc, a company incorporated in England.

2 Basis of preparation

2.1 Statement of compliance

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

The assets and liabilities of the Company that relate to the insurance business carried on in Singapore are subject to the requirements of the Insurance Act. Such assets and liabilities are accounted for in the books of the respective insurance funds established under Section 17 of the Insurance Act. The net assets of the Company held in the insurance funds must be sufficient to meet the solvency requirements stipulated in Section 18 at all times. Assets held in the insurance funds may be withdrawn only if the withdrawal meets the requirements stipulated in Section 17 and the Company continues to be able to meet the solvency requirements of Section 18.

The assets and liabilities of the Company that do not relate to the insurance business are accounted for in the Shareholder's Fund.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described below.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies and assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are described in note 4 – Critical accounting estimates and judgements in applying accounting policies.

2.5 Change in accounting polices

(i) Fair value measurement

FRS 113 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other FRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other FRSs, including FRS 107 *Financial Instruments: Disclosures*.

From 1 January 2013, in accordance with the transitional provisions of FRS 113, the Company has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Company's assets and liabilities. The additional disclosures necessary as a result of the adoption of this standard has been included in note 5.

(ii) Presentation of items of other comprehensive income

From 1 January 2013, as a result of the amendments to FRS 1, the Company has modified the presentation of items of other comprehensive income in its statement of comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

The adoption of the amendment to FRS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Company.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in note 2.5, which addresses changes in accounting policies.

3.1 Foreign currency

Transactions in foreign currencies are translated to Singapore dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to Singapore dollars at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in Singapore dollars at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Singapore dollars at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss), which are recognised in other comprehensive income.

3.2 Classification of contracts

i) Insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices of rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

ii) Investment contracts

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as investment contracts.

iii) Insurance and investment contracts with discretionary participation features (DPF)

Both insurance and investment contracts may contain discretionary participation features. A contract with a discretionary participation feature is a contractual right held by a policyholder to receive as a supplement to guaranteed minimum payments, additional payments that are likely to be a significant portion of the total contractual payments, and whose amount or timing is contractually at the discretion of the issuer based on the performance of a specified pool of contracts or a specified type of contract.

The discretionary element of these contracts has been included in the policy reserves and subjected to a liability adequacy test as described in note 3.10.

The amount of distributable surplus allocated to shareholders in respect of the above contracts is in accordance with the Insurance Regulations of Singapore and limited to 1/9th of the amount allocated to policyholders. Unallocated surpluses are retained and classified as policy reserves.

3.3 Recognition and measurement of general insurance contracts

i) Premiums and commissions

Premium income is recognised at the time of commencement of the risks and in the case of inward reinsurance, when closing advices are received. The corresponding commission payable is accounted for on the same basis. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. The earned portion of premiums received is recognised as revenue.

ii) Claims

Claims incurred in respect of general business consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims.

The claims provision represents the estimated ultimate cost of settling all claims including direct and indirect settlement costs, arising from events that occurred up to the reporting date. Unpaid losses and loss adjustment expenses consist of estimates for reported losses and provisions for losses incurred but not yet reported. A provision for adverse deviation in accordance with local regulatory requirements is included.

iii) Provision for unearned premiums

The provision for unearned premiums comprises the proportion of gross written premiums which is estimated to be earned in the following or subsequent financial years, computed separately for the various classes of business as computed on the following basis:

Direct and facultative marine cargo business: 25% of net written premiums

Inward treaties – marine cargo: 25% of net written premiums

Inward treaties – other business: 40% of net written premiums

All other general classes: Daily pro-rata method

iv) Unexpired risks provision

Provision is made for unexpired risks arising from general business where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premium provision in relation to such policies. The provision for unexpired risks is calculated separately by reference to classes of businesses that are managed together.

3.4 Recognition and measurement of life insurance and investment contracts with discretionary participation features

i) Premiums and commissions

Premium is recognised as income when due from policyholders except for linked business where premiums are recognised when the liability arising from those premiums are created. The corresponding commission payable is accounted for on the same basis. Premiums from linked policies comprise amounts used to purchase units in linked funds and to purchase life insurance protection.

ii) Claims

Claims incurred reflect the cost of all claims arising during the year, including policyholder cash dividends payable upon policy anniversary.

Provision is made for all the full estimated costs less reinsurance recoveries of all claims notified but not settled at the reporting date, using the best information available at the time.

iii) Embedded derivatives in insurance contracts

Guarantees inherent in some insurance contracts issued by the Company that do transfer significant insurance risk to the Company are not separated and measured at fair value.

The Company has taken advantage of the exemptions available in FRS 104 not to separate and fair value a policyholder’s option to surrender an insurance contract for a fixed amount even if the exercise price differs from the carrying amount of the host insurance liability, and not to separate and fair value options to surrender insurance contracts with a DPF.

3.5 Recognition and measurement of investment contracts

Amounts collected on investment contracts, which primarily involve the transfer of financial risk are accounted for using deposit accounting, under which the amounts collected less directly attributable transaction costs are credited directly to the statement of financial position as an adjustment to the liability to the policyholder. Claims incurred are adjusted directly against the fair value of investment contract liability.

3.6 Long-term business provision

The long-term business provision has been computed having due regard to the principles laid down in the MAS Notice 319 that is issued pursuant to Section 64(2) of the Singapore Insurance Act (Cap 142). In particular, a prospective discounted cash flow valuation method that is consistent with the Singapore Risk Based Capital methodology has been adopted for all major classes of business, with the exception of linked contracts where the unit reserves are based on the market value of the related assets. Within the long-term provision, an explicit provision is made for vested bonuses and a provision is also made for future reversionary and terminal bonuses.

3.7 Investment contract liabilities

Investment contract liabilities are measured at fair value. For these contracts, transaction costs that are directly attributable to the issue of the financial liability are deducted from the fair value of the consideration received when determining its initial measurement.

3.8 Reinsurance

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if, and only 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.

The Company ceded reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue when closing advices are received and accounted as if the reinsurance was considered direct business. Amounts recoverable from reinsurers' are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

3.9 Receivables and payables related to insurance contracts and investment contracts

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

The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognises that impairment loss in the profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets. Insurance receivables and insurance payables are derecognised based on the same derecognition criteria as financial assets and liabilities respectively, as described in note 3.17.

3.10 Liabilities and related assets under liability adequacy test

Insurance contracts and investment contracts with discretionary participation features are tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liabilities. Where a shortfall is identified, an additional provision is made and the Company recognises the deficiency in the profit or loss.

The liability adequacy test is performed on each insurance fund basis.

3.11 Revenue

Revenue comprises the following:

i) Earned premiums from insurance and investment contracts with DPF

The accounting policies for the recognition of revenue from insurance and investment contracts with DPF are disclosed in notes 3.3 and 3.4.

ii) Fees and commission income

Fee income comprises annual management charges received on funds managed through investment-linked policies.

Reinsurance commission is recognised on a basis that is consistent with the recognition of the costs incurred on the acquisition of the underlying insurance contracts (see notes 3.3 and 3.4). Profit commission in respect of reinsurance contracts is recognised on an accrual basis.

Other commissions received or receivable, which do not require the Company to render further services, are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies. However, when it is probable that the Company will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognised as revenue over the period during which the services are provided.

3.12 Lease payments

Payments made under the operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.13 Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Short-term accumulating compensated absences

Short-term accumulating compensated absences are recognised when the employees render services that increase their entitlement to future compensated absences.

(iii) Share-based payment transactions

The Company's ultimate holding company grants share options to its employees including the Company's employees. The fair value of share options granted is recognised as an employee expense, with a corresponding increase in capital reserve. The fair value is measured at grant date and spread over the vesting period during which the employees unconditionally become entitled to the share options.

The fair value is measured at grant date using a binomial lattice model methodology. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total expenses is spread over the vesting period, taking into account the probability that the option will vest.

At each reporting date, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year under review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest, with a corresponding adjustment to the capital reserve.

3.14 Investment income

Net investment income comprises interest income, dividend income, net gains/losses on the disposal financial assets, net foreign currency gains/losses, changes in the fair value of financial assets at fair value through profit or loss that are recognised in profit or loss, impairment losses recognised on financial assets, and gains/losses on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

3.15 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences that affects neither accounting nor taxable profit or loss. The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity.

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

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. 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 judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.16 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain and loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use.

The estimated useful lives for the current and comparative years are as follows:

Building	10 years
Furniture, fittings and equipment	5 years
Computer equipment	3 to 5 years
Office renovation	Lease term

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

3.17 Financial instruments

Non-derivative financial assets

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

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. 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 statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and other receivables.

Cash and cash equivalents comprise cash balances and bank deposits that are subject to an insignificant risk of changes in their fair value, and are used by the Company in management of its short-term commitment.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise debt securities.

Non-derivative financial liabilities

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

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

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

The Company classifies non-derivative financial liabilities into the other financial liabilities category, and comprise 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.

Share capital

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

Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes in its fair value are recognised immediately in profit or loss.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss as part of foreign currency gains and losses.

3.18 Impairment

Non-derivative 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 (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables

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. All individually significant loans and receivables 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 and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. 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.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed. The amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. 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 value in use and its fair value less costs to sell. 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.

Impairment losses are recognised in profit or loss. Impairment losses recognised in 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, if no impairment loss had been recognised.

3.19 Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Thereafter, the assets, or disposal group, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets and insurance contracts, which continue to be remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss. Property, plant and equipment once classified as held for sale are not depreciated.

3.20 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.21 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.

3.22 Discontinued operation

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

3.23 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 2013, 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.

4 Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually evaluated and based on historical experience and other factors.

4.1 Ultimate liability arising under long-term insurance contracts

The determination of the liabilities under long-term insurance contracts is based on the Singapore Risk Based Capital methodology. The liabilities are calculated by way of a discounted cash flow method on a policy-by-policy level. The valuation generally involves a projection of future cash flows using realistic assumptions and then discounting these cash flow streams at appropriate interest rates.

The prospective projections of cash flow streams include the following parameters:
- Mortality and morbidity benefits
- Survival and maturity benefits
- Surrender benefits
- Distribution costs
- Management expenses
- Policy charges
- Premium payments

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The assumptions are reviewed to ensure that they are consistent with observable market prices or other published information, and take into account the recent experience or expected future outlook for the business. Additional provision is included in the valuation to allow for any adverse deviation from the best estimate experience.

In general, the policy liabilities of a single policy is the sum of the value of expected future payments less expected future receipts arising from the policy discounted using the risk free discount rates plus any provision made for adverse deviation from the expected experience.

For those classes of non-linked business where policyholders participate in profits, the policy liabilities of the Participating Fund as a whole are taken to be the highest of:
- The sum of the best estimate liabilities for each policy in the fund, determined by discounting the guaranteed and non-guaranteed cash flows at the best estimate rate of returns;
- The sum of the minimum condition liabilities for each policy in the fund, determined by discounting the guaranteed cash flows using the risk free discount rates; or
- The policy assets which represent the value of assets backing the policy liabilities.

The non-guaranteed cash flows specifically refer to:
- Future distribution to policyholders by way of bonuses
- Future transfers to shareholders
- Future tax payable on distribution to policyholders

Assumptions

The principal assumptions underlying the calculation of the long-term business provision are:

Mortality

A base mortality table is selected which is most appropriate for each type of contract. The mortality rates reflected in this table are adjusted to reflect the expected mortality based on a statistical investigation of mortality into the Company's experience over the most recent eight years. Where there is adequate data of sufficient quality to be statistically credible, the mortality statistics generated by the data are used in preference to using an adjusted base mortality table. An allowance is made for future mortality improvements for contracts that insure survivorship. This allowance is based on trends identified in the data and on the mortality investigations performed by independent actuarial bodies.

Morbidity

The incidence and termination from disability is derived with reference to the Company's reinsurer's risk premium rates. These are adjusted to calculate the best estimate of morbidity based on an investigation into the Company's experience, where this is appropriate.

Persistency

The Company performs an investigation into its experience over the last four years. Statistical methods are applied to the data produced by this investigation in order to determine persistency rates appropriate to the product types and duration. These rates are adjusted to a best estimate of persistency rates by taking account of any trends in the data.

Discount rates

Effective 1 January 2013, the Company has adopted the new long term risk-free discount rate basis in valuing Singapore Dollar denominated liabilities which resulted from the MAS Notice 319 (Amendment dated 14 May 2012).

The best estimate rate of return is derived based on the expected investment returns from the assets backing the policy liabilities of the participating fund, assuming the strategic asset mix.

Provision for adverse deviation

A provision for adverse deviation ("PAD") as directed by the MAS, is included relating to the inherent uncertainty in the best estimate value of policy liabilities.

Renewal expenses and inflation

The current level of renewal expenses is assumed to be an appropriate expense base. Expense inflation is assumed to be 3%.

Taxation

The Company has assumed that current tax legislation and rates will not change.

Changes in assumptions and sensitivity to changes in variables

Assumptions are adjusted for changes in mortality, investment return, policy maintenance expenses and expense inflation to reflect anticipated changes in market conditions and mortality experience and price inflation.

The Company re-runs its valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its life assurance contracts. The table presented below demonstrates the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. Certain assumptions can be expected to impact on life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

Sensitivity to changes in key variables

	Change in profit after taxes and equity $'000	**Change in Capital Adequancy Ratio (CAR) %**
2013		
10% increase in mortality/morbidity rates	(2,601)	(9)
10% decrease in mortality/morbidity rates	1,702	9
10% increase in lapse rates	921	4
10% decrease in lapse rates	(1,217)	(4)
10% increase in policy maintenance expense rates	(1,572)	(4)
10% decrease in policy maintenance expense rates	1,415	4
2012		
10% increase in mortality/morbidity rates	(3,462)	(20)
10% decrease in mortality/morbidity rates	2,276	21
10% increase in lapse rates	1,439	13
10% decrease in lapse rates	(1,871)	(13)
10% increase in policy maintenance expense rates	(1,442)	(7)
10% decrease in policy maintenance expense rates	1,382	7

The analysis above has been prepared for a change in one variable with all other variables remaining constant. The Company recognised that some of the assumptions are interdependent but it will be difficult to analyse such interdependencies. However, the analysis assumes that the rate of inflation is correlated to the investment return, so the Company believes that the liability for claims reported in the statement of financial position is adequate.

4.2

4.3 Ultimate liability arising under investment contracts

The assumptions used in the determination of the liabilities under investment contracts are similar to that of the long-term insurance contracts disclosed in note 4.1.

4.4 Ultimate liability arising from claims made under general insurance contracts

The actuarial estimates for outstanding claims reflect our best estimate of the likely future experience. That is, they are neither deliberately optimistic nor pessimistic. An allowance is made for "pure IBNR" (late reported claims), "IBNER" (development of known claims and reopened claims), expected future claims inflation and indirect claims administration expenses associated with the claims runoff.

The cost of outstanding claims and the IBNR provisions are based on case estimates and supported by a range of statistical methods such as the Chain Ladder and Bornhuetter Ferguson methods. Such methods extrapolate the development of paid and incurred claims, average cost per claims and ultimate claim numbers for each accident year based upon observed development of earlier years and expected loss ratios.

The Company has ceased underwriting general insurance business on 5 November 2012 after it transferred its general insurance business together with certain associated assets and liabilities, including the claims liabilities to AXA Insurance Singapore Pte Ltd (the 2012 transfer). Accordingly, the Company has no liability under general insurance business since 5 November 2012.

5 Risk management

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

5.1 Capital management

The Board's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares and retained earnings of the Company. The Company has no borrowings, contingent liabilities and loan capital as at 31 December 2013 and 31 December 2012.

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

All insurers and reinsurers that carry on insurance business in Singapore are registered with the MAS and are subject to the prudential standards which set out the basis for calculating the fund solvency requirements (FSR) and capital adequacy requirement (CAR) which is a minimal level of capital that must be held to meet policyholders' obligations. The FSR and CAR apply a risk-based approach to capital adequacy and is determined to be the sum of the aggregate of the total risk requirement of all insurance funds established and maintained by the reinsurer under the Insurance Act. It is the Company's policy to hold capital levels in excess of the minimum FSR of 100% of total risk requirements and at least 120% of CAR.

The Company seeks to maintain a balance between the higher returns that might be possible with a sound capital position. As at 31 December 2013, the CAR was 224% (2012: 320%).

5.2 Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to life, accident, health, financial or other perils that may arise from an insurable event. As such, the Company is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Company also has exposure to market risk through its insurance and investment activities.

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The Company uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The Risk Management Committee reviews all risks in accordance with the Group's Risk Management Framework on a quarterly basis and reports these to the Board and Group Risk Officer.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

5.3 Underwriting strategy

The Company's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

The underwriting strategy is set out in an annual business plan that sets out the classes of business to be written and the industry sectors to which the Company is prepared to expose itself. This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business and industry in order to enforce appropriate risk selection within the portfolio. A large proportion of non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Subsequent to the ultimate holding company's decision to divest the business to allow the HSBC Group to channel capital and resources on the growth of the HSBC Group's core business, the Company has ceased underwriting group term life and employee benefits insurance business on 31 July 2013 and general insurance business on 5 November 2012, after it transferred these insurance businesses to AXA Life Insurance Singapore Pte Ltd and AXA Insurance Singapore Pte Ltd respectively.

5.4 Reinsurance strategy

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Company. In addition, underwriters obtain facultative reinsurance from approved reinsurers usually to enable the Company to provide sufficient underwriting capacity or in order to maintain pricing integrity.

Ceded reinsurance contains credit risk, and such reinsurance recoverables are reported after deductions for known insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Company complies with the HSBC Group's minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance against those criteria. The Board of Directors reviewed the Reinsurance Management Strategy on an annual basis.

5.5 Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

The following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

i) Long-term non-linked insurance contracts and investment contracts – with discretionary participation features

Product features

The Company writes participating business, comprising insurance and savings products including whole life and endowment plans. These plans offer benefit payout upon death, surrender or policy maturity. The bonus payments are designed to distribute to policyholder the income on assets in the with-profit funds based on a long-term rate of return. The contracts provide more capital security to policyholder than a unit-linked contract.

Management of risks

The Company has complete contractual discretion on the timing and quantum of bonuses declared. In practice the Company considers policyholders' reasonable expectations when setting bonus levels. The Company's reputation may be at risk should the policyholders' dividend payment drop significantly from their expectation. It is the Company's intention to maintain a smooth dividend scale based on long-term rate of return. Annual reviews are performed to confirm whether the current bonus scale is supportable taking into account the overall experience on investment, claims, operating expense and lapse rate.

Investment risks are managed through matching assets and liabilities. Investment strategy has to ensure sufficient investment return is available to fulfill future policyholders' expected payout. Mortality risks are managed through reinsurance and sound underwriting.

ii) Long-term insurance/investment contracts

Product features

The Company writes non-participating life insurance policies and investment contracts. These plans offer benefit payout upon death, surrender or policy maturity. Policyholders can also choose to protect themselves against morbidity risks such as health, disability, critical illness and personal accident.

Management of risks

Investment risks are managed through matching assets and liabilities. Investment strategy has to ensure sufficient investment return is available to fulfill future policyholders' expected payout. Mortality and morbidity risks are managed through reinsurance and sound underwriting. The assumptions underlying the calculation of the liabilities under the contracts and adopted in product pricing are also reviewed regularly to ensure that they remain appropriate.

iii) Long-term insurance contracts – unit-linked products

Product features

The Company writes unit-linked life insurance policies, which provide policyholders life insurance protection with direct investment in a variety of funds. Premiums received are invested into chosen funds after deduction of charges for the cost of mortality, morbidity and administration. Funds accumulated within the account will belong to the policyholder.

Management of risks

Although policyholders bear the market risk, defined as the risk of loss of fair value resulting from adverse fluctuations in interest and foreign currency exchange rates and equity prices of linked assets, the Company assumes reputational risk, as policyholders may compare the performance of the Company's products against similar products in the market. The Company is also exposed to diminishing investment management revenues in line with the loss of value of the policyholder's assets.

Mortality and morbidity risks are managed through reInsurance and sound underwriting. Claims and expenses are reviewed regularly to ensure current charges are sufficient to cover the costs. The assumptions underlying the calculation of the liabilities under the contracts and adopted in product pricing are also reviewed regularly to ensure that they remain appropriate.

5.6 Concentrations of insurance risks

For an insurance company, concentration risk can arise when the Company holds large insurance positions in specific geographical location, sector, product or individual counterparty. Though the Company's business focus is predominantly on risks originating from Singapore, this geographical concentration does not pose a significant risk to the Company given that Singapore has limited exposure to natural catastrophe. The Company also evaluates the concentration of exposures to individual and cumulative insurance risk and establishes appropriate risk limits and reinsurance policy to ensure that no significant concentrations to individual company or sector arise and reduce any such exposure to levels acceptable to the Company.

Scenario testing performed on the risk of Avian Flu would potentially expose the Company to a liability of between $3.6 million to $8.4 million (2012: $7.0 million to $16.4 million), based on best-case and worst-case scenario respectively.

Besides the above, the Company does not have any other significant concentrations of insurance risks.

Reinsurance risk

The Company cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks, defined blocks of business, and on a co-insurance basis, yearly renewable term, excess or catastrophe excess basis. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Company's evaluation of the specific risk, subject in certain circumstances, to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount or sums surplus of deductibles on non-proportional reinsurance in the event the claim is paid. However, the Company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

For long-term business, the level of reinsurance required is assessed by the use of specific modelling of the Company's exposure to life risks. The financial projections produced from these models are based on a number of possible scenarios providing a detailed analysis of the potential exposures.

For non-life business, the predominant use of reinsurance is intended to provide sufficient underwriting capacity, whilst protecting the Company's statement of financial position against large exposures at an economic cost. Subsequent to the 2012 transfer, the reinsurance arrangement are either transferred or terminated.

When selecting a reinsurer, the Company considers their relative security, assessed from public rating information and internal assessments, in accordance with prescribed HSBC Group guidelines.

5.7 Financial risk

Investment philosophy

The core concepts of the Company's investment philosophy center on the following principles:-

- Insurance funds are segregated into distinct categories based on return or risk objectives and requirements such as time horizon, nature of liabilities.
- Return and risk objectives of the life Insurance funds are determined in consultation with the Appointed Actuary, taking into account guaranteed returns and required returns, nature and duration of liabilities and tax considerations.
- Investments portfolios are constructed based on fund return objectives and the Company's risk appetite statements, in accordance to the Group Insurance Investment Standards (GIIS).
- Investment limits, as stipulated by the MAS, Central Provident Fund (CPF) and Insurance Head Office, are considered constraints and communicated to Fund Managers.
- Liquidity requirements that are known (maturity and coupon payments) are communicated to Fund Managers on a regular basis.
- The approved Market Risk and Credit Risk Mandates and Asset Liability Management Policy will be provided to Fund Manager on an annual basis, or communicated when changed.

The philosophy serves as guidelines for the investment decisions and activities of the Company. It ensures consistency in the investment practice of the Company.

Investment objectives

The Participating Fund aims to achieve investment return that satisfies the implied guaranteed rate and the projected dividend level for policyholders and a reasonable return for shareholders.

The Non-participating Fund (excluding Universal Life products) aims to achieve investment returns that satisfies the implied guaranteed rate and reasonable return for shareholders. For Universal Life products, the target return objective will be reviewed depending on market conditions.

The Shareholder's Fund aims to preserve the capital and achieve reasonable return for shareholders.

Investment processes

The Company aims to maximise the economic benefits from investment activities whilst ensuring investment risk is prudently managed. This will include the development of an investment process/model to make decision regarding risk allocations both in terms of strategic and tactical asset allocation; implementation and monitoring of investment risk and hedging strategies for the Insurance and Shareholder funds; manage all investment related risk; monitor investment performance; conduct fund manager search and evaluation and investment product due diligence; design and implement appropriate control measures to ensure compliance with risk limits, regulations and internal restrictions.

The Insurance and Shareholder funds of the Company are managed by Fund Manager, HSBC Global Asset Management (Singapore) Private Limited (AMSG). AMSG is provided with the Investment Policy, Market & Credit Risk Mandates and Asset Liability Management Policy for the fund under their management and are required to apply reasonable level of diligence and prudence to manage the funds.

Assets allocation by insurance funds

Asset class	Participating Fund	Non-participating Fund	Shareholders' Fund
Bonds	73.72%	96.05%	86.46%
Equities (Incl. Alternatives)	22.35%	0.62%	0.00%
Cash	3.93%	3.33%	13.54%
	100.00%	100.00%	100.00%
*Data as of 31 December 2013			

Participating Fund is invested in income assets (Singapore government securities and Investment-grade corporate bonds) and growth assets (Equities and Alternatives); while Non-participating Fund is invested predominantly in income assets, with a smaller allocation to growth assets.

Investment-grade corporate bonds in the Insurance and Shareholders' funds are mainly denominated in US Dollar and Singapore Dollar. Hedging is typically used for the fixed income portfolio to minimise foreign exchange movement. Equities exposures in Participating Fund are through exchange-traded funds (ETFs) and equities funds. Currency risk derived from investment in foreign equities is generally not hedged. Alternatives exposures in Participating Fund and Non-participating Fund are through hedge funds.

Being invested in the above asset classes, will expose the Company to the following risks. Each of these risks is described below, together with a summary of the ways in which the Company manages these risks.

i) Market risk

Market risk arises when the market values of assets and liabilities do not move consistently as financial markets change. Changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

HSBC Group and ALCO actively manage risks through setting of investment policy and strategic asset allocation, approving risk measurement methodologies and annual limits in the market risk mandate. Investment limits monitoring is in place at various levels to ensure that all investment activities are aligned with the Group's risk management principles and philosophies.

The following table illustrates the effects of selected interest rate, equity price, foreign exchange rate and credit spread scenarios on the profit for the year, total equity and CAR.

The relationship between the profit and total equity and the risk factors is non-linear and, therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. The sensitivities are stated before allowance for management actions which may mitigate the effect of changes in market rates, and for any factors such as policyholder behaviour that may change in response to changes in market risk.

Sensitivity to market risk factors

	Change in profit after taxes $'000	Change in equity $'000	Change in CAR %
2013			
+100 basis points parallel shift in yield curve	4,780	(-93,327)	(49)
-100 basis points parallel shift in yield curve	(19,687)	99,766	79
+100 basis point increase in credit spread	(15,598)	(111,699)	(73)
10% increase in equity prices	2,904	2,904	6
10% decrease in equity prices	(2,904)	(2,904)	(6)
10% increase in US dollar exchange rate	291	291	(5)
10% decrease in US dollar exchange rate	(291)	(291)	6
2012			
+100 basis points parallel shift in yield curve	26,549	(54,425)	(67)
-100 basis points parallel shift in yield curve	(72,889)	27,357	(23)
+100 basis point increase in credit spread	(14,147)	(92,387)	(93)
10% increase in equity prices	2,829	2,829	6
10% decrease in equity prices	(2,829)	(2,829)	(6)
10% increase in US dollar exchange rate	10,267	10,267	nm*
10% decrease in US dollar exchange rate	(10,267)	(10,267)	nm*

*nm – Not meaningful

ii) Asset-liability matching

The Company actively manages its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimise the investment income and risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis. The Asset-Liability Management and Investment Committee reviews and approve target portfolios on a periodic basis, establishing investment guidelines and limits, and providing oversight of the asset/liability management process.

The Company establishes target asset portfolios for each insurance class of products, which represents the investment strategies used to profitably fund its liabilities within acceptable levels of risk. Many of these estimates are inherently subjective and could impact the Company's ability to achieve its asset/liability management goals and objectives.

iii) Interest rate risk

The Company's exposure to market risk for changes in interest rate is concentrated in its investment portfolio and insurance liabilities. The Company monitors this exposure through periodic reviews of its asset and liability positions. Estimates of cash flows, as well as the impact of interest rate fluctuations relating to the investment portfolio and insurance liabilities, are modelled and reviewed regularly. The overall objective of these strategies is to limit the net changes in the value of assets and liabilities arising from interest rate movements. The Company is also exposed to reinvestment risk arising from the changes in future interest rates.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing liabilities, the following table indicates their effective interest rate at the reporting date and the periods in which they reprice:

			Fixed interest rate maturing			
	Effective interest rate %	Floating interest $'000	within 1 year $'000	1 to 5 years $'000	after 5 years $'000	Total $'000
2013						
Financial assets						
Policy loans	6.5	–	11,464	–	–	11,464
Debt securities	0.0 – 9.8	–	286,830	281,326	1,482,302	2,050,458
Cash and cash equivalents	0.1	–	92,032	–	–	92,032
		–	390,326	281,326	1,482,302	2,153,954
Financial liabilities						
Insurance contract provisions (non-linked)	0.0 – 5.1	–	241,464	226,728	1,491,002	1,959,194
Insurance contract provisions (linked)	0.1 – 3.5	–	3,658	28,726	668,698	701,082
		–	245,122	255,454	2,159,700	2,660,276
2012						
Financial assets						
Policy loans	6.5	–	10,955	–	–	10,955
Debt securities	0.0 – 9.8	–	51,420	363,814	1,258,723	1,673,957
Cash and cash equivalents	0.1	–	165,805	–	–	165,805
		–	228,180	363,814	1,258,723	1,850,717
Financial liabilities						
Insurance contract provisions (non-linked)	0.0 – 3.8	–	43,859	388,322	1,183,746	1,615,927
Insurance contract provisions (linked)	0.0 – 3.5	–	4,268	23,911	569,408	597,587
Investment contracts with DPF	0.0 – 0.3	–	4,430	–	–	4,430
		–	52,557	412,233	1,753,154	2,217,944

iv) Risk arising from guaranteed returns on insurance

On death or maturity, there is an effective guarantee under our conventional non-linked insurance. The Company pays the sum assured on death or maturity. The implicit guaranteed returns vary by products ranges from 0% to 5% over the expected policy term. Existing policy reserves are sufficient to ensure that guarantees may be met.

The Company is also exposed to a guarantee of minimum interest rates on certain insurance contracts. Currently, these guarantees are out-of-the-money based on interest rates at the reporting date or matched by appropriate corresponding assets.

v) Equity price risk

The Company's portfolio of marketable equity securities, which is carried at fair value, has exposure to price risk, defined as the potential loss in market value resulting from an adverse change in prices. The Company's objective is to earn competitive relative returns by investing in a diverse portfolio of high quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling techniques. Holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by the HSBC Group, as well as by local regulatory requirements.

vi) Foreign exchange risk

Premiums are received mainly in Singapore Dollars (SGD) and United States Dollars (USD) and assets are primarily held in SGD and USD.

Where appropriate, the Company uses forward exchange contracts to hedge its foreign currency risk.

At 31 December 2013 and 2012 respectively, approximately 60% and 54% of total financial assets were denominated in USD, of which 42% and 42% are hedged to SGD as part of the investment strategy which includes investment in overseas markets for diversification and yield.

The following table presents the Company's main currency exposures in Singapore Dollar equivalents:

	SGD $'000	**USD $'000**	**Euro $'000**	**Others $'000**	**Total $'000**
2013					
Assets					
Financial assets					
- Debt securities	345,690	1,666,261	–	38,507	2,050,458
- Collective investment schemes	745,617	85,126	7,274	–	838,017
- Policy loans	10,858	563	–	43	11,464
- Derivative financial instruments	187,782	(185,837)	–	–	1,945
Other assets					
- Insurance receivables	4,560	–	–	23	4,583
- Cash and cash equivalents	55,612	60,970	–	7,708	124,290
	1,350,119	1,627,083	7,274	46,281	3,030,757

	SGD $'000	USD $'000	Euro $'000	Others $'000	Total $'000
2013					
Liabilities					
Financial liabilities					
- Derivative financial instruments	(587,805)	581,466	–	15,656	9,317
Insurance contract provisions (non-linked)	936,013	998,753	–	24,428	1,959,194
Insurance contract provisions (linked)	701,082	–	–	–	701,082
Outstanding claims provision	6,987	–	–	49	7,036
Insurance payables	42,933	816	–	10,152	53,901
	1,099,210	1,581,035	–	50,285	2,730,530
2012					
Assets					
Financial assets					
- Equities	806	–	–	11,832	12,638
- Debt securities	378,488	1,265,371	–	30,098	1,673,957
- Collective investment schemes	628,067	76,595	4,997	–	709,659
- Policy loans	10,910	–	–	45	10,955
- Derivative financial instruments	595,777	(581,131)	–	(7,763)	6,883
Other assets					
- Insurance receivables	9,948	4	–	55	10,007
- Cash and cash equivalents	108,715	88,299	–	6,639	203,653
	1,732,711	849,138	4,997	40,906	2,627,752
Liabilities					
Insurance contract provisions (non-linked)	914,416	681,918	–	19,593	1,615,927
Insurance contract provisions (linked)	597,587	–	–	–	597,587
Investment contracts with DPF	4,430	–	–	–	4,430
Outstanding claims provision (including IBNR)	17,548	–	–	1	17,549
Insurance payables	46,923	–	–	9,463	56,386
	1,580,904	681,918	–	29,057	2,291,879

vii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The carrying amount of financial assets in the statement of financial position represents the Company's respective maximum exposure to credit risk, before taking into account any collateral held.

Investments

Cash and fixed deposits are placed with banks and financial institutions which are regulated. The Company's portfolio of fixed income securities is subject to credit risk, defined as potential loss in market value due to adverse changes in the borrower's ability to repay the debt. This risk is managed by investing in a diversified portfolio of securities, stringent review of credit risk up-front and regular reviews of credit developments by the Investment Committee.

The Company limits its credit risk exposure in respect of the portfolio of fixed income securities by investing in liquid securities and with counterparties that have sound credit ratings.

For investment in bonds, financial loss may also materialise as a result of the widening of credit spreads. When spreads widen between bonds with different quality ratings, it implies that the market is factoring more risk of default on lower grade bonds. A widening in credit spread will result in a fall in the values of the Company's bond portfolio. The Company limits its credit spread risk by adhering to parameters established by the HSBC Group.

Group wide credit risk is managed by HSBC Group where the Group has internal limits by issuer or counterparty and by investment grades. These limits are actively monitored to manage the credit and concentration risk. These limits are reviewed on a regular basis and constitute limits in the Credit Risk Mandate.

The Company issues unit-linked investment policies. In the unit-linked business, the policyholder bears the investment risk on the asset held in the unit-linked funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on unit-linked financial assets.

The table below provides information regarding the credit risk exposure of the Company as at 31 December 2013 by classifying the fixed income securities and cash and fixed deposits according to credit ratings of the counterparties which are based on Standard and Poor's financial strength rating or its equivalent. Management does not expect any of its counterparties to fail to meet its obligations.

	Financial strength rating				
	AAA	**A to AA**	**B to BBB**	**Not rated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
2013					
Debt securities:					
Government bonds	49,484	30,633	–	4,998	85,115
Public authorities and corporate bonds	68,117	1,608,075	154,253	134,898	1,965,343
	117,601	1,638,708	154,253	139,896	2,050,458
Derivatives	–	(7,372)	–	–	(7,372)
Cash and cash equivalents	–	124,290	–	–	124,290
	117,601	1,755,626	154,253	139,896	2,167,376
2012					
Debt securities:					
Government bonds	91,983	35,091	–	–	127,074
Public authorities and corporate bonds	44,054	1,304,062	105,446	93,321	1,546,883
	136,037	1,339,153	105,446	93,321	1,673,957
Derivatives	–	6,883	–	–	6,883
Cash and cash equivalents	–	203,653	–	–	203,653
	136,037	1,549,689	105,446	93,321	1,884,493

Insurance and other receivables

Other significant receivables subject to credit risk include reinsurance receivables and amounts due from brokers. To mitigate this risk, business and financial standards for reinsurer and broker approval are established, incorporating ratings by major agencies and considering current market information. There is no exposure to reinsurance receivables and amounts due from brokers as at 31 December 2013, while the maximum exposures to reinsurance receivables and amounts due from brokers as at 31 December 2012 are $0.2 million and $5.1 million respectively.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of insurance receivables. This allowance comprises a specific loss component that relates to individually significant exposures.

The allowance account in respect of insurance receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible. At that point the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial asset.

At the reporting date there were no significant concentrations of credit risk.

viii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has to meet daily calls on its cash resources, notably from claims arising on its general insurance contracts, claims maturities and surrenders. Expected liquidity demands are managed through a combination of investment and asset-liability management practices, which are monitored on an ongoing basis.

The Company conducts asset-liabilities modelling to determine exposures to liquidity needs. The investment committee has considered the nature of the liabilities in terms of their duration and has assessed that the current portfolio mix, combined with the participating nature of the insurance contract liabilities, has adequately mitigated the mismatching risk to an acceptable level.

The nature of insurance business is that the requirements of funding cannot be predicted with absolute certainty as the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will be settled. The amounts and maturities in respect of insurance and investment contract with DPF provisions are thus based on the management's best estimate and past experience.

Unexpected liquidity demands are managed through a combination of product design, diversification limits, investment strategies and systematic monitoring. The existence of surrender penalty in insurance contracts also protects the Company from losses due to unexpected surrender trends as well as reduces the sensitivity of surrender to changes in interest rates.

The table below summarises the maturity profile of the financial liabilities of the Company based on the remaining undiscounted estimated obligations.

	Undiscounted values			
	Up to 1 year $'000	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
2013				
Insurance and other payables	64,532	–	–	64,532
Derivative financial instruments	9,317	–	–	9,317
2012				
Insurance and other payables	69,785	–	–	69,785

It is not expected that the cash flows included in the above maturity analysis could occur significantly earlier, or at significantly different amounts.

Policyholders of the Life insurance and investment contracts with DPF issued by the Company have the option to terminate their contracts at any time and receive the surrender values of their policies. The carrying value of these policies at the reporting date is reflected as the contractual cash flow.

The following table summarises the expected undiscounted cash flows of the insurance and investment contracts with DPF issued by the Company:

	Undiscounted values			
	Up to 1 year $'000	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
2013				
Net insurance and investment contract with DPF provisions				
- Non-linked	330,738	616,623	4,428,429	5,375,790
- Linked	86,563	356,331	2,923,891	3,366,785
- Net outstanding claims provision	3,403	881	2,752	7,036
	420,704	973,835	7,355,072	8,749,611
2012				
Net insurance and investment contract with DPF provisions				
- Non-linked	108,040	693,555	3,688,549	4,490,144
- Linked	91,336	327,183	2,485,211	2,903,730
- Investment contracts with DPF	4,452	–	–	4,452
- Net outstanding claims provision	17,549	–	–	17,549
	221,377	1,020,738	6,173,760	7,415,875

The Company has made significant assumptions to determine the estimated undiscounted cash flows of the above insurance and investment contracts with DPF issued by the Company, which assumptions include mortality, morbidity, future lapse rates, expenses, investment returns, gross of expected future premiums on inforce policies. Due to the significance of the assumptions used, the periodic amounts presented could be materially different from actual required payments. The amounts presented in the above table are undiscounted, therefore, they do not reconcile to the insurance and investment contracts with DPF which have been presented on discounted basis in the statement of financial position.

ix) Embedded derivatives

Material embedded derivatives contained in host insurance and investment contracts refer to the availability of the non-forfeiture values (surrender values) in the event of a surrender of an insurance or investment contract. The surrender values comprise of two separate components: a guaranteed portion and a non-guaranteed portion (for insurance and investment contracts with DPF).

The guaranteed component is adequately provided for by minimum reserves as required under the Risk Based Capital framework. Since the surrender values of the guaranteed component are always less than the minimum reserves, the risk arising from changes in interest rates and market risk is mitigated. In addition, past experience of the Company shows that surrenders are not sensitive to interest rates movements.

The non-guaranteed component may be impacted by falling interest rates and equity values. However, the Company has the ability to adjust the amounts payable by adjusting bonus rates. As such, the interest rate risk and market risk can be mitigated.

x) Accounting classifications and fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Note	Designated at fair value $'000	Loans and receivables $'000	Available-for-sale $'000	Other financial liabilities within scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
2013							
Financial assets	15						
- debt securities		956,093	–	1,094,365	–	2,050,458	2,050,458
- collective investment schemes		838,017	–	–	–	838,017	838,017
- policy loans		–	11,464	–	–	11,464	11,464
- derivative financial instruments		1,945	–	–	–	1,945	1,945
Other receivables	17	–	34,108	–	–	34,108	34,108
Cash and cash equivalents	18	–	124,290	–	–	124,290	124,290
		1,796,055	169,862	1,094,365	–	3,060,282	3,060,282
Financial liabilities							
- derivative financial instruments		(9,317)	–	–	–	(9,317)	(9,317)
Other payables	21	–	–	–	(10,631)	(10,631)	(10,631)
		(9,317)	–	–	(10,631)	(19,948)	(19,948)

	Note	Designated at fair value $'000	Loans and receivables $'000	Available-for-sale $'000	Other financial liabilities within scope of FRS 39 $'000	Total carrying amount $'000	Fair value $'000
2012							
Financial assets	15						
- equities		12,638	–	–	–	12,638	12,638
- debt securities		820,499	–	853,458	–	1,673,957	1,673,957
- collective investment schemes		709,659	–	–	–	709,659	709,659
- derivative financial instruments		6,883	–	–	–	6,883	6,883
- policy loans		–	10,955	–	–	10,955	10,955
Other receivables	17	–	25,165	–	–	25,165	25,165
Cash and cash equivalents	18	–	203,653	–	–	203,653	203,653
		1,549,679	239,773	853,458	–	2,642,910	2,642,910
Other payables	21	–	–	–	(13,399)	(13,399)	(13,399)
		–	–	–	(13,399)	(13,399)	(13,399)

Valuation processes applied by the Company

The Company has an established control framework with respect to the measurement of fair values. This framework includes a valuation team that reports directly to the Chief Financial Officer, and has overall responsibility for all significant fair value measurements.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair value, then the valuation team assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of FRS, including the level in the fair value hierarchy the resulting fair value estimate should be classified.

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determinable for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted closing bid prices at the reporting date.

Derivatives

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

The notional amount and net fair value of the forward foreign exchange contracts as at 31 December are as set out below. The valuations of the forward contracts reflect amounts which the Company expects to pay or receive to terminate the contracts or replace the contracts at their current market rates at the reporting date. The fair values of these financial instruments have been recognised in the financial statements under derivative financial instruments.

	Notional amount 2013 $'000	**Fair value 2013 $'000**	**Notional amount 2012 $'000**	**Fair value 2012 $'000**
Forward foreign exchange contracts	774,958	(7,372)	595,777	6,883

Other financial assets and liabilities

The carrying amounts of other financial assets and liabilities with a maturity of less than one year (including other receivables, cash and cash equivalents, and other payables) are assumed to approximate their fair values because of the short period to maturity.

Fair value hierarchy

The table below analyses fair value measurements for financial assets and financial liabilities, by the levels in the fair value hierarchy based on the inputs to valuation techniques. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- 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: unobservable inputs for the asset or liability.

Financial assets and financial liabilities carried at fair value

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
2013				
Available-for-sale financial assets	24,554	1,069,811	–	1,094,365
Financial assets designated at fair value through profit or loss	799,208	994,902	–	1,794,110
Derivative financial assets	–	1,945	–	1,945
Derivative financial liabilities	–	(9,317)	–	(9,317)
	823,762	2,057,341	–	2,881,103
2012				
Available-for-sale financial assets	28,879	824,579	–	853,458
Financial assets designated at fair value through profit or loss	728,497	814,299	–	1,542,796
Derivative financial assets	–	6,883	–	6,883
	757,376	1,645,761	–	2,403,137

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

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
2013				
Policy loans	–	11,464	–	11,464
2012				
Policy loans	–	10,955	–	10,955

* Excludes financial assets and financial liabilities whose carrying amounts measured on the amortised cost basis approximate their fair values due to their short-term nature and where the effect of discounting is immaterial.

5.8 Operational risk

Operational risk is relevant to every aspect of the business, and covers a wide spectrum of issues, in particular legal, compliance, security and fraud. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, system failure or external events all fall within the definition of operational risk.

Responsibility for minimising operational risk management lies with management and staff. Management is required to maintain oversight over operational risk and internal control covering all business and operational activities for which they are responsible.

The Group Operational Risk function and the Operational Risk Management Framework (ORMF) assist business management in discharging their responsibilities.

The ORMF defines minimum standards and processes, and the governance structure for operational risk and internal control across the Group. Inherent to the ORMF is a ‘three lines of defence’ model for the management of risk, as described below:

First line of defence

Every employee is responsible for the risks that are a part of their day to day jobs. The first line of defence ensures all key risks within their operations are identified, mitigated and monitored by appropriate internal controls within an overall control environment.

Second line of defence

Consists of the global functions such as global risk, finance and human resource who are responsible for providing assurance, challenge and oversight of the activities conducted by the first line.

Third line of defence

Internal audit provides independent assurance over the first and second lines of defence.

5.9 Claims development in respect of general insurance business

Claims development tables allow a comparison of the development of claims provisions with those seen in previous years. In effect, the tables highlight the Company’s ability to provide an estimate of the total value of claims. The top part of the tables provide a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year-ends. The estimate is increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims. The lower part of the tables provides a reconciliation of the total reserve included in the statement of financial position and the estimate of cumulative claims.

While the information in the tables provide a historical perspective on the adequacy of unpaid claims estimates established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company's Approved Actuary (for non-life business) has performed an actuarial investigation of the general insurance policy liabilities (outstanding claims and unexpired risks in accordance to local regulatory requirements and has certified that the estimated total claims outstanding as at 5 November 2012, the date of transfer (see note 1), are adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate. Pursuant to the scheme for the transfer, the claims liabilities as at 5 November 2012 were transferred and no claims liabilities in respect of general insurance business was held as at 31 December 2012 and 31 December 2013.

Analysis of claims development – gross

	Accident year											
	Prior to 2003	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
2012	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Estimate of cumulative claim												
At end of accident year	232,292	45,117	23,015	26,198	31,410	34,237	36,373	40,924	48,802	39,705	32,333	
- one year later	226,983	51,229	28,813	26,848	31,514	29,776	30,732	37,027	48,374	33,937		
- two years later	219,925	49,628	26,206	24,614	31,183	29,291	29,072	37,379	47,355			
- three years later	214,082	46,672	24,059	22,272	29,130	27,073	27,252	35,604				
- four years later	206,170	43,487	22,489	22,242	28,470	25,790	26,243					
- five years later	199,126	32,149	22,204	21,842	27,921	24,920						
- six years later	193,726	35,693	21,960	21,581	27,681							
- seven years later	191,533	34,365	21,867	21,479								
- eight years later	191,109	34,285	21,811									
- nine years later	190,859	34,238										
- ten years later	190,318											
Estimate of cumulative claims	190,318	34,238	21,811	21,479	27,681	24,920	26,243	35,604	47,355	33,937	32,333	495,919
Cumulative payments to date	(190,215)	(34,067)	(21,798)	(21,436)	(27,322)	(23,941)	(24,478)	(31,269)	(36,943)	(20,382)	(7,633)	(439,484)
	103	171	13	43	359	979	1,765	4,335	10,412	13,555	24,700	56,435
Gross outstanding claims transferred												(56,435)
Gross outstanding claims liabilities at 31/12/2012												–

Analysis of claims development – net of reinsurance

	Accident year											
	Prior to 2003	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
2012	**$’000**	**$’000**	**$’000**	**$’000**	**$’000**	**$’000**	**$’000**	**$’000**	**$’000**	**$’000**	**$’000**	**$’000**
Estimate of cumulative claim												
At end of accident year	137,630	18,652	15,471	19,137	25,309	22,053	24,769	26,854	33,957	28,957	23,629	
- one year later	133,036	23,055	16,398	20,203	26,528	20,026	21,931	25,306	35,344	26,563		
- two years later	128,995	23,431	14,768	18,644	26,218	19,178	21,251	26,088	34,780			
- three years later	124,736	21,609	12,923	16,628	24,342	17,400	27,252	24,467				
- four years later	119,975	20,054	12,138	16,737	23,862	16,816	19,216					
- five years later	114,621	18,749	11,943	16,493	23,417	16,471						
- six years later	110,957	18,844	11,770	16,331	23,299							
- seven years later	109,909	18,630	11,730	16,239								
- eight years later	109,631	18,600	11,683									
- nine years later	109,480	18,576										
- ten years later	109,015											
Estimate of cumulative claims	109,015	18,576	11,683	16,239	23,299	16,471	19,216	24,467	34,780	26,563	23,629	323,938
Cumulative payments to date	(108,930)	(18,501)	(11,679)	(16,208)	(23,018)	(16,217)	(17,965)	(21,190)	(26,206)	(16,856)	(6,175)	(282,945)
	85	75	4	31	281	254	1,251	3,277	8,574	9,707	17,454	40,993
Net outstanding claims liabilities transferred												(40,993)
Net outstanding claims liabilities at 31/12/2012												–

6 Premiums

	Life insurance (non-linked)	Life insurance (linked)	Total	General insurance	Group Life insurance	Total (Note 26)	Total
	<----------- Continuing operations		----------->	<---------- Discontinued operations		---------->	
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
2013							
Gross written premiums	520,063	157,467	677,530	–	36,642	36,642	714,172
Gross written premiums ceded to reinsurers	(5,991)	(560)	(6,551)	–	(2,492)	(2,492)	(9,043)
Net premiums	514,072	156,907	670,979	–	34,150	34,150	705,129
2012							
Gross written premiums	463,736	136,338	600,074	57,966	50,042	108,008	708,082
Movement in unearned premiums	–	–	–	(257)	–	(257)	(257)
Gross earned premiums	463,736	136,338	600,074	57,709	50,042	107,751	707,825
Gross written premiums ceded to reinsurers	(4,446)	(518)	(4,964)	(16,921)	(1,390)	(18,311)	(23,275)
Reinsurers' share of movement in unearned premiums	–	–	–	992	–	992	992
Reinsurers' share of gross earned premiums	(4,446)	(518)	(4,964)	(15,929)	(1,390)	(17,319)	(22,283)
Net earned premiums	459,290	135,820	595,110	41,780	48,652	90,432	685,542

7 Fees and commission income

	Life insurance (non-linked)	Life insurance (linked)	Total	General insurance	Group Life insurance	Total (Note 26)	Total
	<----------- Continuing operations		----------->	<---------- Discontinued operations		---------->	
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2013							
Fund management based fees	–	6,240	6,240	–	–	–	6,240
Reinsurance commission	1,321	113	1,434	–	55	55	1,489
	1,321	6,353	7,674	–	55	55	7,729
2012							
Fund management based fees	–	5,327	5,327	–	–	–	5,327
Reinsurance commission	587	12	599	4,345	37	4,382	4,981
	587	5,339	5,926	4,345	37	4,382	10,308

8 Investment income

	2013 $'000	2012 $'000
Recognised in profit or loss		
Continuing operations		
Interest income		
- Available-for-sale interest income	47,617	32,014
- Interest income on financial assets	36,531	32,972
- Cash and cash equivalents	231	233
Dividend income	2,625	2,246
Net realised gain from sale of financial assets	4,565	1,847
Net gain on re-measurement of financial assets at fair value	12,741	89,746
Net gain/(loss) on foreign exchange	24,435	(35,407)
Investment income from continuing operations	128,745	123,652
Discontinued operations		
Investment income from discontinued operations (note 26)	–	1,781
	128,745	125,433
Recognised in other comprehensive income		
Net change in fair value of available-for-sale financial assets	(117,879)	70,189
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	–	–
Income tax on net investment income recognised in other comprehensive income	20,040	(11,931)
Net investment income recognised in other comprehensive income, net of tax	(97,839)	58,258

Included in investment income is an amount of $55,136,000 (2012: $60,848,000) that belongs to the Linked funds' policyholders.

9 Net policyholder claims and benefits incurred

	Life insurance (non-linked)	Life insurance (linked)	Investment contracts with DPF	Total	General insurance	Group Life insurance	Total (Note 26)	Total
	<----------------- Continuing operations			----------------->	<-------- Discontinued operations		------->	
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2013								
Claims and loss adjustment expenses	1,625	799	–	2,424	–	19,340	19,340	21,764
Death, maturity and surrender benefits	73,016	79,112	–	152,128	–	–	–	152,128
Increase/(decrease) in claims liabilities	(86)	327	–	241	–	(667)	(667)	(426)
Allocation of surplus to contracts with DPF	8,823	–	–	8,823	–	–	–	8,823
Change in unit prices	–	103,597	–	103,597	–	–	–	103,597
Change in life insurance policy reserves	346,446	(102)	(4,430)	341,914	–	9,838	9,838	351,752
Gross policyholder claims and benefits incurred	429,824	183,733	(4,430)	609,127	–	28,511	28,511	637,638
Reinsurers' share of policyholder claims and benefits incurred	(945)	(49)	–	(994)	–	(1,254)	(1,254)	(2,248)
Net policyholder claims and benefits incurred	428,879	183,684	(4,430)	608,133	–	27,257	27,257	635,390

	Life insurance (non-linked)	Life insurance (linked)	Investment contracts with DPF	Total	General insurance	Group Life insurance	Total (Note 26)	Total
	<----------------- Continuing operations			----------------->	<-------- Discontinued operations		------->	
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2012								
Claims and loss adjustment expenses	1,426	576	–	2,002	23,975	30,538	54,513	56,515
Death, maturity and surrender benefits	66,059	47,399	–	113,458	–	–	–	113,458
Increase/(decrease) in claims liabilities	85	599	–	684	(2,892)	3,480	588	1,272
Allocation of surplus to contracts with DPF	7,432	–	–	7,432	–	–	–	7,432
Change in unit prices	–	120,628	–	120,628	–	–	–	120,628
Change in life insurance policy reserves	324,049	(9,886)	(10,047)	304,116	–	1,426	1,426	305,542
Gross policyholder claims and benefits incurred	399,051	159,316	(10,047)	548,320	21,083	35,444	56,527	604,847
Reinsurers' share of policyholder claims and benefits incurred	(678)	(88)	–	(766)	(3,617)	(1,445)	(5,062)	(5,828)
Net policyholder claims and benefits incurred	398,373	159,228	(10,047)	547,554	17,466	33,999	51,465	599,019

Total net policyholder claims and benefits incurred in respect of insurance contracts amounted to $639,820,000 (2012: $609,066,000).

10 Acquisition costs

	Life insurance (non-linked)	Life insurance (linked)	Total	General insurance	Group Life insurance	Total (Note 26)	Total
	<----------- Continuing operations		----------->	<---------- Discontinued operations		---------->	
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2013							
Commission expenses	53,274	18,306	71,580	–	4,457	4,457	76,037
	53,274	18,306	71,580	–	4,457	4,457	76,037
2012							
Commission expenses	50,965	24,221	75,186	9,510	6,147	15,657	90,843
Profit commission	–	–	–	1,188	–	1,188	1,188
	50,965	24,221	75,186	10,698	6,147	16,845	92,031

11 Profit for the year

The following items have been included in arriving at profit for the year:

	2013 $'000	2012 $'000
Fees paid to auditors		
Audit fees paid to Auditors of the Company	286	364
Non-audit fees paid to Auditors of the Company	53	52
Staff costs	19,630	24,399
Contribution to CPF (included in staff costs)	1,685	2,099
Value of employee services received for issue of share options (included in staff costs)	58	84
Exchange (gains)/losses	(168)	1,395
Operating lease expenses	1,143	2,827
(Write-back of)/allowance for doubtful debts	(32)	17

12 Tax expense

Recognised in profit or loss

	2013 $'000	2012 $'000
Current tax expense		
Current year	12,871	3,282
Adjustment for prior years	505	(627)
	13,376	2,655
Deferred tax expense		
Movements in temporary differences	373	5,105
Movement in provision on future distributable surplus from Life participating fund	(628)	297
	(255)	5,402
Tax expense	13,121	8,057
Tax expense from continuing operations	12,877	8,436
Tax expense/(credit) from discontinued operations	244	(379)
	13,121	8,057

Recognised in other comprehensive income

	2013 Before tax $'000	2013 Tax expense $'000	2013 Net of tax $'000	2012 Before tax $'000	2012 Tax expense $'000	2012 Net of tax $'000
Available-for-sale financial assets	(117,879)	20,040	(97,839)	70,189	(11,931)	58,258

Reconciliation of effective tax charge

	2013 $'000	2012 $'000
Profit before tax	97,171	65,040
Tax calculated using Singapore tax rates of 17% (2012: 17%)	16,519	11,057
Offshore insurance fund profits taxed at a lower rate of 10% instead of at 17%	–	(82)
Marine hull business profits being tax exempt instead of at 17%	–	(94)
Other income taxed at a concessionary rate of 10%	(816)	(880)
Tax exempt income	(2,753)	(162)
Non-deductible expenses	5	14
Tax effect of future distributable surplus from Life participating fund	(522)	(268)
Utilisation of previously unrecognised tax losses	–	(719)
Adjustment for prior years	505	(627)
Others	183	(182)
	13,121	8,057

Pursuant to Section 43C of the Singapore Income Tax Act, Chapter 134, income from offshore business is subject to the tax concessionary rate of 10%, instead of the standard rate of 17%.

13 Deferred tax liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities 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 assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Property, plant and equipment	–	–	93	225	93	225
Investments	(4,408)	–	–	15,632	(4,408)	15,632
Provisions	(303)	(808)	–	–	(303)	(808)
Future distributable surplus from Life participating fund	–	–	15,167	15,795	15,167	15,795
Tax (assets)/liabilities	(4,711)	(808)	15,260	31,652	10,549	30,844
Set-off tax	4,711	808	(4,711)	(808)	–	–
Net tax (assets)/liabilities	–	–	10,549	30,844	10,549	30,844

Deferred tax liabilities are non-current.

Movements in deferred tax assets and liabilities (prior to offsetting of balances) during the year are as follows:

	At 1 January 2012 $'000	Charged/ (Credited) to profit or loss $'000	Charged/ (Credited) to other comprehensive income $'000	At 1 January 2013 $'000	Charged/ (Credited) to profit or loss $'000	Charged/ (Credited) to other comprehensive income $'000	At 31 December 2013 $'000
Deferred tax liabilities							
Property, plant and equipment	443	(218)	–	225	(132)	–	93
Investments	3,701	–	11,931	15,632	–	(20,040)	(4,408)
Future distributable surplus from Life participating fund	15,498	297	–	15,795	(628)	–	15,167
	19,642	79	11,931	31,652	(760)	(20,040)	10,852
Deferred tax assets							
Provisions	(2)	(806)	–	(808)	505	–	(303)
Tax loss carry-forwards	(6,129)	6,129	–	–	–	–	–
	(6,131)	5,323	–	(808)	505	–	(303)
	13,511	5,402	11,931	30,844	(255)	(20,040)	10,549

14 Property, plant and equipment

	Building $'000	Furniture, fittings and equipment $'000	Computer equipment $'000	Office renovation $'000	Total $'000
Cost					
At 1 January 2012	125	2,087	9,009	1,616	12,837
Additions	–	26	323	–	349
Disposals	–	(2,083)	(917)	(1,616)	(4,616)
At 31 December 2012	125	30	8,415	–	8,570
Additions	–	5	130	–	135
Disposals	–	(26)	(6,531)	–	(6,557)
At 31 December 2013	125	9	2,014	–	2,148
Accumulated depreciation and impairment losses					
At 1 January 2012	125	1,855	6,717	1,507	10,204
Depreciation charge for the year	–	50	505	109	664
Disposals	–	(1,900)	(120)	(1,616)	(3,636)
At 31 December 2012	125	5	7,102	–	7,232
Depreciation charge for the year	–	5	428	–	433
Disposals	–	(5)	(6,060)	–	(6,065)
At 31 December 2013	125	5	1,470	–	1,600
Carrying amounts					
At 1 January 2012	–	232	2,292	109	2,633
At 31 December 2012	–	25	1,313	–	1,338
At 31 December 2013	–	4	544	–	548

Property, plant and equipment are non-current.

15 Financial assets

	Fair value through profit or loss $'000	Available-for-sale $'000	Loans and receivables $'000	Total $'000
2013				
Debt securities	956,093	1,094,365	–	2,050,458
Collective investment schemes	838,017	–	–	838,017
Policy loans	–	–	11,464	11,464
Derivative financial instruments	1,945	–	–	1,945
	1,796,055	1,094,365	11,464	2,901,884

	Fair value through profit or loss $'000	Available-for-sale $'000	Loans and receivables $'000	Total $'000
2012				
Equities	12,638	–	–	12,638
Debt securities	820,499	853,458	–	1,673,957
Collective investment schemes	709,659	–	–	709,659
Policy loans	–	–	10,955	10,955
Derivative financial instruments	6,883	–	–	6,883
	1,549,679	853,458	10,955	2,414,092

The current portion of financial assets is $1,117,474,000 (2012: $780,600,000) with the remaining being non-current.

Available-for-sale debt securities have stated interest rates of 0.00% - 9.75% (2012: 0.00% - 9.75%) and mature substantially over 3 years to 40 years.

16 Insurance receivables

	2013 $'000	2012 $'000
Insurance receivables	4,583	4,208
Impairment losses	–	–
	4,583	4,208

Insurance receivables are due within the next financial year.

Concentration of credit risk relating to insurance receivables is limited due to the Company's many varied customers. The Company's historical experience in the collection of insurance receivables falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Company's insurance receivables.

Impairment losses

The Company considers financial strength of the customers and reinsurers, notified disputes and collection experience in determining which asset should be impaired.

The insurance receivables are within the 6 months age category as at 31 December 2013 and 2012. No impairment loss has been provided in respect of insurance receivables as at 31 December 2013 and 2012.

The change in impairment loss in respect of insurance receivables during the year is as follows:

	2013 **$'000**	**2012** **$'000**
At 1 January	–	138
Charge for the year	–	17
Utilised during the year	–	14
Transferred	–	(125)
Reclassified to disposal group	–	(44)
At 31 December	–	–

Based on historical default rates, the Company believes that no impairment allowance is necessary in respect of insurance receivables in the age category of less than 12 months. These receivables are mainly arising by customers and reinsurers that have a good record with the Company.

17 Other receivables

	2013 **$'000**	**2012** **$'000**
Other receivables and prepayments:		
Other receivables:		
- interest receivable	25,727	20,015
- receivables from fund managers	3,262	2,113
- sundry deposits	638	741
- others	4,481	2,296
Loans and receivables	34,108	25,165
Prepayments	–	135
	34,108	25,300

Other receivables are due within the next financial year.

18 Cash and cash equivalents

	2013 $'000	2012 $'000
With related corporations:		
- Cash at bank and in hand	24,780	32,411
- Short-term bank deposits	110	111
	24,890	32,522
With third parties:		
- Cash at bank and in hand	7,478	5,437
- Short-term bank deposits	91,922	165,694
	99,400	171,131
	124,290	203,653

The weighted average effective interest rate on short-term bank deposits, at the reporting date is 0.1% (2012: 0.1%), with an average maturity of 7 days (2012: 9 days).

In 2012, short-term bank deposits include an amount of $3,641,000 held by the Company as collateral for guarantees issued on behalf of policyholders as disclosed in prepaid premium and policy deposits in note 20.

19 Insurance and investment contract with DPF provisions

	2013			2012		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Life business						
Non-linked	1,959,194	–	1,959,194	1,604,585	–	1,604,585
Linked	701,082	–	701,082	597,587	–	597,587
Investment contracts with DPF	–	–	–	4,430	–	4,430
Outstanding claims provision	7,036	–	7,036	6,348	(77)	6,271
	2,667,312	–	2,667,312	2,212,950	(77)	2,212,873
Current	248,526	–	248,526	47,563	(77)	47,486
Non-current	2,418,786	–	2,418,786	2,165,387	–	2,165,387
	2,667,312	–	2,667,312	2,212,950	(77)	2,212,873

Life business provisions are calculated on gross basis without taking into consideration the effect of reinsurance, as the reinsured amounts are not significant.

Included in insurance and investment contract with DPF provisions is a surplus of $2,556,000 (2012: $8,320,000) that is available for distribution.

(i) Analysis of movements in insurance contract provisions

	Non-linked 2013 $'000	Linked 2013 $'000	Non-linked 2012 $'000	Linked 2012 $'000
Life business				
At 1 January	1,604,585	597,587	1,283,608	486,844
Benefits paid/payable	(73,016)	(79,112)	(66,059)	(47,399)
Movements during the year	427,625	182,607	398,378	158,142
Reclassified to disposal group	–	–	(11,342)	–
At 31 December	1,959,194	701,082	1,604,585	597,587

Movements in insurance contract provisions include the aggregate of all events giving rise to additional policyholder liabilities in the year. These include death claims, surrenders, lapses, the setting up of liability to policyholders at the initial inception of the policy, the declaration of bonuses and other amounts attributable to policyholders.

(ii) Analysis of movements in outstanding claims provision

	Life business 2013 $'000	Life business 2012 $'000
Outstanding claims – gross		
At 1 January	6,348	14,435
Claims paid	(2,424)	(2,002)
Claims incurred	3,112	5,973
Claims reclassified to disposal group	–	(12,058)
At 31 December	7,036	6,348
Outstanding claims – reinsurers' share		
At 1 January	(77)	(300)
Claims paid	1,071	1,654
Claims incurred	(994)	(2,211)
Claims reclassified to disposal group	–	780
At 31 December	–	(77)
Outstanding claims – net	7,036	6,271

20 Insurance payables

	2013 $'000	2012 $'000
Insurance payables:		
- Insurance payables	13,329	20,546
- Prepaid premium and policy deposits	29,397	23,966
Amounts due to related corporations	11,175	10,555
	53,901	55,067

Insurance payables are due within the next financial year.

21 Other payables

	2013 $'000	2012 $'000
Provision for agency expenses	1,333	1,767
Other payables and accruals:		
- Accrued expenses	6,414	6,945
- Others	1,202	2,846
Amounts due to related corporations	1,682	1,841
	10,631	13,399

Other payables are due within the next financial year.

The provision for agency expenses is made based on the estimated expenses that the Company has committed to incur in respect of its agency operations as at the year-end. The Company expects to incur the liability within the next financial year.

22 Share capital

	Ordinary shares	
	2013 Number of shares '000	2012 Number of shares '000
Fully paid ordinary shares, with no par value:		
On issue at 1 January and 31 December	50,625	50,625

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.

23 Reserves

	2013 $'000	2012 $'000
Fair value reserve	(21,516)	76,323
Capital reserve	1,401	1,390
	(20,115)	77,713

The fair value reserve includes the cumulative net change in the fair value, net of tax of available-for-sale investments held until the investment is derecognised.

The capital reserve comprises the cumulative value of employee services received for the issue of share options of the ultimate holding company.

24 Equity compensation benefits

The Company's ultimate holding company has share option schemes and conditional awards plan which invite employees of the company, including directors, to take up options to subscribe for shares of the ultimate holding company.

Savings-related share option schemes

The HSBC Holdings Savings-Related Share Option Plans are all-employee share plans under which eligible employees have been granted options to acquire HSBC Holdings ordinary shares. The last grant of option under the plan was in 2012.

For options granted under this scheme prior to 2013, employees make Singapore dollars equivalent of up to ₤250 each month over a period of one, three or five years which may be used on the first, third or fifth anniversary of the commencement of the relevant savings contract, at the employee's election, to exercise the options. Alternatively, the employee may elect to have the savings, plus (where applicable) any interest or bonus, repaid in cash. One year options are exercisable within three months following the first anniversary of the commencement of the savings contract. Three or five-year options are exercisable within six months following the third or fifth anniversary of the commencement of the relevant savings contract.

The option price has been determined by reference to the average market value of the ordinary shares on the five business days immediately preceding the invitation date, then applying a discount of 20%.

The number of options, weighted average exercise price, and the weighted average remaining contractual life for options outstanding at the reporting date, are as follows:

	Weighted average exercise price 2013 ₤	Number of options 2013 '000	Weighted average exercise price 2012 ₤	Number of options 2012 '000
At 1 January	4.16	40	4.25	78
Granted	-	-	4.46	31
Exercised	4.31	(23)	4.04	(53)
Lapsed and transferred	4.13	(9)	5.57	(16)
At 31 December	3.73	8	4.16	40
Exercisable at 31 December		-		4

There was no share option granted in 2013. The weighted average share price at the date of grant for share option granted in 2012 was ₤5.58.

The options outstanding at 31 December 2013 had a weighted average exercise price of ₤3.73 (2012: ₤4.16) and a weighted average contractual life of 0.7 years (2012: 1.1 years).

25 Assets and related liabilities

	General insurance		Life insurance (non-linked)		Life insurance (linked)		Investment contracts with DPF		Investment contracts		Total	
	2013 $'000	**2012 $'000**	**2013 $'000**	**2012 $'000**	**2013 $'000**	**2012 $'000**	**2013 $'000**	**2012 $'000**	**2013 $'000**	**2012 $'000**	**2013 $'000**	**2012 $'000**
Assets												
Financial assets												
- Equities	–	–	–	–	–	12,638	–	–	–	–	–	12,638
- Debt securities	–	12,049	2,006,583	1,628,225	–	–	–	3,394		13,509	2,006,583	1,657,177
- Collective investment schemes	–	–	113,779	101,848	724,238	606,836	–	975	–	–	838,017	709,659
- Derivative financial instruments	–	–	1,945	6,843	–	–	–	(7)	–	–	1,945	6,836
- Policy loans	–	–	11,464	10,955	–	–	–	–	–	–	11,464	10,955
Cash and cash equivalents	–	31,627	114,718	155,037	2,039	3,682	–	241	–	–	116,757	190,587
Total assets	–	43,676	2,248,489	1,902,908	726,277	623,156	–	4,603	–	13,509	2,974,766	2,587,852
Liabilities												
Financial liabilities												
- Derivative financial instruments	–	–	9,317	–	–	–	–	–	–	–	9,317	–
Insurance and investment contract with DPF provisions												
- Life business	–	–	1,959,194	1,604,585	701,082	597,587	–	4,430	–	–	2,660,276	2,206,602
- Outstanding claims provision	–	–	3,208	3,170	3,829	3,101	–	–	–	–	7,037	6,271
Insurance liabilities of disposal group classified as held for sale	–	–	–	22,620	–	–	–	–	–	–	–	22,620
Total liabilities	–	–	1,971,719	1,630,375	704,911	600,688	–	4,430	–	–	2,676,630	2,235,493

The Company keeps linked investments separate from other investments and invests them separately, in accordance with the requests of the policyholders. Linked investments are held on account for and at the risk of life insurance policyholders, therefore policyholders are entitled to all the gains on investments shown under this heading, but they also have to bear any losses.

The assets and liabilities in the above analysis exclude those held in the non-insurance fund (shareholders' fund).

26 Discontinued operations and disposal group classified as held for sale

Discontinued operations

The Company has ceased underwriting group term life and employee benefits insurance business on 31 July 2013 and general insurance business on 5 November 2012, after it transferred these insurance businesses together with certain associated assets and liabilities to AXA Life Insurance Singapore Pte Ltd and AXA Insurance Singapore Pte Ltd respectively, pursuant to a scheme for the transfer of insurance business under the Insurance Act, Chapter 142.

The group term life and employee benefits insurance business within the Life Insurance non-linked fund was presented as a disposal group held for sale as at 31 December 2012, following the commitment of the Company's management to sell the group life business after the completion of the transfer of the general business in 2012.

	Note	2013 $'000	2012 $'000
Results of discontinued operation			
Gross written premiums	6	36,642	108,008
Movement in unearned premiums	6	–	(257)
Gross earned premiums	6	36,642	107,751
Gross written premiums ceded to reinsurers	6	(2,492)	(18,311)
Reinsurers' share of movement in unearned premiums		296	992
Reinsurers' share of gross earned premiums		(2,196)	(17,319)
Net earned premiums		34,446	90,432
Fees and commission income	7	55	4,382
Investment income	8	–	1,781
Other operating income		2,759	3,619
Net income before policyholder claims, benefits incurred and expenses		37,260	100,214
Gross policyholder claims and benefits incurred	9	(28,511)	(56,527)
Reinsurers' share of policyholder claims and benefits incurred	9	1,254	5,062
Net policyholder claims and benefits incurred	9	(27,257)	(51,465)
Acquisition costs	10	(4,457)	(16,845)
Investment expenses		–	(153)
Administrative and other expenses		(5,977)	(18,436)
Results from operating activities		(431)	13,315
Tax (expense)/credit	12	(244)	379
Results from operating activities, net of tax		(675)	13,694
Gain on sale of discontinued operation		16,042	802
Profit for the year		15,367	14,496

Cumulative income or expense recognised in other comprehensive income

There are no items recognised in other comprehensive income relating to discontinued operations and disposal group.

Cash flows from discontinued operation

	2013 $'000	2012 $'000
Net cash used in operating activities	3,369	(1,241)
Net cash from investing activities	(5,467)	(15,941)
Net cash from financing activities	–	–
Net cash flows for the year	2,098	(17,182)

Effect of disposal on the financial position of the Company

	2013 $'000	2012 $'000
Assets		
Financial assets		
- Debt securities	–	(45,735)
Reinsurers' share of insurance contracts provisions	(620)	(21,008)
Insurance receivables	(11,472)	(9,192)
Other receivables	–	(323)
Cash and cash equivalents	(21,509)	(16,743)
Total assets	(33,601)	(93,001)
Liabilities		
Insurance contracts provisions	32,487	83,687
Insurance payables	1,114	9,314
Total liabilities	33,601	93,001
Net assets and liabilities	–	–
Net consideration received, satisfied in cash	16,042	802
Cash and cash equivalents disposed of	(21,509)	(16,743)
Net cash outflow on disposal of business	(5,467)	(15,941)

Disposal group classified as held for sale

At 31 December 2012, the disposal group comprised the following assets and liabilities of the group term life and employee benefits insurance business.

	Note	2012 $'000
Assets of a disposal group classified as held for sale		
Reinsurers' share of insurance contracts provisions	19	780
Insurance receivables		5,799
		6,579
Liabilities of a disposal group classified as held for sale		
Insurance contracts provisions	19	23,400
Insurance payables		1,319
		24,719

27 Significant related party transactions

For the purpose 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.

The following significant transactions between the Company and related parties have been included in the profit before income taxes at terms agreed between the parties:

	2013 $'000	2012 $'000
Related corporations		
Net claims recovered	–	(2,044)
Commission income	–	1,108
Commission expense	18,615	25,912
Fund management fees expense	3,411	2,819
Premium income	–	(984)
Reinsurance premiums	–	7,254
Interest income	(54)	(42)
Tax, legal, secretarial and other expenses	8,146	8,932
Key management personnel		
Short-term employee benefits	1,265	1,441
Share-based payments	56	83

Segmental analysis

The Company's continuing operating segments are organised into the Participating Business, Non-participating Business, Linked Business and Shareholders segments.

The Company's chief decision-maker is the Insurance Executive Committee ('EXCO') which operates as a direct management committee under authority of the Board. Information provided to the EXCO to make decisions about allocating resources to, and assessing the performance of, operating segments is measure in accordance with the International Financial Reporting Standards.

- The Participating Business consists of insurance and savings products with discretionary participative features. These plans offer benefit payout upon death, surrender or policy maturity. The bonus payments are designed to distribute to policyholder the income on assets in the with-profit funds based on a long-term rate of return.

- The Non-participating Business consists of insurance policies that offers benefit payout upon death, surrender or policy maturity.

- The Linked Business consists of unit-linked life insurance policies, which provides policyholders life insurance protection with direct investment in a variety of funds. Premiums received are invested into chosen funds after deduction of charges for the cost of mortality and administration. Funds accumulated within the account will belong to the policyholder.

- The Shareholders Segment consists of activities not related to the core business segments, and includes general corporate income and expenses items.

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Continuing Operations	**Participating Business 2013 $'000**	**Participating Business 2012 $'000**	**Non-Participating Business 2013 $'000**	**Non-Participating Business 2012 $'000**	**Linked Business 2013 $'000**	**Linked Business 2012 $'000**	**Shareholders' Fund 2013 $'000**	**Shareholders' Fund 2012 $'000**	**Total 2013 $'000**	**Total 2012 $'000**
Gross written premiums	72,565	67,442	447,498	396,294	157,467	136,338	–	–	677,530	600,074
Gross written premiums ceded to reinsurers	(176)	(176)	(5,815)	(4,270)	(560)	(518)	–	–	(6,551)	(4,964)
Net gross premiums	72,389	67,266	441,683	392,024	156,907	135,820	–	–	670,979	595,110
Fees and commission income	7	6	1,314	581	6,353	5,339	–	–	7,674	5,926
Investment income	1,233	27,964	71,838	32,006	55,139	60,850	535	2,832	128,745	123,652
Other operating income/(expense)	110	461	2,310	(1,842)	(77)	114	699	279	3,042	(988)
Net income before policyholder claims, benefits incurred and expenses	73,739	95,697	517,145	422,769	218,322	202,123	1,234	3,111	810,440	723,700
Gross policyholder claims and benefits incurred	(54,984)	(75,988)	(370,410)	(313,015)	(183,733)	(159,317)	–	–	(609,127)	(548,320)
Reinsurers' share of policyholder claims and benefits incurred	–	248	945	430	49	88	–	–	994	766
Net policyholder claims and benefits incurred	(54,984)	(75,740)	(369,465)	(312,585)	(183,684)	(159,229)	–	–	(608,133)	(547,554)
Acquisition costs	(6,972)	(8,452)	(46,302)	(42,513)	(18,306)	(24,221)	–	–	(71,580)	(75,186)
Investment expenses	(1,069)	(869)	(2,525)	(1,942)	(2,778)	(2,780)	(99)	(59)	(6,471)	(5,650)
Administrative and other expenses	(10,344)	(9,531)	(12,007)	(12,567)	(16,122)	(16,293)	(4,223)	(5,996)	(42,696)	(44,387)
Profit/(Loss) before tax	370	1,105	86,846	53,162	(2,568)	(400)	(3,088)	(2,944)	81,560	50,923
Tax expense	628	(684)	(13,406)	(7,697)	1,236	(327)	(1,335)	272	(12,877)	(8,436)
Profit from continuing operations	998	421	73,440	45,465	(1,332)	(727)	(4,423)	(2,672)	68,683	42,487

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